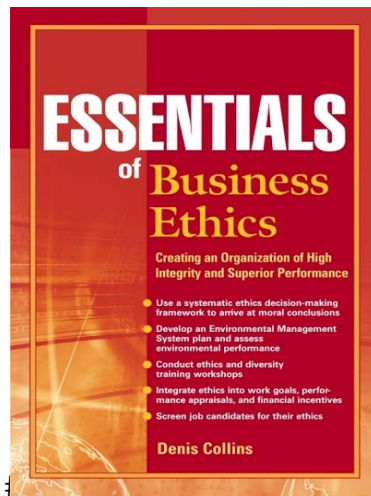


Essentials of Business Ethics

Creating an Organization of High Integrity and Superior Performance

About the Author/s

Denis Collins, PhD, is a tenured professor of business at Edgewood College in Madison, WI and teaches in the areas of business ethics, management, leadership, and organization behavior. Considered a leader among business ethics professors, Dr. Collins serves on the editorial boards of Journal of Business Ethics, Journal of Academic Ethics, and Encyclopedia of Business Ethics and Society and has published numerous books and articles in the areas of social philosophy, participatory management, business ethics, and service learning.



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ISBN: 978-0-470-44256-2
291 pages

■ The Big Idea

With the rash of high-profile corporate scandals and controversies in the past decade, the concept of ethics in business has taken on new significance. Without a strong ethical foundation, a company is apt to operate in a manner that degrades the business and its employees.

In *Essentials of Business Ethics*, Denis Collins explores practical “how to” examples of business ethics and provides guidance on how best to cultivate them within an organization. In addition, Collins takes leaders through a discussion on topics such as:

- Human nature and unethical behavior in organizations
- Determining the ethics of job candidates
- The best practices for managing diversity
- Aligning community outreach with the company’s mission and assets
- Being environmentally conscious

Essentials of Business Ethics is a valuable resource for anyone in business and management who wants to create an ethical working environment.

FEATURES OF THE BOOK

Reading Time: 10-12 hours, 291 pages

The Essentials of Business Ethics by Denis Collins takes an in-depth look into the many ways companies can incorporate an ethical mindset into their business.

With an introduction about human nature and the costs of unethical behavior in organizations, Collins paints a picture of why ethics in business is such a crucial aspect to operating with integrity and fostering an environment of success. He provides thorough guidance on how to create an ethical workplace, including real-world examples and best practices for encouraging positive behavior.

The book also includes insight into creating a Code of Ethics and Code of Conduct, as well as what the differences are between the two. Managing the process and continually evolving to become a better, more ethical, and more successful organization is what Collins aims to convey through thorough discussion and thoughtful insight. Readers will come away with a much better understanding of why business ethics is so important, and the long-term success that can result from indoctrinating ethics into any organization.

INTRODUCTION

The most successful companies credit their achievement, in part, to the ethical way in which they conduct their business and the ethical standards their employees follow. Organizations that operate with high integrity achieve far greater success and realize superior performance because of their ability to recruit and retain high-quality employees. Cultivating an ethical atmosphere in business takes dedication and effort, but many leaders do not know where to start. In *Essentials of Business Ethics*, Denis Collins takes readers through the maze of business ethics and provides practical, hands-on knowledge for creating ethical organizations.

By imparting an authentic sense of what is right in the business environment, management teams and their staff can cooperatively operate to grow the business and achieve success in the most honest and transparent way.

HUMAN NATURE AND UNETHICAL BEHAVIOR IN ORGANIZATIONS

Managing ethics is an integral part of any successful business operation, and major decisions that affect the company's bottom line always involve ethics. Studies have proven that ethical companies outperform unethical ones and that employees at ethical organizations are more loyal and generally more satisfied in their jobs.

In addition, ethical organizations:

- Attract and retain higher quality employees, customers, suppliers, and investors
- Earn goodwill with community members and government officials
- Achieve greater efficiency and better decision making, based on more reliable information from stakeholders
- Achieve higher product quality
- Need less employee supervision

Although the ideal scenario is to hire and work with people who have the same high level of ethics that the management team has, unfortunately with a diverse set of employees and personalities that is not always possible. Collins points to research stating that the average person lies twice a day. The magnitude of the lie is what is at stake, and the bigger the lie, the more of an impact it has on an organization. The question then is for management executives to determine how best to minimize the detrimental affect these less-than-ethical employees have on the organization. Before individuals with these characteristics even become employees, it is important to take a closer look at the hiring process.

Making a questionable hiring decision and unknowingly hiring someone with a poor moral compass can have a large impact on a company. Collins urges management executives to consider the hiring process as an ethical screening process. In addition to interviewing for technical ability, those who are doing the hiring should also investigate a potential employee's ethical code.

Collins has outlined the following Five-Step Ethics Job Screening Process:

1. Legal Ground Rules: Make sure that all interviewees, regardless of race, color, religion, gender, national origin, age, or disability, are considered for any position.
2. Behavioral Information: Conduct a thorough review of behavioral information, such as background checks, resumés, and integrity tests.
3. Personality Traits: Offer personality tests as part of the interview, so characteristics such as social dominance, conscientiousness, and organizational citizenship behavior can be evaluated.
4. Interview Questions: Pose ethical dilemmas as hypothetical situations and see how the interviewees respond.

5. Other Tests: If possible, conduct additional tests to seek integrity indicators, such as drug, alcohol, and polygraph tests.

By following these hiring guidelines, companies will have a better sense of the ethical code of future employees, and will be able to better assess if and how these employees can fit into the organization.

THE ETHICAL FOUNDATION OF CAPITALISM AND THE OPTIMAL ETHICS SYSTEMS MODEL

Adam Smith, famed economist of the 1700s, is credited as providing the ethical foundation of capitalism. He surmised that although a free market system would provide the opportunity for immoral conduct, most individuals would choose to act in an ethical way. Based on what he called, “moral sentiments,” belief in God, one’s own conscience, and a concern for the well-being of others, Smith thought that the wide majority of people would have the instinct to behave morally. His defense that capitalism is indeed ethical was based on these tenets:

- Freedom and liberty are essential values
- A free people naturally pursue their own self-interests
- People will choose to enter product and labor markets where there is the greatest need and opportunity
- People morally self-regulate their actions based on their conscience, belief in God, concern for the well-being of others, and reason
- A strong system of justice is essential to punish those who do not appropriately self-regulate

Smith’s theories have been accurate and have stood the test of time, and the reason for the flourish of free market capitalism over past centuries has been because an overall sentimentality of ethics has been established. However, for those organizations where individuals do not comply with the general ethical standards, there have been governmental guidelines that have been put into place to ensure that their criminal actions are addressed.

During President H.W. Bush’s presidency, new Federal Sentencing Guidelines were established to provide organizations with a set of guidelines to follow in order to encourage the use of ethics. This, in conjunction with a blueprint that each organization creates as an ethical system, can have a tremendous impact on the way in which employees behave. Dubbed as an “Optimal Ethics Systems Model,” each company has the power to create a moral code that encompasses a wide range of processes to ensure compliance and ethical behavior. Integrating practices such as hiring ethical people, creating codes of conduct, having ethics training, and employing ethics reporting systems compel companies to act ethically.

CODES OF ETHICS AND CODES OF CONDUCT

It is impossible to ensure that each individual in the organization has the same moral code and will make similar ethical decisions as his peers. However, companies can create a Code of Ethics and a Code of Conduct to make it easier for employees to understand proper protocol. A Code of Ethics, sometimes called a value statement, refers to broad ethical aspirations. According to Collins, a Code of Ethics describes guiding principles that we would ideally like those we associate with to possess, such as respect for others, respect for self, and respect for the environment. A Code of Conduct refers more to acceptable behaviors for particular situations. A Code of Conduct applies the Code of Ethics to different scenarios and acts as a compass for how an individual should act in those scenarios.

Collins points to the Code of Ethics that is recommended and put forth by the New York Stock Exchange as a good example. Their Code of Ethics consists of seven topics:

1. Conflicts of interest: Avoid conflict or potential conflict between an individual's personal interests and those of the organization.
2. Corporate opportunities: Do not use corporate information or assets for personal gain.
3. Confidentiality: Do not disclose nonpublic information that could benefit competitors or harm the organization.
4. Fair dealing: Abstain from unfair treatment of customers, suppliers, competitors, and employees, such as concealment, abuse of privileged information, and misrepresentation of material facts.
5. Protection and proper use of assets: Use assets efficiently and avoid theft, carelessness, and waste.
6. Compliance with laws, rules, and regulations: Proactively promote compliance.
7. Encouraging the reporting of any illegal or unethical behavior: Proactively promote ethical behavior and do not allow retaliation for reports made in good faith.

It is important for organizations to present these codes to their employees as an overarching mandate for what kind of behavior is expected in the workplace. Rather than focus too greatly on what behaviors are not considered acceptable, Collins recommends companies instead focus on the affirmative and highlight and promote positive behaviors, such as trustworthiness, respect, responsibility, fairness, caring, and citizenship.

By establishing and promoting a core Code of Ethics and Code of Conduct, management can ensure that any employees who are hired will have a guiding set of principles to follow. When everyone in the organization is able to adhere to this standardized set of principles, there is a better likelihood that the company will be able to function with greater integrity.

ETHICAL DECISION-MAKING FRAMEWORK

Although a Code of Conduct is crucial to the foundation of any successful business, it unfortunately will not address every single business situation that may arise. In those unique instances, having an alternate framework in place to guide employees through uncharted territory can be a very helpful resource. Collins outlines two ethical decision-making frameworks that are commonly used in these situations: Rotary International's Four-Way Test and Raytheon's Ethics Quick Test.

Rotary International's Four-Way Test

Based on guidelines set forth by Rotary International, an organization that boasts more the 1.2 million members, a quick way to gauge the ethics of any decision can be answered by asking these four questions:

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it build goodwill and better friendships?
4. Will it be beneficial to all concerned?

Raytheon's Ethics Quick Test

Raytheon also has a similar set of questions that they encourage their employees to ask themselves when faced with an uncertain situation:

- Is the action legal?
- Is it right?
- Who will be affected?
- Does it fit Raytheon's values?
- How will I feel afterwards?
- How would it look in the newspaper?
- Will it reflect poorly on the company?

There are systematic ways to encourage ethical behavior, and with a Code of Conduct, a Code of Ethics, and decision-making frameworks in place, organizations will provide a concrete outline and expectations for how employees should behave.

ETHICS TRAINING

Many companies prefer to reinforce a Code of Conduct and Code of Ethics with ethics training within the organization. Although some professions, realtors and accountants for example, require ethics training as part of the process of getting licensed, many others tend to neglect this important education process due to cost or lack of initiative.

Once the decision has been made to incorporate ethics training for employees, it must then be decided who exactly is going to be trained. Collins believes that this is important to all members of an organization, but calls special attention to middle managers. The people in these positions are committed in executing the desires of their superiors and seeing that they come to fruition, while at the same time burdened with the realities of budget and cost limitations associated with these desires.

There are many ethics training workshop options available, each offering different benefits to organizations and the employees involved. A few types of training include:

- Code of Ethics assessment: The Code of Ethics is reviewed and employees assess how well the organization is living up to it.
- Code of Conduct content: A quiz fashioned after a popular game show, like Jeopardy, is used to test employees' knowledge of the Code.
- Code of Conduct violations and outcomes: Actual violation cases that have occurred within the organization are presented.
- Applying the Code to specific situations: Several real-life situations are provided to ascertain if employees can determine whether or not the behavior is aligned with the company's Code.
- Personality analysis: A survey identifying certain characteristics like conscientiousness, social dominance, and sense of individualism is taken.

RESPECTING EMPLOYEE DIVERSITY

It has been previously mentioned that the larger the organization, the more diverse the workforce and the more varied the type of personalities that are present. In addition to ethics training, a highly-effective and complementary practice is to offer diversity training as well. By recognizing employee differences, celebrating them, and teaching individuals how to respect them, it is more likely that teams will be more collaborative and employees will be able to work together more effectively. There are two primary goals for diversity training: 1) eliminate values, stereotypes, and managerial practices that inhibit the personal and professional development of diverse employees, and 2) allow diverse employees to contribute their best efforts for achieving superior organizational performance.

As with ethics training, there are a wide number of exercises and workshops that organizations can hold to encourage more effective diversity management. When individuals within a company are able to respect each other for the behavioral choices they make, as well as for the cultural differences they may have, a more cohesive unit can be formed for greater efficiency.

ETHICS REPORTING SYSTEMS

Even when ethics training has occurred and everyone has been educated on the various codes within the organization, there are bound to be violations that occur. To record violations, it is important that the proper management processes and infrastructure are in place. Collins recommends assigning an ECO (ethics and compliance officer), an ombudsman, and an assist line to help ease the process. An ECO, whether someone who is already employed at the organization, or someone who is hired specifically for the job, is primarily responsible for tasks such as assessing areas for ethical risks, managing internal reporting systems, developing and interpreting ethics policies, and ensuring that decisions are made and enforced. In order for an ECO to be effective in this position, characteristics such as operational experience, problem-solving skills, insider status, trust of others, and access to information are crucial.

In addition to the ECO, an ombudsman is one who communicates information about potential ethical and legal violations. An ombudsman does not have as much authority or knowledge about ethical practices as an ECO would, but nonetheless works on the employees' behalf and provides them with an institutional voice.

Finally, assist lines, also known as "ethics hotlines," are probably the easiest and most cost-effective systems to implement. Collins points out that nearly all Fortune 500 companies provide toll-free numbers for employees to call with ethical violations or concerns.

With all these practices in place, when the call comes in and a serious ethical violation has occurred, the proper avenues will be available to begin investigating the claim. The Enron scandal brought the word, "whistleblower," to the national forefront, but in ethics cases, the whistleblower is often in a very conflicted situation. Collins recommends that every whistleblower assess the situation and ensure that the following four conditions are met before the case is elevated to executive management:

1. Serious harm is involved
2. The whistleblower has expressed his or her concerns to an immediate superior
3. The whistleblower has exhausted other communication channels within the organization
4. The whistleblower has convincing, documented evidence

Although being a whistleblower can be very stressful, and exposing the violation can have hugely negative ramifications for the company, it is important to make sure that when these cases arise, the parties who are aware of the violation have the proper means to report it.

ETHICAL LEADERSHIP

Good management, in any company, is the cornerstone of its success. Not only do managers have a vision for the future of the company and enlist the support of team members to see these goals to fruition, but managers also have the big responsibility of being role models to everyone they work with. Collins expresses the top seven desired virtues of managers as: 1) mission-driven, 2) honest, 3) fair, 4) supportive, 5) respectful, 6) quality-focused, and 7) accountable.

Managers are responsible for looking out for the company's best interest, but also their employees' best interest as well. They are the ones who can effect great change in an employee's workplace environment, even incorporating wellness programs, time-management advice, and performance appraisals to enhance each individual's corporate experience.

Performance appraisals in particular are very important for keeping employees motivated and ambitious. Not only do they serve as a benchmark for progress, but also provide an obtainable goal for the future and show how each individual's career can progress. Ethics appraisals and full 360-degree appraisals should be incorporated together to give comprehensive and well-rounded feedback of how the individual is performing.

By offering praise when it is deserved and being the voice of authority for any violations or behavior infractions, managers can serve as powerful voices within an organization to encourage good behavior and work effectiveness.

EMPOWERING ETHICAL EMPLOYEES

It is hard to determine how each individual employee will respond to ethics training and guidelines. Because there are so many different personalities in an organization, some of these guidelines may need to be modified depending on the employee. Collins states that most organizations have three types of employees when it comes to workplace attitudes:

1. Go-getters: Fully engaged with the work experience
2. Fence-sitters: Put in a good day's work for a good day's pay
3. Adversarials: Harbor a bad attitude towards rules and authority

There are bound to be one or more of each of these types of employees on working teams, and it is important for managers to learn how to create the most cooperative and collaborative working environment. Using techniques like group problem-solving, connecting employees to the mission, and having daily sessions where teams reflect on the events that occurred over the course of the day, managers can promote a more communicative atmosphere and a greater chance that teams will be able to function more effectively, despite differing personalities.

By placing trust and responsibility on each team member, each is empowered to be accountable for his or her own actions. With that sense of responsibility, individuals become more effective decision makers and ultimately have a more vested interest in the outcome of their choices and the ways in which the company is benefitted by them.

ENVIRONMENTAL MANAGEMENT

The final piece of behaving ethically extends beyond the confines of the workplace environment. Treating the natural environment with just as much integrity is equally important to living ethically. Luckily, in this day and age, the level of awareness around eco-friendly living is at the highest it has ever been, and conserving natural resources is a practice that is highly supported on a global scale. From a corporate standpoint, operating efficiently with the environment in mind also has many positive benefits, including production cost savings, reduced liability risks, customer attraction, employee recruitment, industry self-regulation, better community relations, and personal integrity. There are constantly-changing regulatory standards and rating systems that companies can use as benchmarks for their continued efforts to improving their environmental impact.

In the same token of giving to the environment, giving to the community is also important for making a local, but significant, impact. Whether it is volunteering, donating resources, or making a financial donation, there are many ways that an organization can make a significant contribution to its community.

Collins outlines the essentials of operating an ethical business, but adhering to them and creating a culture that fully supports an ethical environment and lifestyle is a complex process. However, this process can be a richly rewarding experience that every business manager should take part in.

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