Introduction to Business Ethics
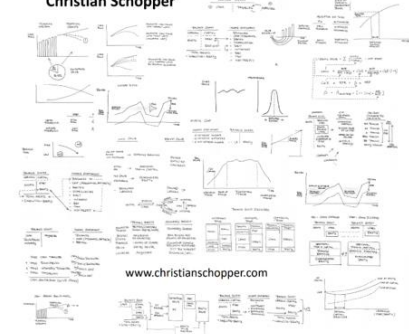
2016

For more concepts click on:
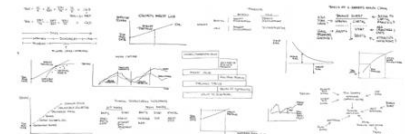
Corporate Finance Concepts

Christian Schopper

www.christianschopper.com

CorpFinCE
Corporate Finance Central Europe

www.christianschopper.com

What is Business Ethics?

What is Ethics?

- Ethics involves learning what is right or wrong, and then doing the right thing …
    - -- but "the right thing" is not always straightforward
    - Some 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
    - Many philosophers consider ethics to be the "science of conduct"
    - What becomes an ethical guideline today is often translated to a law, regulation or rule tomorrow
    - Values guide how we ought to behave are considered moral values, e.g., values such as respect, honesty, fairness, responsibility, etc.

What is "Business Ethics"?

- Generally it's coming to know what it 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

What is Business Ethics? (cont´d)

Areas of Business Ethics

- *Managerial mischief*
  - Illegal, unethical, or questionable practices of individual managers or organizations, as well as the causes of such behaviors and remedies to eradicate them

- *Moral mazes*
  - Includes the numerous ethical problems that managers must deal with on a daily basis, such as potential conflicts of interest, wrongful use of resources, mismanagement of contracts and agreements, etc.

- ***Business Ethics is now a Management Discipline***

- Business ethics has come to be considered a management discipline, especially since the birth of the social responsibility movement in the 1960s
  - Social awareness movements raised expectations of businesses to use their massive financial and social influence to address social problems such as poverty, crime, environmental protection, equal rights, public health and improving education
  - Managers have recognized the broader constituency in their planning and operations as "stakeholders," meaning to include employees, customers, suppliers and the wider community
  - Organizations realized that they needed to manage a more positive image to the public and so the recent discipline of public relations was born …

CorpFinCE
Corporate Finance Central Europe

Myths About Business Ethics

- Business ethics is more a matter of religion than management

- Our employees are ethical so we don't need attention to business ethics

- Business ethics is a discipline best led by philosophers, academics and theologians

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

- Business ethics is a matter of the good guys preaching to the bad guys

- Business ethics in the new policeperson on the block

- Ethics can't be managed

- Business ethics and social responsibility are the same thing

- Our organization is not in trouble with the law, so we're ethical

- Managing ethics in the workplace has little practical relevance

CorpFinCE
Corporate Finance Central Europe

Benefits of Managing Ethics in the Workplace

- Attention to business ethics has substantially improved society
  - A matter of decades ago, children in our country worked 16-hour days

- Ethics programs help maintain a moral course in turbulent times

- Ethics programs cultivate strong teamwork and productivity
  - Ethics programs align employee behaviors with those top priority ethical values preferred by leaders of the organization

- Ethics programs support employee growth and meaning

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

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

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

CorpFinCE
Corporate Finance Central Europe

Benefits of Managing Ethics in the Workplace (cont´d)

- Ethics programs promote a strong public image

- Overall benefits of ethics programs
  - 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

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

A Highly Ethical Organization

- At ease interacting with diverse internal and external stakeholder groups
  - Groundrules make the good of these stakeholder groups part of the organizations' own good

- Obsessed with fairness
  - Groundrules emphasize that the other persons' interests count as much as their own

- Responsibility is individual rather than collective, with individuals assuming personal responsibility for actions of the organization
  - Groundrules mandate that individuals are responsible to themselves

- They see their activities in terms of purpose
  - Purpose ties the organization to its environment

- There exists a clear vision and picture of integrity throughout the organization

- The vision is owned and embodied by top management, over time

- The reward system is aligned with the vision of integrity

- Policies and practices of the organization are aligned with the vision; no mixed messages

- It is understood that every significant management decision has ethical value dimensions

- Everyone is expected to work through conflicting-stakeholder value perspectives

CorpFinCE
Corporate Finance Central Europe

Ethics Management Programs: An Overview

About Ethics Management Programs

- Typically, ethics programs convey corporate values, often using codes and policies to guide decisions and behavior
  - Can include extensive training and evaluating, depending on the organization

- Provide guidance in ethical dilemmas
  - … 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 which impact the propriety of organization behaviors

Benefit of Managing Ethics as Program

- 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

CorpFinCE
Corporate Finance Central Europe

Guidelines for Managing Ethics in the Workplace

- Managing ethics is a process
    - Values are discerned through the process of ongoing reflection
    - 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

- The bottom line of an ethics program is accomplishing preferred behaviors in the workplace
    - 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

- The best way to handle ethical dilemmas is to avoid their occurrence in the first place
    - Sensitize employees to ethical considerations and minimize the chances of unethical behavior occurring in the first place

- Make ethics decisions in groups, and make decisions public, as appropriate
    - Produce 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

CorpFinCE
Corporate Finance Central Europe

Guidelines for Managing Ethics in the Workplace (cont´d)

- Integrate ethics management with other management practices

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

- Value forgiveness
  - Help people recognize and address their mistakes and then support them to continue to try operate ethically

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

CorpFinCE
Corporate Finance Central Europe

Key Roles and Responsibilities in Ethics Management

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

- Ethics committee at the board level
  - Oversee development and operation of the ethics management program.

- Ethics management committee
  - Implementing and administrating an ethics management program, including administrating and training about policies and procedures, and resolving ethical dilemmas

- Assigning/developing an ethics officer
  - More common, particularly in larger and more progressive organizations

- Ombudsperson
  - Responsible to help coordinate development of the policies and procedures to institutionalize moral values in the workplace

- One person must ultimately be responsible for managing the ethics management program

CorpFinCE
Corporate Finance Central Europe

Ethics Tools: Codes of Ethics

Examples of ethical values might include …

- Trustworthiness
    - Honesty, integrity, promise-keeping, loyalty

- Respect
    - Autonomy, privacy, dignity, courtesy, tolerance, acceptance

- Responsibility
    - Accountability, pursuit of excellence

- Caring
    - Compassion, consideration, giving, sharing, kindness, loving

- Justice and fairness
    - Procedural fairness, impartiality, consistency, equity, equality, due process

- Civic virtue and citizenship
    - Law abiding, community service, protection of environment

CorpFinCE
Corporate Finance Central Europe

Ethics Tools: Codes of Conduct

Developing a Code of Conduct

- Identify key behaviors needed to adhere to the ethical values proclaimed in your code of ethics,
  - including ethical values derived from review of key laws and regulations, ethical behaviors needed in your product or service area, behaviors to address current issues in your workplace, and behaviors needed to reach strategic goals

- Include wording that indicates all employees are expected to conform to the behaviors specified in the code of conduct
  - Add wording that indicates where employees can go if they have any questions.

- Obtain review from key members of the organization
  - Legal department to reviews the drafted code of conduct.

- Announce and distribute the new code of conduct

- Note that you cannot include preferred behaviors for every possible ethical dilemma that might arise …

CorpFinCE
Corporate Finance Central Europe

Ethics Tools: Codes of Conduct (cont´d)

Examples of topics typically addressed by codes of conduct include

- Preferred style of dress,
- Avoiding illegal drugs,
- Following instructions of superiors,
- Being reliable and prompt,
- Maintaining confidentiality,
- Not accepting personal gifts from stakeholders as a result of company role,
- Avoiding racial or sexual discrimination,
- Avoiding conflict of interest,
- Complying with laws and regulations,
- Not using organization's property for personal use,
- Not discriminating against race or age or sexual orientation, and reporting illegal or questionable activity
- …

CorpFinCE
Corporate Finance Central Europe

Ethics Tools: Policies and Procedures

- Update policies and procedures to produce behaviors preferred from the code of conduct
    - For example personnel, job descriptions, performance appraisal forms, management-by-objectives expectations, standard forms, checklists, budget report formats, and other relevant control instruments

- There are numerous examples of how organizations manage values through use of policies and procedures
    - For example, institute policies such as recycling waste, donating to local charities, or paying employees to participate in community events
    - In another example, a high value on responsiveness to customers might be implemented by instituting policies to return phone calls or to repair defective equipment within a certain period of time

- Include policies and procedures to address ethical dilemmas

- Include policies and procedures to ensure training of employees about the ethics management program

CorpFinCE
Corporate Finance Central Europe

© Copyright – Christian Schopper

Ethics Tools: Policies and Procedures (cont´d)

- Include policies and procedures to reward ethical behavior and impose consequences for unethical behavior

- Include a grievance policy for employees to use to resolve disagreements with supervisors and staff.

- Consider establishing an ethics "hotline"
    - This function might best be provided by an outside consultant, e.g., lawyer, clergyperson, etc. Or, provide an anonymous "tip" box in which personnel can report suspected unethical activities, and do so safely on an anonymous basis

- Once a year, review all personnel policies and procedures

CorpFinCE
Corporate Finance Central Europe

Ethics Tools: Resolving Ethical Dilemmas

Real-to-Life Examples of Complex Ethical Dilemmas

- "A customer (or client) asked for a product (or service) from us today. After telling him our price, he said he couldn't afford it. I know he could get it cheaper from a competitor. Should I tell him about the competitor -- or let him go without getting what he needs? What should I do?"

- "Our company prides itself on its merit-based pay system. One of my employees has done a tremendous job all year, so he deserves strong recognition. However, he's already paid at the top of the salary range for his job grade and our company has too many people in the grade above him, so we can't promote him. What should I do?"

- "Our company prides itself on hiring minorities. One Asian candidate fully fits the job requirements for our open position. However, we're concerned that our customers won't understand his limited command of the English language. What should I do?"

- "My top software designer suddenly refused to use our e-mail system. He explained to me that, as a Christian, he could not use a product built by a company that provided benefits to the partners of homosexual employees. He'd basically cut himself off from our team, creating a major obstacle to our product development. What should I do?"

- "My boss told me that one of my employees is among several others to be laid off soon, and that I'm not to tell my employee yet or he might tell the whole organization which would soon be in an uproar. Meanwhile, I heard from my employee that he plans to buy braces for his daughter and a new carpet for his house. What should I do?"

CorpFinCE
Corporate Finance Central Europe

Ethics Tools: Resolving Ethical Dilemmas (cont´d)

Real-to-Life Examples of Complex Ethical Dilemmas (cont´d)

- "My computer operator told me he'd noticed several personal letters printed from a computer that I was responsible to manage. While we had no specific policies then against personal use of company facilities, I was concerned. I approached the letter writer to discuss the situation. She told me she'd written the letters on her own time to practice using our word processor. What should I do?"

- "A fellow employee told me that he plans to quit the company in two months and start a new job which has been guaranteed to him. Meanwhile, my boss told me that he wasn't going to give me a new opportunity in our company because he was going to give it to my fellow employee now. What should I do?"
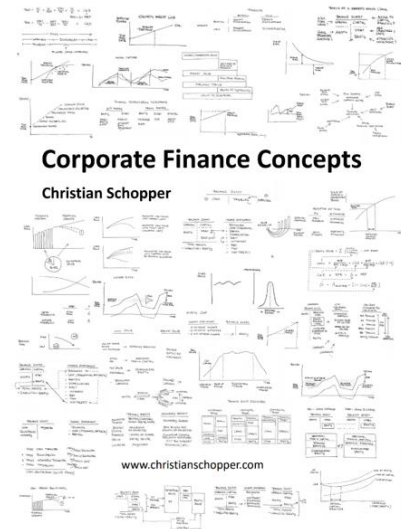
Ethics Tools: Training

- Orient new employees to the organization's ethics program during new-employee orientation

- Review the ethics management program in management training experiences

- Involving staff in review of codes is strong ethics training

- Involving staff in review of policies (ethics and personnel policies) is strong ethics training

- One of the strongest forms of ethics training is practice in resolving complex ethical dilemmas

- Include ethical performance as a dimension in performance appraisals

CorpFinCE
Corporate Finance Central Europe

Contact

For more concepts click on:

Corporate Finance Concepts

Christian Schopper

www.christianschopper.com

Christian Schopper
Private: christian.schopper@aon.at
Business: christian.schopper@corpfince.com

CorpFinCE
Corporate Finance Central Europe