BUS 4070: BUSINESS ETHICS & VALUES

DEVELOPING AN EFFECTIVE ETHICS PROGRAM

The Responsibility of the Corporation as a Moral Agent

Increasingly, corporations are viewed not merely as profit-making entities but also as moral agents that are accountable for their conduct to their employees, investors, suppliers, and customers.

Publicity in the news media about specific issues such as employee benefits, executive compensation, defective products, competitive practices, and financial reporting contribute to a firm’s reputation as a moral agent.

The Need for Organizational Ethics Programs

They help sensitize employees to the potential legal and ethical issues within their work environments.

Recent ethics scandals in businesses have destroyed trust in top management and significantly lowered the public’s trust of business.

Organizations also can become “bad barrels,” not because the individuals within them are bad, but because the pressures to succeed create opportunities that reward unethical decisions.

To promote legal and ethical conduct an organization ethics program helps by establishing, communicating, and monitoring the ethical values and legal requirements that characterize its history, culture, industry, and operating environment.

Values versus Compliance Programs

No matter what their goals, ethics programs are developed as organizational control systems, the aim of which is to create predictability in employee behavior. Two types of control systems can be created:-
i. **Compliance orientation** – Creates order by requiring that employees identify with and commit to specific required conduct. It uses legal terms, statutes, and contracts that teach employees the rules and penalties for noncompliance.

ii. **Values orientation** – Strives to develop shared values. Although penalties are attached, the focus is more on an abstract core of ideals such as accountability and commitment.

**Codes of Conduct**

*Codes of conduct* are formal statements that describe what an organization expects of its employees. Such statements may take three different forms:

- **Code of ethics** are guidelines to the moral principles or values used by organizations to steer conduct, both for the organization itself and its employees, in all their business activities, internal and external.

- **Code of conduct** usually specifies acceptable or unacceptable types of behavior.

- **Statement of values** - serves the general public and also addresses distinct groups such as stakeholders. Values statements are conceived by management and are fully developed with input from all stakeholders.

**Advantages of a code of ethics**

a. Provides new employees with ethical guidance and a sense of common identity.

b. Enhances the organization’s reputation and inspires public confidence.

c. Signals to suppliers and customers the organization’s expectation of proper conduct.

d. Provides explicit guidance to managers and employees so they know what is expected of them in terms of ethical behavior.

e. Promotes a culture of confidence of excellence by demonstrating the commitment of the organization to ethical behavior.

**Demerits of a code of ethics**

a. The code may raise public and employee expectations to a level that the organization is unable to live up to.

b. A corporate code can lead to employee pessimism if it is only seen as a paper exercise.

c. The effective introduction and implementation of a code demands a great deal of time from senior management.

d. Without proper guidance, different parts of the organization may interpret the code differently, ultimately devaluing it.
Reasons why a code of ethics may fail

a) It is not promoted and employees do not read it.
b) It is not easily accessible.
c) It is written too legalistically and therefore is not understandable by average employees.
d) It is written too vaguely, providing no accurate direction.
e) Top management never refers to the code in body or spirit.

Developing & Implementing Ethics Program

1. Consider areas of risk and state the values necessary to comply with laws and regulations. Values are 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 a language employees can understand.
6. Revise the code every year with input from organizational members and stakeholders.

Ethics officers

They are high-ranking persons known to respect legal and ethical standards, who in turn oversee organizational ethics programs. They are responsible for:-

1. Assessing the needs and risks that an organization-wide ethics program must address.
2. Developing and distributing a code of conduct or ethics.
3. Conducting training programs for employees.
4. Establishing and maintaining a confidential service to answer employees’ questions about ethical issues.
5. Making sure that the company is in compliance with government regulation.
6. Monitoring and auditing ethical conduct.
7. Taking action on possible violations of the company’s code.
8. Reviewing and updating the code.

Ethics training and communication

A major step in developing an effective ethics program is implementing a training program and communication system to educate employees about the firm’s ethical standards.
Training programs are useful in that:

i. They can educate employees about the firm’s policies and expectations, relevant laws and regulations, and general social standards.

ii. They can make employees aware of available resources, support systems, and designated personnel who can assist them with ethical and legal advice.

iii. Empower employees to ask tough questions and make ethical decisions.

Key Goals of Successful Ethics-Training Programs

1. Identify key risk areas that employees will face.

2. Provide experience in dealing with hypothetical or disguised ethical issues within the industry through mini-cases, online challenges, CD-ROMs, or other experiential learning opportunities.

3. Let your employees know that wrongdoing will never be supported in the organization and that employee evaluations will take their conduct in this area into consideration.

4. Let employees know that they are individually accountable for their behavior.

5. Align employee conduct with organizational reputation and branding.

6. Provide ongoing examples through communication with employees of how employees are handling ethical issues appropriately.

7. Allow a mechanism for employees to voice their concern that is anonymous, but allows for the provision of feedback to key questions (24 hour hotlines).

8. Provide a hierarchy of leadership for employees to contact when they are faced with an ethical dilemma that they do not know how to resolve.

Systems to monitor and enforce ethical standards

Observing employees, internal audits, surveys, reporting systems, and investigations can assess compliance with the company’s ethical code and standards.
To determine whether a person is performing his or her job adequately and ethically, observers might focus on how the employee handles an ethically charged situation.

Questionnaires can serve as benchmarks in an ongoing assessment of ethical performance by surveying employees’ ethical perceptions of their company, their superiors, their coworkers, and themselves, as well as gaining their ratings of ethical or unethical practices within the firm and industry.

The existence of an internal system by which employees can report misconduct is especially useful for monitoring and evaluating ethical performance.

Companies are increasingly using firms that provide professional case-management services and software. Software is becoming popular because it provides reports of employee concerns, complaints, or observations of misconduct, which can then be tracked and managed.

**Common Mistakes in Designing and Implementing an Ethics Program**

I. Failure to understand and appreciate the following goals when designing ethics programs:

   a. To deter and detect unethical behavior as well as violations of the law.

   b. To gain competitive advantages through improved relationships with customers, suppliers, and employees.

   c. To link employees through a unifying and shared corporate culture.

II. Not setting realistic and measurable program objectives. Once a consensus on objectives is reached, companies should solicit input through interviews, focus groups, and survey instruments.

III. Senior management’s failure to take ownership of the ethics program.

IV. Failure to understand and appreciate the following goals when designing ethics programs:

   V. To deter and detect unethical behavior as well as violations of the law.

   VI. To gain competitive advantages through improved relationships with customers, suppliers, and employees.

   VII. To link employees through a unifying and shared corporate culture.

VIII. Not setting realistic and measurable program objectives. Once a consensus on objectives is reached, companies should solicit input through interviews, focus groups, and survey instruments.
IX. Senior management’s failure to take ownership of the ethics program.

[Private Sector Initiative for Corporate Governance – Kenya]

An all-inclusive code of ethics for enterprise and all who deal with enterprise should cover, among other things, the following:-

**That the Code of Ethics shall apply to:**

- Directors and managers of the company including non-executive directors.
- All employees of the company (including professionals and consultants)
- The owners and shareholders of the company (where they are different from the directors or managers).
- Suppliers and lenders of the company.
- Other relevant stakeholders.

**Objectives of the Code of Ethics:**

- To set out the values, ethics, beliefs upon which the company premises its policies and behavior.
- To set down and promulgate the basic principles to be observed.
- To secure adherence to uniform principles of good practice.
- To promote and maintain confidence in the integrity of the corporation.
- To harmonize the concepts of social responsibility, public accountability and profitability.
- To prevent and resist the development of undesirable practices.
- To lay down standards for personal and corporate behavior.

**Personal conduct**

- Personal standards and integrity
- Professional expectation and duty of care to render faithful service
• Confidentiality and trust
• Loyalty, fiduciary responsibility and transparency
• Duty to community
• Compliance with the law
• Declaration of personal interest and conflict of interest

Corporate Behavior

• Compliance with the law
• Quality standards and responsibility to customers
• Integrity of relationships
• Transparency and accountability of the corporation
• Conflict of interest
• Privacy of records and information
• Insider information
• Policy on corruption, bribes, gifts and entertainment
• Social responsibility and accountability

Specific obligations of:-

a) Directors & Managers:
  • To shareholders & the company
  • To employees
  • To customers
  • To suppliers and lenders
  • To host communities
  • To the society at large
  • To the State

b) Employees and Professionals
• To owners of the company
• To managers/directors
• To the enterprise
• To fellow employees
• To the society at large

c) Owners of the enterprise:
• To the company
• To managers/directors
• To other shareholders
• To employees, stakeholders and society
• To the community at large

d) Financiers, lenders, suppliers etc.
• To enterprise