



DIGITAL CHAPTERS



BEP113

April 30, 2012

CHAPTER THREE

Ethics Programs

From *Managing for Ethical-Organizational Integrity*
By Abe J. Zakhem and Daniel E. Palmer



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CHAPTER 3

Ethics Programs

In the introduction to this book we identified three general challenges to promoting ethical–organizational integrity. The first was that while we may know that we ought to behave ethically and promote ethical conduct there often can be a lack of complete practical or philosophical consensus regarding what is good and right. The first two chapters address this challenge. Managers do that which is good by driving company success vis-à-vis understanding and meeting stakeholder claims, developing and leveraging mutual stakeholder capabilities, and in turn promoting long-term company success and social welfare. We also learned that in pursuing company success there are some things businesspersons ought never to do and, likewise, that they ought always to do. Our discussion of fundamental rights and special obligations helped to identify such duties. Furthermore, we relied on the distinction between derivative rights and positive obligations to help identify rights and duties that, all things being equal, managers ought to make good on, but could be justifiably waived in light of stronger competing obligations.

Despite the work done in chapters 1 and 2, there is a third challenge that stems more from considerations of the nature of decision-making and moral psychology than from the nature of moral claims themselves. The issue here has to do with developing moral character and motivating ethical conduct. For instance, even if managers possess strong theoretical framework for ethics, they will inevitably have to make decisions where the best thing to do and the right thing to do may not be entirely clear given the constraints of practical decision-making with limited time, information, and resources. Alternatively, managers may know very well what is good and right for their organization, but lack the organizational support or disposition to do it. This chapter will address these challenges. We begin by drawing on the ancient Greek philosopher Aristotle for some insight. We suggest that the goal of ethics programs should be to provide a practical framework to implement ethical-organizational integrity that

allows individuals to overcome the practical barriers that often impede persons from coming to, and acting upon, ethical decisions. We then present the central features of effective ethics programs. Structuring ethics programs with these features in mind will help to effectively and meaningfully bring ethics and integrity to bear in practice.

Becoming Ethical

Knowing what ethics requires and becoming an ethical obligations person are challenging even though they are the two essential elements of a life worth living. The former requires considerable intellectual effort, while the latter requires building the right sort of character traits. Aristotle was one of the first philosophers to talk about the relationship between knowledge, character, and ethics and much of what he said still rings true today. Aristotle begins his *Nicomachean Ethics* with the simple observation that people desire or aim at that which they perceive as good.¹

For most human beings, these goods include having friends and family, working and acquiring money, being proud of what we have accomplished and having a sense of self-worth, being entertained, humored, and experiencing pleasure, and being on the side of that which is just and right. While each of these goods individually contributes to a meaningful life, Aristotle points out that a person who truly flourishes will in one way or another have all of these elements in their lives and, as such, will live their lives to their fullest potential.² The good, as compared to individual goods, is a composite in this view, which includes the various goods that we aim at as parts of the good life.

Having it all in this sense, however, requires a great deal of balancing among competing goods. Consider the following examples. Working and earning money is good and is certainly necessary for us to accomplish many things in life. Work provides us with a meaning or purpose, and even a sense of identity. Money enables us to care for the persons we love and pursue our own life plans. However, excessively focusing on work and money may inhibit our ability to maintain meaningful relationships with family and friends. In some cases the pursuit of money turns into a greed that admits of no satisfaction. In such cases, money becomes seen as the highest good in its own right, and persons pursue it as if it alone could lead to satisfaction. Such a pursuit is disappointing at best, tragic at worst.

Experiencing bodily pleasure is good as well. We should have time for satisfying our more sensual desires and doing so leads to a degree of satisfaction. However, having a wanton personality and lacking self-control or moderation may lead one down the path of addiction. Again, such pursuit may lead to a tragic disregard for other goods that ends up depriving one of more lasting fulfillment in life. Having a positive sense of self-worth is also good and we should seek to distinguish ourselves from others and become great persons. Lacking a sense of humility and an ability to recognize and learn from one's mistakes, however, may lead to dangerous pride, as illustrated by the story of Icarus in Greek Mythology. Additionally, fear is a common human experience and when faced courageously helps us to prudently identify risks and avoid unnecessary harm. However, excessive fear may lead to cowardice and the lack of an appropriate amount of fear may lead us to make foolhardy decisions.

So in general, excessive or deficient dispositions or character traits, such as greed, gluttony, wantonness, recklessness, cowardice, vanity, insensibility, and irascibility, cause us to lose our balance and undermine our ability to truly flourish as human beings. Aristotle identifies excessive or deficient character traits or dispositions as vices.³ In this sense, a vice is not just a moral failing, though it might well be that too, but it is also a simple failure of excellence. One who indulges in vice has failed to achieve the proper balance and inculcate the proper dispositions that would lead to a truly good life.

On the other hand, Aristotle describes composed and balanced character traits or dispositions as virtues. In other words, virtues are the means between dispositional extremes.⁴ For Aristotle, being virtuous is the key to human flourishing because being virtuous best enables us to rationally assess situations, react appropriately, learn from our mistakes, and develop the character necessary to achieve a balanced life. This does not mean, however, that virtuous persons are always moderate, as the virtue of moderation relates specifically to experiencing pleasure. Consider the example of a general deciding whether or not to go into battle. A good general experiences some degree of fear or concern, perhaps about his life or the lives of his soldiers. A good general knows the right time to engage the enemy and the right time to retreat and is disposed to courageously act on that which is right without internal conflict. A bad general,

however, who is engulfed by fear, might fail to properly engage the enemy causing potential harm to the larger cause and, as such, failing to benefit either himself or those who rely upon him. Behaving irrationally, a bad general may recklessly move his troops into battle or simply flee at the first sight of danger.⁵

To use one more example from Aristotle, we know that money is a good that most of us seek, but Aristotle argues that a virtuous person should here too follow a mean. While we should seek money to advance our own interests, the person of virtue should be liberal or generous with their money to others, since the good life is one of community. This does not mean, however, that a virtuous person gives their money to just anyone or that everyone needs to give in equal proportions. A virtuous person knows which causes are noble and promotes those kinds of causes. A virtuous person thus gives to the right people, at the right time, and in the right amount.⁶ Accordingly, a virtuous person does not seek the mean or middle path relative to discrete actions, but cultivates dispositions that enable them to reason, act well, and ultimately live a full and meaningful life. The mean is relative to our dispositional characteristics and attitudes and not necessarily to particular acts. While we cannot escape our emotional reactions, we ought not to allow our emotions to cloud our moral vision or erratically direct our will. Indeed, our emotional responses must be cultivated to serve noble, virtuous, and ethical ends.

Knowing the right thing to do at the right time and in the right proportion and actually carrying it out does not always come naturally though. For Aristotle good judgment and action well requires a commitment to two things. First, we must be committed to learning and developing our cognitive capabilities as well as what Aristotle refers to as our intellectual virtues.⁷ A good general, for example, studies a great deal of military history, strategy, and leadership theory. This fits very well with our discussion of capability development in chapter 1. Developing intellectual capacities and respecting intellectual virtues is, of course, not enough. Knowledge itself does not ensure good judgment. Nor does theoretical knowledge exhaust all possible situations a person might face and contexts in which he or she might act. Intellectual rules and principles can provide general guidelines, but no set of rules or principles can cover the particular features of all situations. In this sense, there is no single

equation or set of theoretical rules that will tell us what we ought to do in any given situation in advance. Likewise, the practical nature of activity demands a stance that is not merely theoretical. One cannot, for instance, learn to ride a bike simply by knowing all of the mechanics of bicycles or aerodynamics. One must, simply put, learn to some extent by riding.

As such, Aristotle refers to the second component necessary for reasoning and acting well as a commitment to moral virtue.⁸ A commitment to moral virtue requires habitual action (i.e., the sort of habitual action involved in practicing to ride a bike). In addition to learning about war, for example, becoming a good general demands practice in the field, so to speak. Generals and other soldiers are accordingly trained to act courageously and prudently in both simulated and actual battlefield experience. In this sense, courage cannot be learned in the classroom and learning about leadership does not in itself produce a good leader. During their training soldiers will inevitably make mistakes and less than optimal decisions, but over time and in the right conditions they will improve and develop intellectual and practical wisdom. Culture, organizational practices, and other environmental conditions obviously play a major role in either promoting or inhibiting virtuous behavior. Good militaries provide processes and an organizational culture that support intellectual and moral improvement and lead soldiers to act with integrity.

As with the development of effective generals, becoming a good and ethical businessperson requires the same sort of development. Making ethical decisions is not easy. In chapters 1 and 2 we provided some tools to help identify and prioritize that which is good and that which is right. A good businessperson knows the good and right thing to do in a situation and has the will to do it. Simply recognizing those actions we should never do (e.g., exploit children) and those that we always should do (e.g., promote company success) is not enough, as there will be situations where businesspersons do not know what ethics requires. How exactly should we structure our supply chain to eliminate exploitative labor practices? Given a variety of options how do we best manage stakeholders and drive and measure company success? How do we best accomplish such tasks given limited resources? All of the intellectual knowledge related to strategic management will not provide conclusive answers to these questions. Neither will theoretical knowledge promote the sort of virtuous

dispositions that will prompt a person to act on what they may know is good and right. Unfortunately, many businesspersons know what is ethical and continually fail to act accordingly.⁹ Ethical businesspersons, like good soldiers, require knowledge, practical experience, and the right sort of character traits. Additionally, good companies establish processes and an organizational culture that support intellectual and moral improvement and lead their stakeholders to act with integrity.

It is also important to note that as virtuous behavior is composite, the virtues and vices overlap. Additionally, and as Aristotle notes, it is often difficult to precisely define certain virtues. Although not exhaustive, Table 3.1 lists characteristic virtues and corresponding vices and provides a framework for character development.

BB&T Corporation, a U.S.-based financial holding company, is one firm that makes explicit reference to Greek philosophy and virtue. BB&T starts their value statement with the following preamble and list of important Aristotelian inspired virtues.

The great Greek philosophers saw values as guides to excellence in thinking and action. In this context, values are standards which we strive to achieve. Values are practical habits that enable us as individuals to live, be successful and achieve happiness. For BB&T, our values enable us to achieve our mission and corporate purpose.

To be useful, values must be consciously held and be consistent (non-contradictory). Many people have conflicting values which prevent them from acting with clarity and self-confidence.

There are 10 primary values at BB&T. These values are consistent with one another and are integrated. To fully act on one of these values, you must also act consistently with the other values. Our focus on values grows from our belief that ideas matter and that an individual's character is of critical significance. Values are important at BB&T.

1. Reality (or fact based decision-making).
2. Reason (objectivity).
3. Independent thinking.
4. Productivity.

Table 3.1. *Virtues and Vices*

Excess	Virtue	Deficiency
Recklessness, a disposition to act without thinking, being out of control and acting irresponsibly	Courage and prudence in the face of danger or harm, ability to accurately assess risk and threats and take responsibility	Cowardice, fleeing in the face of danger, showing weakness when strength is required
Gluttony, hedonism, a disposition to overindulge	Moderation regarding bodily pleasures	Abstinence or asceticism
Self-effacing behavior, not taking care of one's own particular needs, crippling sorrow about the state of the world	Being concerned about the wellbeing of others and expressing empathy	Cold, egoistic, and insensitive dispositions, being hardhearted, cruel, or careless
Prodigality or being too loose with one's money, thinking that money will solve all problems	Being generous or liberal with one's personal wealth	Miserly, stingy, or greedy dispositions, being susceptible to corruption
Irascible or irritable and short-tempered behavior, being short-tempered	Being temperate with regard to one's emotional reactions, expressing righteous or noble indignation	Apathetic, unconcerned, or blasé dispositions
Being vain, vulgar, or narcissistic, showing conceit or arrogance	Striving for greatness in one's self and for others, having noble ambitions and a strong sense of self-worth	Being unambitious, being petty or too humble, thinking of one's self as irrelevant or inconsequential
Being a workaholic	Working hard at one's profession and being industrious	Being lazy, slothful, and always looking for the short-cut
Being too pedantic or snobbish, or being too candid, outspoken, and inappropriate	Seeking, knowing, and speaking the truth, being inquisitive	Dishonest, sophisticated, cynical, or anti-intellectual behavior
Obsequious or sycophantic behavior, being overly superficial or too concerned about fitting in	Friendly, hospitable, and social dispositions, able to cultivate meaningful relationships that contribute to mutual flourishing	Cantankerous, disagreeable, unfriendly, or uninviting, being a loner
Losing touch with reality, living in a fantasy world, getting lost in possibilities	Being creative and imaginative, being a visionary	Dull, derivative, and insipid conduct, being unable to see things other than the way they appear

5. Honesty.
6. Integrity.
7. Justice.
8. Pride.
9. Self-esteem.
10. Teamwork.¹⁰

Given this analysis we can say that ethical-organizational integrity must include a commitment to developing intellectual and moral virtues. Persons with integrity desire to seek out that which is good and right and act accordingly. Organizations that promote ethical integrity will provide the structure and training in which such personal integrity can be inculcated. Building character and promoting virtue, however, is quite difficult. It is often difficult to find the right disposition and determine the right course to follow. People tend to be too prone to seeking immediate satisfaction and lack the vision and discipline to improve their situation. And, our institutions and cultures often tend to promote vices and ridicule virtues. In the next section, we lay out some of the principles behind, and characteristic features of, ethics programs that will help put your company on the right track.

Ethics Programs and Ethical–Organizational Integrity

As with many others in the field, we think that ethics programs should be structured to take a systematic and process oriented approach to building ethical–organizational integrity.¹¹ This involves designing processes for continual moral and intellectual development. While recognizing that ethical obligations are distinct from compliance or merely legal obligations, we nonetheless believe that compliance programs have much to offer structurally for those seeking to implement ethical programs for organizational integrity. For one, such programs are already present and widely understood within the business community. Second, they also tend to focus on how the organization, as a whole, integrates developmental issues.

As such, we suggest adopting the general model for promoting integrity that is suggested in the United States Federal Sentencing Guidelines and in quality management system standards. The US Federal Sentencing

Guidelines were first enacted in 1991 in order to introduce consistency into the federal sentencing process and increase the costs for corporations who engage in “white collar” crimes. Of particular interest for the field of business and organizational ethics, chapter 8 suggests a framework for structuring and assessing compliance programs and lays out basic organizational requirements for promoting good corporate citizenship. As opposed to focusing solely on individual culpability, the U.S. Sentencing Commission recognized that an organization is vicariously liable for the actions of its employees and may be indicted and subsequently fined if a federal crime is committed by those acting on its behalf. Organizations that failed to establish an effective compliance program could face penalties that increase base fines by up to a factor of four, raising the maximum possible fine for such corporations to \$290,000,000. This “carrot and stick” approach to corporate sentencing was thus designed to both encourage proactive, well-structured, and robust compliance programs and severely punish organizational negligence. In order to mitigate fines and reduce pecuniary risk, an organization must exercise due diligence in a systematic effort to detect and eliminate criminal conduct.

The impact of the Federal Sentencing Guidelines of 1991 on corporate compliance programs has yielded mixed reviews. Some have argued that the Guidelines provide a compelling, flexible, and useful model for introducing and reinforcing legal and ethical conduct.¹² Even stronger claims suggest that the Guidelines’ 7-step program serves as a model for standardizing international programs and providing a theoretical and practical foundation for teaching and training curriculum.¹³ Others, however, point out that the 1991 Guidelines unduly conflate legality and ethics, as many legal compliance based programs do. The upshot of this argument is that good corporate citizenship is anemically reduced to following, or at least appearing to follow, the letter of the law and thus offers little incentive to promote well-grounded and substantive organizational change.¹⁴

Accordingly, the U.S. Federal Sentencing Guidelines were since revised. As commentators recognize, the new recommendations extend beyond mere legal compliance and suggest developing a more inclusive and robust notion of ethical–organizational integrity, as previously alluded to. In particular, suggestions distinguish legality from ethics and recommend that in addition to compliance managers should

establish processes to engender an overall ethical organizational culture. Pursuant to this objective, the expectation is that effective ethics and compliance programs will at least supplement the punitive deterrence of criminal conduct with efforts to define and integrate core values and ethical commitments into organizational processes and positively inspire employees to “live up to the company’s ethical ideals.”¹⁵

The marked improvements over the 1991 guidelines are significant. First and foremost, the 2004 Guidelines now draw a strong connection between well-defined, shared, and culturally embedded organizational values and ethical commitments and lawful conduct. Furthermore, the revised Guidelines do not just rely on the standard, compliance based notions of rule definition, dissemination, detection, and punishment. In a much more positive sense, the revised Guidelines recommend incentivizing ethical behavior, encouraging active executive leadership and support, and ethics and compliance training. Finally, on a point often overlooked or otherwise underemphasized, the Guidelines now suggest that large organizations “should encourage small organizations (especially those that have, or seek to have, a business relationship with the large organization) to implement effective compliance and ethics programs.”¹⁶ As such, there is a movement to encourage ethical–organizational integrity down the supply chain and in effect across national and cultural boundaries. As many ethical and legal issues require global action beyond the doors of locally situated companies (e.g., issues concerning sweatshop labor and environmental degradation, pollution, and sustainability), this recommendation should not be underestimated. In light of marked improvements, the Guidelines’ suggestions for structuring an ethics and compliance program and engendering intra- and interorganizational integrity bring a renewed sense of optimism. The Federal Sentencing Guidelines’ newly revised chapter 8 suggestions are included in Appendix F.

Despite being developed by the U.S. judiciary the Federal Sentencing Guidelines provide succinct suggestions that are embraced by ethical–organizational integrity initiatives across the globe. They include the previously mentioned Ethical Compliance System 2000 and suggestions made in the OECD Guidelines for Multinational Organizations. For these reasons we find the U.S. Guidelines to have international appeal.

Our approach is also influenced by the International Organization for Standardization’s quality oriented approach to management systems.¹⁷

This approach relies on certain basic principles. First, that leadership creates an environment where stakeholders are involved in organizational change and provides a clear and inclusive vision of the company's future. Second, goals are best achieved when persons and resources are managed within clearly established organizational processes. Third, that processes are regarded as pieces of an overall and clearly defined management system. Fourth, there is a firm commitment to measurable continual improvement at the individual, process, and management system level. Fifth, that process and the management system are periodically subject to the plan-do-measure-improve cycle. Managing for ethical–organizational integrity thus requires: (1) inclusive planning, setting, and documenting clear expectations and objectives, (2) responsible, accountable, process and systems oriented actions, (3) measurement and assessment, where unethical and illegal conduct are ultimately viewed as process failures, and (4) a firm and systematic commitment to becoming ethical.

The following provides somewhat standardized and flexible suggestions for designing, implementing, and maintaining an effective ethics program with the U.S. Federal Sentencing Guidelines and other similar global efforts, and quality management system principles in mind.

Features of Effective Ethics Programs

Documentation

Documentation plays a very important descriptive and normative role when managing for ethical–organizational integrity. In other words, ethics program documentation spells out, at all organizational levels, the descriptively relevant information for employees as well as the normative principles intended to guide the ethical framework of the organization. Regardless of the level of specificity, ethics program documentation should be subject to periodic review, should be understood by all employees, and should be objectively demonstrated in practice. It is also helpful to solicit appropriate stakeholder input when documenting ethical expectations, requirements, and goals. This requires different types and levels of documentation with varying degrees of specificity.

At the most general level, a company ought to document an *ethics vision statement*. An ethics vision statement should describe the higher

normative ideals and standards to which all employees ought to aspire. The BB&T value statement offers such a vision. Additionally, the Johnson & Johnson credo, Novartis statement on human rights, and the Texas Instruments ethics and values statement provide similar and helpful states and are referenced in Appendix G. In general, well-written vision statements will:

- Include a clearly defined executive commitment to long-term company financial success and ethical and legal conduct. This commitment should stress that ethical and legal conduct and long-term company financial success are mutually dependent.
- Stress the importance of company stakeholders. The ethics vision statement should include overarching goals, such as commitments to product quality and safety, truth in advertising, environmental responsibility and sustainability, recognizing human rights, equal treatment and nondiscrimination, treating stakeholders with respect, promoting meaningful work and capability development, developing supply chains, ensuring legal compliance and fair competition, respecting privacy rights, and engaging in transparent and truthful financial reporting.
- Describe character traits that should be evidenced by stakeholders, which should include such virtues as honesty, courage, industriousness, prudence, loyalty, pride in one's work, justice, imagination, creativity and the ability to envision new possibilities, as well as a commitment to individual and organizational excellence.
- Include an executive commitment to establishing and maintaining an ethics program that is geared toward promoting, sustaining, and continually improving the company's ethical–organizational culture. There should also be a commitment to promoting ethical conduct and formalizing ethics programs within one's industry and across one's supply chain. As mentioned, the Federal Sentencing Guidelines stress the importance of larger companies taking the lead on this sort of initiative, particularly with regard to supply chain development.

- Provide a framework and an executive mandate for developing more specific and measurable objectives. As mentioned in the next section, each organizational process should have specific and measurable objectives related to promoting ethical conduct and preventing unethical conduct.
- Reference other appropriate ethics program documents, including ethics based regulations, ethical codes of conduct, and other supporting documents.

In addition to an ethics vision statement, management ought to document more specific *ethical codes of conduct*. Codes of conduct are more precise than an ethics vision statement and thus ought to spell out more concrete obligations. Well-written codes will:

- Reiterate the executive commitment to promoting ethical–organizational integrity and distinguish ethics from mere legal compliance. Employees should be aware that ethical codes of conduct do not exhaust ethics based requirements and will not cover all possible ethical issues, but that they do provide an overview of some of the most basic and important ethical requirements and commitments of the organization.
- Very clearly and concisely spell out specific duties and obligations and highlight fundamental rights, special obligations, and legal compliance duties. Codes of ethical conduct will thus focus more on defining and explaining the categorical or absolute ethical obligations necessary for minimal ethical compliance, as well as the ethical goals and values that should guide future development of organizational integrity.
- Specifically relate to particular job functions and organizational processes. There should be ethical codes for all organizational processes, including sales and marketing, finance and auditing, production, information technology, purchasing and supply chain management, human resources, and research and development, or engineering, as appropriate. Where appropriate, reference should be made to the standard ethics codes of particular relevant professional groups

(see Appendix C for the International Code of Ethics for Sales and Marketing as an example).

- Use examples to illustrate how to resolve common and recurring ethical issues.
- Be as specific as possible when explaining the repercussions for noncompliance, including but not limited to such things as employee dismissal or devaluing supplier performance. Again, these repercussions should be clearly spelled out relative to specific processes.
- Direct employees to ethics hotlines, the ethics officer, or other means for support if they should encounter an ethical dilemma or an ethical issue that extends beyond the scope of the code of conduct. Ethical codes should clearly explain when and under what conditions whistle blowing is permitted and not permitted.
- Reference other appropriate ethics-based documentation, including the ethics vision statement and other appropriate procedures, policies, and work instructions.

Finally, ethical expectations should be appropriately documented in organizational procedures, work instructions, forms, and other everyday documentation. Like ethical codes of conduct, working documents should include ethical requirements for each organizational process. For example, procedures and associated work instructions regarding how to close a sale should include rules about disclosure and nondeception. Additionally, forms could be developed to ensure that customers are aware of their rights. This, for example, is often accomplished in mortgage sales and lending with truth and lending disclosures and in providing as well as signing-off on a borrower's bill of rights. As another example, procedures and instructions for selecting and evaluating suppliers should rule out the use of sweatshop labor, along with appropriate definitions and resources for documenting what constitutes sweatshop conditions. Accompanying forms and records should demonstrate that such rules are being obeyed. Additionally, procedures regarding information technology should convey the moral importance of respecting and protecting customer and employee privacy rights and include specific protocols for securing sensitive data. This ensures continuity between the ethics vision statement, codes of ethical conduct, and everyday procedural activities.

Organizational Processes

One of the goals of an ethics program is to integrate ethics into everyday operations. Documenting ethical requirements in a company's ethics vision statement, codes of ethical conduct, and everyday procedures, work instructions, and forms contributes to this end. Other actions on organizational processes should include the following.

- Management should periodically document the flow of all organizational processes and identify the stakeholder interactions, expectations, and rights within these processes. The ethics vision statement, codes of conduct, and everyday documentation should be used to determine ethical expectations concerning employee and other relevant stakeholder behavior.
- Management should periodically conduct gap analyses to identify inconsistencies between documented expectations and the way things actually stand. For example, an ethics vision statement might claim to promote environmental responsibility and sustainability but organizational processes may not reflect this commitment. This would indicate a gap between normative expectations and empirical conduct. Management should then take steps to correct the situation. We will address the issue of corrective action in more detail when we discuss continual improvement.
- Management should periodically examine organizational processes and take steps toward preventing unethical conduct before it occurs. Assessments should be made to address a wide variety of possible failures, the seriousness of offense—a violation of fundamental rights and special obligations should receive highest priority—the likelihood of unethical conduct occurring, and the controls in place, if any, to detect unethical conduct if it does in fact occur. Management should then take action to reduce the severity, likelihood of offense, and/or increase the means for detection. Where possible, reducing the severity and likelihood are preferable to increasing the means of detection alone. This approach is similar to Potential Failure Mode and Effects Analysis in quality circles.¹⁸

- Management should periodically come up with a list of tangible and measurable objectives and initiatives relative to each organizational process and assign responsibility and authority for their actualization. Where possible, management should try to tie or at least relate ethics based objectives and initiatives with financial metrics. Where initiatives are ineffective and when objectives are not met management should make an effort to correct the problem. Some possible measurable objectives metrics are listed below.
 - Improving stakeholder perceptions about corporate ethical performance.
 - Reducing ethics based complaints relative to particular processes.
 - Seeking compliance with recognized environmental and social accountability standards.
 - Promoting supplier compliance with recognized environmental and social accountability standards.
 - Reducing your company's carbon footprint, environmental impacts, and promoting energy efficiency.
 - Tracking the number of human rights violations in your company and down your supply chain.
 - Limiting the percentage of operations in areas where human rights violations are prevalent.
 - Reducing health and safety incidents in your company and down your supply chain.
 - Increasing the hours devoted to ethics training and development.
 - Improving social, environmental, intellectual, and human capital in your company and down your supply chain.
 - Establishing community involvement projects designed to increase social, environmental, intellectual, and human capital.
 - Increasing company diversity.
 - Reducing the instances and costs of illegal conduct.

- Increasing philanthropic donations.
- Taking formal and informal actions to promote ethical behavior.

As ethics programs are designed to improve character, human resources and development departments ought to play a key role in supporting process level initiatives. This is why we feel that human “resources” requires the additional title of “development.” As such, human resources and development should have responsibility and authority to do the following.

- Ensure that employees are aware of and understand the ethics vision statement, codes of conduct, as well as procedures and other documentation. This should not simply be done during initial hiring and then stowed away in a personnel file. Training programs should thus be regularly conducted. Human resources should seek innovative and multimedia forms of marketing to get the message out.
- In addition to awareness training, human resources and development should help develop the ethical reasoning and decision-making capabilities of all employees within an organization (from the lowest to the highest levels on the organizational chart). This will include appropriate forms of stakeholder, utilitarian, and rights based decision-making. It also means helping to cultivate moral sensitivity, imagination, and moral intelligence.¹⁹ Developing and applying an ethical decision-making procedure will foster and provide a standard against which these sorts of attributes can be measured. The steps that should be included in such a procedure are as follows.²⁰
 - *Gather the facts.* How did the problem arise? Be a good and thorough detective and obtain all applicable data and information. Reference all appropriate organizational documentation, including the ethics vision statement, codes of conduct, and procedures.

- *Identify all stakeholders.* Identify all potential and mutual stakeholders. Cast a wide net to ensure thorough risk analysis.
- *Identify stakeholder claims.* Think about claims in terms of that which is good, right, and virtuous and identify operative normative judgments.
- *Identify short- and long-term consequences.* Consider the impact of meeting or failing to meet stakeholder claims. Be sure to consider short- and long-term impacts. Managerial decisions should relate consequences to corporate objectives and measures, including impacts on stakeholder satisfaction and short- and long-term financial metrics.
- *Identify obligations to stakeholders.* Highlight obligations grounded in fundamental rights and those that represent special obligations. Fundamental rights and conditions of acute vulnerability and dependence should be given the highest priority; remember that the weakest voice may have the strongest moral claim. Also identify derivative claims, in particular those that relate to an important good. As best as possible define specific positive and negative duties relative to each right.
- *Consider your character and integrity.* What would a virtuous person do? What would you do if you had the courage and support? Organizations have provided role models to help this aspect of decision-making. One of the more popular was at Walt Disney, where when facing a difficult issue executives would ask, “What would Walt do?”
- *Think creatively about potential actions.* Do not limit yourself to shareholders and short-term profitability. Try to engage in moral imagination and examine new possibilities.²¹ Seek out advice and look for best practices. Consult with the ethical officer or ethics board, as appropriate. Try to come up with a plan that best drives company success, makes good on fundamental rights and obligations, and best satisfies derivative claims. Where derivative claims and other nonfundamental rights cannot

be immediately met, think about and try to come up with continual improvement measures that would improve the likelihood of meeting such claims in the future.

- *Form an argument that supports your decision.* Make a decision and provide reasons for your decision. Your decision should be related in the form of an ethical argument. In short, an argument is a set of premises or statements that logically lead to a conclusion. The premises in an ethical argument include certain empirical/descriptive premises or statements and include an appeal to a moral principle or value. Try to use the moral terminology, principles, and values discussed in this book. The following is an example of a simple ethical argument. (1) We ought never to violate fundamental rights. (1a) Fundamental rights protect that which is necessary for human beings to have dignity, integrity, and respect. (1b) Fundamental rights include universal human rights. (2) Forcing employees to stand at their workstation for over 12 hours without a break is consistent with accepted definitions of torture. (3) The right not to be tortured is a human and fundamental right. (4) Therefore, we ought never to force employees to stand for over 12 hours without a break. This sort of argument would then ethically justify taking specific actions to prevent this sort of abuse in practice.
- Ensure that ethical and unethical conduct and ethical character are considered in issues of hiring, firing, promotion, and demotion. There should be performance based rewards for ethical conduct and disincentives for unethical conduct. Human resources and development should create plans for intellectual and moral development.

Continual Improvement

Following Aristotle, becoming an ethical person is an ongoing task that involves trial, error, and a commitment to improvement. In business, the term “continual improvement” refers to a general and systematic

commitment to improve organizational processes and overall performance.²² At times, improvements may be small, incremental changes, such as deciding to engage in recycling. At other times, improvement efforts constitute more encompassing process changes, such as shifting company mindset to a sustainability paradigm. In any event, the keys to continual ethical improvement are to build into organizational practices a degree of honest and critical self-reflection, a tangible commitment to eliminating the underlying causes of unethical behavior, and the willingness to act on processes in ways to promote ethical conduct. The following suggestions for continual improvement will help build and sustain an effective ethics program.

- Organizations should conduct periodic ethics audits. Similar to gap analyses, ethical audits should be designed to determine the degree of compliance to ethics program documentation. Audits should also identify opportunities for improvement, verify process level and overall effectiveness, and identify best practices. A formal audit program should be established to help define the audit strategy, develop checklists, set the audit flow, and stipulate auditor training requirements. Knowledge about quality management system auditing philosophy, methods, and techniques will help to develop an effective audit program.²³
- In addition to audits, organizations should implement anonymous stakeholder feedback systems for reporting unethical conduct. Common feedback systems include ethics hotlines and forms of stakeholder satisfaction surveys.
- Organizations should implement a formal system for corrective action. Preventive actions are designed to act upon processes in order to prevent problems from happening in the first place. Corrective actions are designed to act on processes to prevent problems from recurring.²⁴ This is best accomplished by identifying and eliminating the root cause(s) of the problem. There are many methods for root cause analysis.²⁵ The most simple, but often effective approach is the “5-Whys” method. This method asks problem solvers to ask why (1) the

initial problem occurred, thus determining the immediate and most obvious cause or Why (1). The problem solvers would then ask Why (1) occurred (thus generating Why 2). The problem solvers would then ask Why (2) occurred (thus generating Why 3), and then would repeat the questioning at least two additional times, as appropriate. The end result should be a more rigorous and process oriented change. For example, a seemingly isolated problem involving unethical and illegal purchasing kickbacks may begin with firing the purchasing agent. Further investigation may lead to more systematic changes in hiring and supplier evaluation processes and practices. Problem solvers would then work to eliminate the root cause and take steps to ensure that their actions are effective. Audit results, the results from gap analyses, actual problems that arise from preventive action analysis, and failures to meet process-related and overall organizational objectives all provide opportunities for corrective action.

- Executive managers should conduct comprehensive and periodic reviews of overall ethics program effectiveness. During reviews executive management should:
 - Review the ethics vision statement.
 - Review process level objectives and associated measurements.
 - Review the results of audits and gap analyses.
 - Review stakeholder feedback.
 - Review corrective and preventive actions.
 - Identify things gone right and things gone wrong.
 - Determine whether or not the ethics vision statement has been realized.
 - Objectively assess the company's overall ethical-organizational culture. The previous bullet points will serve as inputs when making this assessment. There are other psychological and social scientific models that may be employed when assessing the strength of one's organizational culture.²⁶

- Come up with corrective actions and an enterprise level action plan for continual improvement.
- Report on ethics program performance. Ethics reporting will help to demonstrate your commitment to the ethics program and will help to measure performance over time. The nature and extent of the report may vary depending on the stakeholder group or groups to which it is addressed. A report should be presented to the governing body. A report should also be prepared and publicly disseminated to all company stakeholders. The Global Reporting Initiative's framework, which focuses on economic, social, and environmental sustainability, provides a useful framework for ethics and sustainability reporting.²⁷

Leadership and Discourse

Without question an ethics program will not be effective without leadership at all levels of the organization. All employees must in one sense or another lead by example. Executive managers and governing authorities should openly support the ethics program in word and also by allocating the necessary resources to ensure its effectiveness. Executive management and the board should appoint an ethics officer who has the responsibility and the authority to ensure that the program is effectively documented, implemented, and maintained. Each employee should be aware of ethics program requirements, the company's ethics vision, and demonstrate how they actively promote an ethical organization culture.

There are many leadership models that can help to facilitate these ends, foster ethical conduct, and align with the suggestions of this book. For example, models of cosmopolitan leadership demand, promote, and reward inquisitiveness, learning, critical reflection and deliberation, a sense of belonging and purpose, a sense of mutual recognition and interdependence, and care.²⁸ Additionally, the transformative leadership model stresses the importance of the leader as a mentor who recognizes individual importance and uniqueness, promotes intellectual stimulation, conveys an overarching vision or purpose that transcends immediate, transactional gain, who acts with the utmost integrity, and ultimately

serves as a role model for ethical conduct.²⁹ Each model, and perhaps many others, helps to align good and effective leadership with the ethics, values, and principles discussed in this book.

Regardless of which leadership model one chooses, leaders will be in situations where they have to maintain integrity during difficult times. As mentioned at several points throughout this book ethical dilemmas and conflict will inevitably occur. One way to deal with conflict is to try and exert strategic influence and through inducements or threats try to advance company interests. The philosopher Jurgen Habermas defines this sort of action as strategic action.³⁰ There is, of course, a place for strategic action in business. The problem with exerting such an influence, however, is that when strategic actions come to dominate an organizational culture they erode the sense of ethical–organizational integrity outlined here.³¹ On the other hand, Habermas defines communicative actions as those attempts to reach mutual understanding and coordinate behavior in terms of a collective assent to the way things ought to be.³² Different from the disposition to rely on strategic actions, engaging in communicative actions and working toward mutual understanding actually builds solidarity and integrity.³³

While we should not try to wholly eliminate strategic actions, we should try to foster communicative actions. The way to do this is through discourse. In a debate one party may know very well the position they support and do their best to prove their point. The goal of a debate is to influence opinion in the most effective way possible, sometimes by good, solid argumentation, at other times through purely rhetorical means. Conversely, the goal of discourse is learning and understanding. Participants do not rely on rhetoric or subterfuge but trade arguments in order to find the best reasons for supporting general norms and values over others.³⁴ At one level, discursive participants should discuss and seek consensus over the guiding values or deep preferences that focus their collective way of life. Using our terminology, mutual stakeholders should engage or otherwise be represented in a discourse about organizational and stakeholder identity and define shared commitments regarding that which is good. At another level, all potential stakeholders should engage or otherwise be represented in a discourse about that which is right or fair. In the end, that which is good and that which is right are not determined by an ethics officer or corporate social responsibility office, but

arise out of processes driven toward inclusive stakeholder input and collective recognition. In the end, the results of stakeholder discourse should appropriately shape the organizational ethics vision and other down-level documentation. Several models for incorporating discursive elements in business organizations are suggested in the literature.³⁵ Some of the general discursive rules to which participants must adhere are as follows.

- A commitment to ethical and moral learning.
- A commitment to recognizing the mutual worth of all participants.
- Willingness to reverse roles and argue and see a position from another's point of view.
- Willingness to give up on one's position when provided good reasons to do so.
- A commitment to represent all stakeholder view and arguments, whether in person or in spirit. Getting all parties in one room might be difficult, but their positions nevertheless could be authentically championed by other constituents.
- Allowing all parties to speak their views and present their positions without retribution.
- A commitment to speaking truthfully and authentically.
- A commitment to finding values and norms that are, or at least would likely be, supported by all those who may be impacted by their recognition.
- A commitment to translate the recognition of said values and norms into practice.
- Without question, discourse is an idealized form of engagement and sometimes difficult to implement in practice. Nevertheless, the ability for leaders to engage in discourse, refrain from threats and inducements, and develop a shared and unifying sense of stakeholder ethical and moral solidarity should be regarded as a central feature of stakeholder management capability.³⁶

Conclusion

We began this chapter by recognizing intellectual, cognitive, and motivation limitations to managing for ethical–organizational integrity. An effective ethics program will not eliminate all conflict or eliminate all cases of unethical conduct. An effective program will, however, help to create a culture that will maintain and reaffirm ethical–organizational integrity when cases of ethical conflict or unethical conduct do in fact occur. This integrity is held fast by a commitment to a systematic and process oriented approach to intellectual and moral development. To reiterate a crucial point, ethics is not merely about applying discrete rules or seeking minimal compliance. Ethics is about transforming ourselves and our practices to reflect higher ideals about that which is ultimately good and right.

Questions for Further Research and Discussion

Can you provide concrete examples and best cases of ethics program effectiveness?

Why do some ethics programs fail?

What are some of the impediments to promoting an ethical organizational culture?

What are some of the impediments to ethical decision-making?

What are some of the variables that determine moral sensitivity, awareness, and impact ethical decision-making?

What psychological and social scientific models can best assess organizational culture?

What leadership models best promote ethical–organizational integrity?

Are there any ethical conflict resolution models that work better than others?