

Creating an Ethical Environment for Business

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CREATING AN ETHICAL ENVIRONMENT FOR BUSINESS

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THE CASE FOR BUSINESS ETHICS TRAINING

The phrase “white lie” is often used to describe a supposedly minor breach of honesty. Well-meaning people use the word “white” because it implies goodness. They are really trying to say “good lie” but are not comfortable saying that a lie is good. The alternative is to hide the concept of good within the word “white.” And this, in itself, is a kind of lie. We effectively lie about whether it is permissible to lie. And then we feel better, because we did the right thing!

Most businesspersons truly intend to act with honesty and integrity. Unfortunately, the ethical landscape is more complicated than most can foresee. Ethical landmines await the unwitting and the unprepared. The most difficult ethical dilemmas occur when competing ethical values are involved and there are multiple stakeholders with diverging interests. In such cases, various ethical standards may pull in opposite directions. No option satisfies all ethical needs.

The Northwest Nazarene University School of Business is a 2004 Honorable Mention winner in the Southwest Idaho Better Business Bureau Integrity Counts! Competition.

There is more bad news. The decision to act in an ethical manner often carries a personal price. It is a hard reality that ethical conduct and a need for courage are frequently inseparable. Whistleblowers expect to be treated as heroes but are routinely ostracized instead. It is hard to act ethically when you are the one who will be penalized for integrity. It is much harder when a co-worker or family will suffer.

The question of ethical conduct is not new, although we tend to think about the current wave of business ethics cases as proof of new rot in the business fabric. Aristotle wrote about ethics in the Third Century B.C. He identified five foundational values: compassion, forgiveness, friendship, self-love and courage. Those five values are as still meaningful. More importantly, Aristotle advanced what was then a novel proposition: that ethics can be taught and learned. Today we know that teaching ethics can prepare a student to make better choices.

Ethics education must be an on-going and committed part of any business and any business curriculum. Future business leaders must be trained to recognize and confront difficult ethical issues. The NNU School of Business is dedicated to providing a deep

and abiding understanding of the nature of ethical choice. The process of ethics education is both integrated into such courses as finance, management, leadership and law, and required as a separate course at both the undergraduate and graduate levels.

In the final analysis, ethical conduct must derive from the moral courage and commitment of each individual. We are all responsible for the choices we make and if business is to be an ethical institution, each businessperson must contribute.

That said, we can implement systems to assist individuals in making ethical decisions. The business community must make a commitment to ethics training. This will inevitably involve the paying of a price: the allocation of resources and employee time to an educational regimen that does not seem to add directly to the bottom line. If business is to maintain an honored place in our society, we must pay that price.

SURVEYING THE ETHICAL TERRAIN

In Victor Hugo's classic novel *Les Miserables* the protagonist, Jean Valjean, steals silver from a priest after knocking him unconscious with a blow to the head. There is little ethical ambiguity in this picture. The ethics of property ownership (stealing) and the ethics of personal respect and abuse (the blow to the head) are clearly compromised. When Jean Valjean is captured by police and brought back to the priest for identification, the cleric lies and tells the gendarmes to release the man because the silver was a gift he had given to Jean Valjean. Now the picture blurs. The priest lies. The ethics of honesty are at issue. Is the action of the priest good, because he forgives the man, or bad because he lies and allows a felon to go free?

The first challenge that arises in the realm of business ethics is to identify the existence of some problem. Some ethical challenges are clear and unambiguous. Others are more obscure.

Some generalizations can be made concerning the landscape of business ethics. Problems tend to fall within discernable categories. Knowledge of the more frequent sorts of issues is helpful: business owners and managers can then design ethics programs (including ethics codes and ethics training) that prepare for likely issues in advance. Common ethical archetypes include the following.

Ethics of Ownership. The ethic which prohibits stealing may reach to other situations (taking supplies from the supply room, installing software on more computers than allowed by the license, stealing clients, downloading music, divulging confidential information or any other interference with ownership rights) and it represents a frequent problem.

Ethics of Truth. In the ethical context, truth is a broad concept. It includes issues relating to concealment, contract breach, fraud, false impressions (or tolerance of false impressions), white lies, half-truths, and other violations of a standard of steadfast truth.

Ethics of Loyalty. Bribery, self-dealing, conflicts of interest, protection of trade secrets, and other similar issues fall within this type.

Ethics of Personal Respect. This broad ethical category protects against, discrimination, abuse (physical, sexual, psychological), condoning of other ethical violations, and the like. Privacy issues represent another facet to this category.

Ethics of Self-respect. Real ethical issues arise when personal acts of decadence occur in the workplace. This may call into question substance abuse (alcohol, drugs, tobacco) and personal conduct (sexual, appearance, others).

Ethics of Organizations. Any overarching organization will play a role in the ethical landscape. What is the standard set by the organization itself? Does the company permit, encourage, or reward other ethical breaches?

Ethics of Legal Rules. Law may define ethics (antitrust, disclosure, securities trading, environmental impacts) as may company rules or the rules of trade groups.

Ethics of Society. The obligations owed by the company or the employee to society in general (charitable contributions, environmental damage, plant closure and lay-off decisions, payment of taxes) are an important part of the ethical landscape.

There are others, but most ethical challenges will fall into one of these categories. Businesses are well-served to recognize and prepare for such challenges.

BUILDING DEFENSES: A COMPANY ETHICS PROGRAM

It is no secret that one of the most corrupt companies of our time was Enron. In his recent book The Conspiracy of Fools, New York Times writer Kurt Eichenwald portrays in elaborate detail a stunning picture of failed stewardship, financial incompetence and unrestrained personal greed. Would it come as a surprise, then, to find that Enron had in place a state-of-the-art corporate ethics program, including a lengthy and detailed Code of Ethics? If you need a great model from which to fashion your own code of ethics, the Enron Ethics Code at <http://www.thesmokinggun.com/archive/0130061enron1.html> is available. And in the hands of the right managers, it might work!

Programs and systems defining corporate ethical choices do not guarantee that a corporation (or its employees) will behave always in an ethical manner. That said, without a meaningful corporate ethics program it is much more likely that ethical

breaches will occur. Those corporate stewards who desire to lead an ethical operation must implement systematic defenses that will curtail unethical conduct.

A corporate ethics program can be simple or complex. They can work for small companies or big companies. Consultants are available to guide the creation of a program most likely to create the ethical culture intended by managers. Here are a few guidelines.

Ethics must be a top-down affair. There are no exceptions to this. No program will succeed if those at the top do not model proper ethical conduct and do so constantly and consistently. Enron is a case in point, but so are many other companies that are the subject of recent scandals. Arthur Anderson, Tyco and Qwest all had elaborate corporate ethics codes, training and systems. But the leaders gave off signals that conflicted with the substance of the ethical codes. To be truly top-down, several things are essential: (1) Leaders must walk the talk. No other rule is as important as this one. (2) The company must be willing to devote necessary resources to support the ethical program. This is a matter of money, but it is also a matter of time. Employees must be freely given the time to learn ethical content, and that must occur without any mixed signals. If it is necessary to print lengthy ethical brochures, do so. (3) There must be consequences. Failure to be ethical must be quickly and clearly penalized. Exceptional ethical conduct must be rewarded.

There needs to be a clear code of ethics. Ethical expectations must be determined, recorded and communicated. This involves the making of many choices and may be more difficult than it sounds. It will take work to decide what subjects should be addressed, what the rules need to be, and what consequences will follow from breach. Write it down. Publish it. Make it available to all employees. This is the first practical step. It does not good institute ethical training programs if there is not an agreed-upon universe of prevailing ethical rules. And, as always, the top levels of the company (which means not only the CEO, but the Board of Directors as well) must embrace the code in its entirety.

Employees must be trained. Creating the code will not be effective if employees do not learn and understand established rules. There are many training tools to choose from. Some are relatively inexpensive, and some cost significantly more. Circulation of the Ethics Code is important, but there needs to be a more concerted effort. Possible tools include employee meetings, role-playing exercises, small group discussions and testing. Some companies choose more expensive tools, including custom-produced videos, interactive CDs, on-line orientation programs and customized games. Keep in mind that a "cheap" program will be given little credibility by employees: if the company is not sufficiently committed to ethics to invest in a meaningful program, nobody will believe that it is important. Actions do, always, speak more loudly than do words. The CEO and the Directors should take their own time to attend, and should do so openly and proudly.

Provide a way to document employee participation. If an employee should ever dispute that he or she was made away of ethical requirements and consequences, it is good to

have a clear record (such as a signed acknowledgement) that the employee did actually go through the training. The record needs to be kept in the permanent employee file.

Provide a means to report violations. And let it be anonymous. Usually, companies establish some kind of “ethics hot line” that allows for anonymous reporting. The ethics hot line requires a dedicated phone line, a voice messaging capability and someone to check regularly. And it requires clear and open follow-up. If the messages are never processed, employees will conclude (and rightly so) that nobody really cares.

Put someone in charge. The company ought to have an “ethics officer.” That person needs to have real power and needs to be paid for the work. Remember that the commitment of the company to the burden of ethics sends the most important message to employees. It sends a strong and real message if a full-time officer, with real power, is at the ethical helm. And think about the reporting line for the ethics officer. The most effective approach is to allow the ethics officer to report directly to the CEO, or even to the Board of Directors. An ethics officer who is perceived to be powerless quickly becomes a joke; this in turn causes the whole ethics program to be viewed as a joke and the employee commitment to ethical conduct follows.

None of these tools will guarantee that no employee will succumb to temptation. When more priority is placed on profit or efficiency or sales or shareholder value than is put on ethical conduct, it is easy to guess how any employee will respond when under pressure. And some employees will simply never make a personal commitment to ethical conduct. The purpose of the program is to take all steps reasonably available to ensure that all employees understand the real corporate commitment.

The enemy of any commitment to ethical conduct is ambiguity. Leaders must be unbending and unashamed in that commitment.

Ethical conduct is reason enough for this effort, but there is one final word to the wise. Should it ever happen that your company is charged with a federal crime, the judge will look to the Federal Sentencing Guidelines when determining what penalty will be levied. Those Guidelines allow a lesser penalty for any company with a vibrant, real and active program to ensure ethical compliance with laws. If you are not committed to ethics for the sake of good conduct, at least recognize that it is a great way to keep a company out of trouble.

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