

CHAPTER 6

Developing an Effective Ethics Program

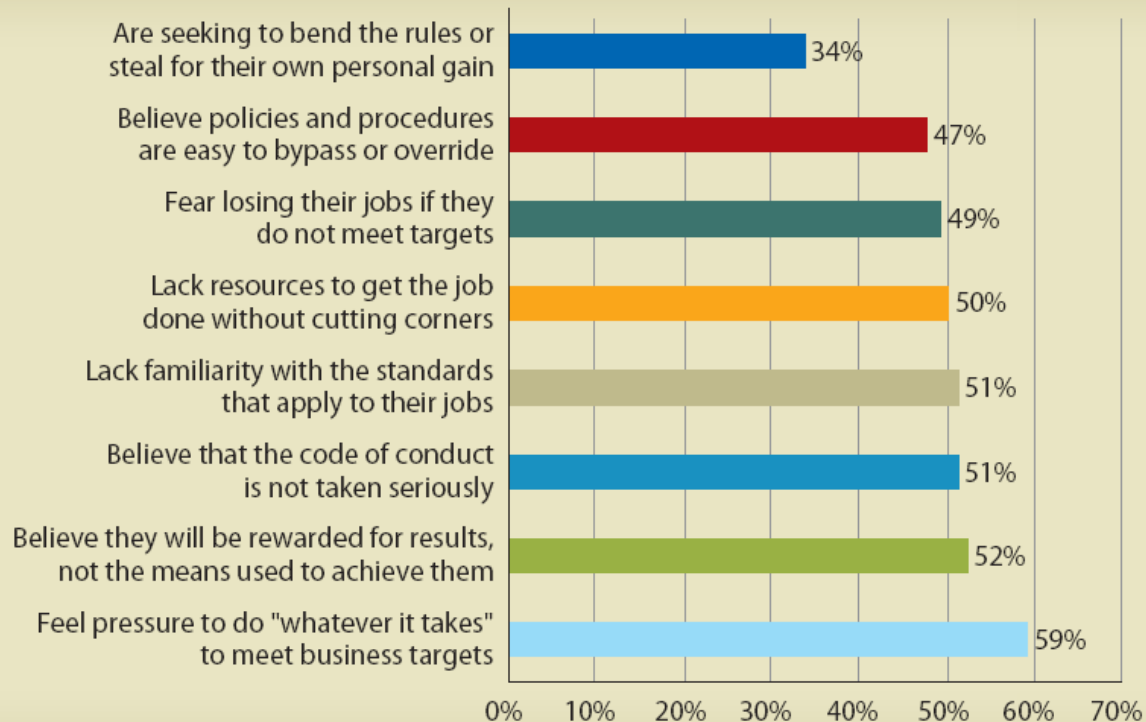
Corporations as Moral Agents



Source: Digital Vision

- Corporations are increasingly viewed as *moral agents* that are accountable for their conduct to stakeholders
- Society holds companies accountable for employee conduct, their decisions and the consequences
- *Laws* and *regulations* are necessary to provide formal structural restraints and guidance on ethical issues

Causes of Misconduct



Source: KPMG Forensic Integrity Survey: 2008–2009, <http://www.kpmg.com/SiteCollectionDocuments/Integrity-Survey-2008-2009.pdf>, p. 6 (accessed August 20, 2009).

The Need for Corporate Ethics Programs

- Scandals in corporate America have reduced trust in businesses
- Understanding the factors that influence ethical decision-making can help companies encourage ethical behavior
- Employees are not legal experts and need guidance

The Need for Corporate Ethics Programs

- To understand why companies need to develop ethics programs, judge whether each of the following actions is unethical or illegal
 1. You want to skip work to go to a baseball game, but you need a doctor's excuse, so you make up some symptoms so that your insurance company pays for the doctor's visit.(unethical, illegal)
 2. You are fired from your company, but before leaving to take a position with another company, you take a confidential list of client names and telephone numbers that you compiled for your former employer. (unethical, illegal)

The Need for Corporate Ethics Programs

- Organizations should develop an organizational ethics program by *establishing, communicating, and monitoring* uniform ethical values and legal requirements
- A strong ethics program includes:
 - Written code of conduct
 - Ethics officer to oversee the program
 - Care in the delegation of authority
 - Formal ethics training
 - Auditing, monitoring, enforcement, and revision of program standards

An Effective Ethics Program

- Helps ensure that all employees understand the organization's values and comply with the policies and codes of conduct that create its ethical climate
 - Cannot assume that employees will know how to behave when entering an organization



Source: Digital Vision

An Ethics Program Can Help Avoid Legal Problems

- The FSGO encourage companies to assess key risks and create a program to address them
 - An ethics program can help a firm avoid civil liability
 - The company bears the burden of proving that it has an effective program
- A program developed in the absence of misconduct will be more effective than one imposed as a reaction to scandal
- The Sarbanes-Oxley Act of 2002 established new requirements for corporate governance to prevent fraudulent behavior in business

Minimum Requirements for Ethics and Compliance Programs

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. Establishment of systems to monitor, audit, and report misconduct
6. Consistent enforcement of standards, codes, and punishment
7. Continuous improvement of the ethics and compliance program

Source: Adapted from U.S. Sentencing Commission, Federal Sentencing Guidelines Manual, effective November 1, 2004 (St. Paul: West, 2008).

Values Versus Compliance Orientation

- **Two types of control systems can be created**
- **Compliance orientation**
 - Requires that employees identify with and commit to specified conduct
 - Uses legal terms, statutes and contracts that teach employees the rules and penalties for noncompliance
- **Values orientation**
 - Focuses more on an abstract core of ideals such as respect, accountability, and responsibility
 - Research shows is most effective at creating ethical reasoning

Codes of Conduct

- **Codes of conduct**
 - Formal statements that describe what an organization expects of its employees
- **Codes of ethics**
 - Most comprehensive document
 - Consists of general statements that serve as principles and the basis for the rules of conduct
- **Statement of values**
 - Serves the general public and addresses stakeholder interests

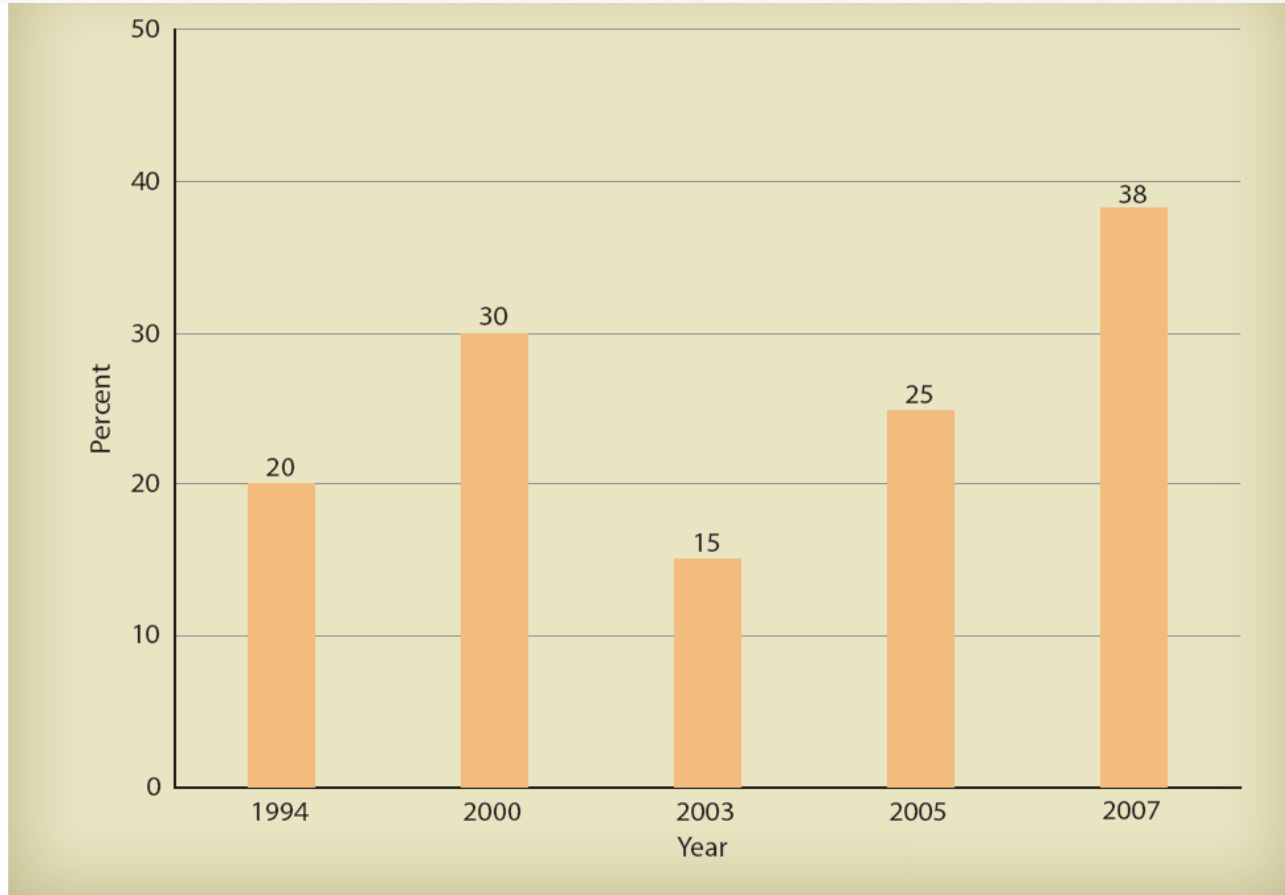
Codes of ethics

- a code of ethics should reflect upper managers' desire for compliance with the values, rules, and policies that support an ethical culture.
- A code of ethics that does not address specific high-risk activities within the scope of daily operations is inadequate for maintaining standards that can prevent misconduct

Codes of ethics

- Many companies have a code of ethics, but it is not communicated effectively. A code that is placed on a website or in a training manual is useless if it is not reinforced every day.

Percentage of Employees Who Identify Comprehensive Codes of Ethics and Compliance in their Companies



Source: National Business Ethics Survey, How Employees View Ethics in their Organizations, (Washington DC: Ethics Resource Center, 2007), 18.

Corporate Codes of Ethics

Often contain six core values

1. Trustworthiness
2. Respect
3. Responsibility
4. Fairness
5. Caring
6. Citizenship



Source: Triangle Images

The Top Ten Corporate Codes of Ethics

1. Verizon Wireless
2. Granite Construction Company
3. BP PLC
4. Datapath Inc.
5. Sprint Nextel
6. Accenture
7. Pepsico
8. Cardinal Health Inc.
9. Rockwell Collins
10. Fluor Corporation

Source: "Ten Best Codes of Ethics and Business Conduct," *Ethisphere*, <http://ethisphere.com/10-best-codes-of-ethics-and-business-conduct-government-contractors/> (accessed June 8, 2009).

Ethics Officers

- **Ethics officers** or **committees** are responsible for oversight of the ethics/compliance program
 - Assess the needs and risks that an ethics program must address
 - Develop, revise, and disseminate the code
 - Conduct training programs for employees
 - Develop effective communication
 - Establish audits and control systems
 - Review and modify the program to improve effectiveness

Ethics Training and Communication

- Must start with a *foundation*, a *code of ethics*, a *procedure for airing ethical concerns*, and *executive priorities* on ethics
 - Can educate employees about firm's policies and expectations, laws and regulations, and general social standards
 - Can make employees aware of resources, support systems, and personnel who can assist them with ethical advice
 - Can empower employees

Systems to Monitor and Enforce Ethical Standards

- An effective ethics program employs many resources to monitor ethical conduct and measure the program's effectiveness
 - Observing employees
 - Internal audits
 - Surveys
 - Reporting systems
 - Investigations
 - Independent audits



Source: Digital Vision

Forms of Reported Retaliation Experienced as a Result of Reported Misconduct



Source: 2009 National Business Ethics Survey, Ethics Resource Center, p. 36

Continuous Improvement

- *Implementation* requires designing activities to achieve organizational objectives using available resources and existing constraints
- Depends in part on how an organization structures resources and activities to its ethical objectives



Source: Stockbyte

Common Mistakes in Designing/Implementing an Ethics Program

- Not having a clear understanding of the goals of the program from the beginning
- Not setting realistic and measurable program objectives
- Senior management's failure to take ownership of the ethics program
- Developing program materials that do not address the needs of the average employee
- Transferring a domestic program internationally
- Designing a program as a series of lectures