Responsible Business Conduct as Strategy

*T*his chapter helps owners and managers plan to build a responsible business enterprise (RBE). It provides an approach to designing and implementing a business ethics program, and it describes how having one helps an enterprise improve its performance, make profits, and increase the prosperity of its community by learning to meet the reasonable expectations of its stakeholders. This chapter also addresses the management challenges of designing and implementing such a program.

Planning, Strategy, and the Business Ethics Program

Enterprises of all sizes develop strategies to bring their resources together to achieve their goals and objectives. A business ethics program helps owners and managers improve their business performance, make profits, and contribute to the economic progress of their communities by meeting the reasonable expectations of their stakeholders.[1] A business ethics program also aims to achieve specific expected program outcomes, such as increasing awareness of ethics issues, improving decision-making, and reducing misconduct, which are discussed in more detail in Chapter 4.

To be effective over time, a business ethics program must be a formal plan, because it touches on all aspects of the enterprise—operations, human resources, communications, and marketing to name but a few. Formally planning a business

ethics program ensures that owners and managers give due consideration to the enterprise's relevant context, organizational culture, and reasonable stakeholder expectations. This manual provides a systematic approach to guide owners and managers through the process.

Busy managers need not fear that formal planning for a business ethics program will overwhelm daily operations because, as discussed below, they already have many elements in place. The planning process requires targeted stakeholder participation more than a large staff. However, once an enterprise announces its intention to design and implement a business ethics program, it needs to plan well and to base its plan on its core beliefs. A lack of program consistency will hurt employee morale and generate stakeholder cynicism.

Because of resource limitations, most small to medium-sized enterprises (SMEs) use informal program strategy and planning. SMEs are less apt to use formal teams and processes to set goals, objectives, strategies, and action plans than are large enterprises.[2] Nonetheless, they can adapt the processes that follow to meet their circumstances. For example, they can use all of the RBE Worksheets provided in the balance of this manual to direct their thinking, to stimulate dialogue, and to engage their stakeholders.

PRACTICE NOTE

Corporate Social Responsibility (CSR) and the SME

Research on CSR and SMEs is rare, but a 1991 review of research in the U.S. made the following six findings:

- Customer relations (i.e., customer satisfaction) is viewed as the primary social responsibility of small business
- Consumer relations, product quality, employee concern, and profitability are perceived by managers to be key social responsibility areas of small business
- Managers and owners have perceptions of small business social responsibility that are similar to those of nonbusiness people
- Managers of small businesses and large corporations indicate few differences in their perception of acceptable ethical practices
- Social involvement activities by small businesses are informally structured

Judith Kenner Thompson and Howard L. Smith
"Social Responsibility and Small Business"

These worksheets are intended to aid in designing and implementing a business ethics program. They are designed to be consistent with the principles of responsible management developed throughout these materials.[3] A number of worksheets refer to emerging standards and best practices. For example, "Questions for the Responsible Business Enterprise" (RBE Worksheet 5), refers to emerging global standards and best practices. These standards and best practices are developed in detail in the chapters that follow.

Establishing the Nature of the Program

Owners and managers should define and communicate the purpose of the business ethics program as early as possible. Responsible management recognizes that an effective business ethics program touches every decision and activity of the enterprise. It guides patterns of thought, choice, and action that subtly shape the organizational culture of the enterprise. The business ethics program should be based on the core beliefs of the enterprise and should reflect an approach or orientation that will resonate with employees and other stakeholders.

Recent research suggests that "specific characteristics of the formal ethics and legal compliance program matter less than the broader perceptions of the program's orientation toward values and ethical aspirations."[4] This research found that two factors are most important: (1) that ethics is perceived to be important to leadership—from executive through supervisor—and (2) that employees believe they are treated fairly. It is particularly important that enterprise policies and management actions be consistent and that reward systems support ethical behavior.[5]

According to the research, familiarity with a code of conduct is relatively unimportant. Moreover, a program perceived as designed primarily to protect senior managers is clearly harmful and is associated with increased violations of its established standards and procedures.[6] Research and experience over the past 15 years suggest that a primary best practice is to design a business ethics program that goes beyond mere compliance.[7]

The following subsections are intended to help owners and managers define the nature of an enterprise's business ethics program so that it can be as effective as possible.

ORIENTATION OF THE PROGRAM

Program effectiveness is closely related to employees' perceptions of the orientation of a business ethics program. A business ethics program usually has one of four primary orientations. The orientation reflects owner and manager motivations in designing and implementing the program and is an important condition of program effectiveness.

The primary orientations are:

1. A *compliance-based* approach, which "focuses primarily on preventing, detecting, and punishing violations of law"
2. A *values-based* approach, which "aims to define organizational values and encourage employee commitment to ethical aspirations"
3. A *satisfying external stakeholders* approach through which enterprises "hope to maintain or improve their public image and relationships with external stakeholders"
4. A *protecting senior management* approach, which "is introduced in part to protect owners and senior management from blame for ethical failures or legal problems"[8]

These primary orientations are not mutually exclusive. As a single orientation, values-based programs tend to be most effective. However, a business ethics program that includes aspects of compliance-based programs and pays attention to satisfying external stakeholders is also valuable. Employee perceptions that a program is oriented toward protecting senior management from liability or prosecution contribute to employee cynicism and lead to program outcomes that are "significantly more negative."[9]

CONSIDERATIONS FOR THE SMALL TO MEDIUM-SIZED ENTERPRISE

Unlike large, complex enterprises (LCEs), the average SME is closely identified with its owners and managers. Thus SMEs must be particularly alert to designing a well-balanced business ethics program. Often they will be tempted to work out the program on their own and to simply present it to employees and other stakeholders. They have limited resources and staff, and, after all, it is *their* enterprise. Though in many cultures workers expect to be told what to do—even what to think—a program is more apt to succeed where workers are involved enough in its design to feel committed to it and where workers are willing to use individual judgment to apply its standards to the issues they face.

Owners and managers should, therefore, resist this temptation and engage their employees and other stakeholders as much as possible. For

example, owners and managers can use an RBE Worksheet in this manual to guide their thinking in designing the program and to stimulate dialogue with their employees and other stakeholders.

Building a Responsible Business Enterprise

Each enterprise has a unique ethical character. This character quietly guides what its members think, say, and do. It influences how external stakeholders view the enterprise. As Figure 3.1 suggests, an enterprise's identity as an RBE has at least four levels: compliance, risk management, reputation enhancement, and value added. Setting objectives in all four levels—and achieving them—is a goal of a business ethics program.

**FIGURE 3.1
Levels of an Enterprise's Identity**

VALUE ADDED

REPUTATION ENHANCEMENT

RISK MANAGEMENT

COMPLIANCE

The identity of an RBE reflects how well it meets its responsibilities as a member of a community. Responsible business conduct—ethics, compliance, and social responsibility—is an essential part of this identity. It influences the way the enterprise sees itself and the way the community views the enterprise. Indeed, how the enterprise deals with responsible business conduct issues may be the most important aspect of defining an enterprise's identity.

A business ethics program provides the essential core of the competitive strategy of an RBE. Programs more limited in purpose—called ethics and compliance programs—typically address the two lowest levels because compliance and risk management are the most obvious levels of identity.

However, a business ethics program addresses the higher levels as well—reputation enhancement and value added—in a systematic way.

A business ethics program helps an enterprise establish the essence of its identity in the community: its core purpose, core values, and envisioned future. It is an effective tool for establishing standards and procedures to ensure that enterprise values are reflected in all that employees and agents think, say, and do. A business ethics program employs a systematic process to reach a wide range of stakeholders more effectively so that it achieves its expected program outcomes. See Appendix A for a sample outcomes-based decision-making model.

COMPLIANCE LEVEL

Compliance means meeting all legal requirements through an effective program to prevent and detect misconduct.[10] The average business enterprise faces myriad legal demands and constraints. Moreover, it is not enough that an enterprise intends to be law abiding. Good intentions alone will not safeguard an enterprise against the risks that its employees or agents will make mistakes or misbehave. Increasingly, compliance requires that an enterprise be able to demonstrate that it pursued management practices that are reasonably calculated to prevent and detect misconduct as a matter of policy. Demonstrating this may take the form of describing the formal structures and systems in place (as in the United States), having a compliance program with respect to competition law (as in the European

PRACTICE NOTE

Categories of Laws Affecting Business

Businesses must comply with these types of laws:

- Principal and agent relations
- Business organization and formation
- Real property law
- Personal property law
- Intellectual property law
- Fair competition law
- Environmental law
- Employment law

- Labor–management law
- Tax law
- Alternative dispute resolution provisions
- Political campaign financing law
- Anti–money laundering law
- Anticorruption law
- Judicial procedure, especially judicial privilege
- International law

Union),[11] or having an organizational culture that does not tolerate or encourage misconduct (as in Australia).

In the United States, the Federal Sentencing Guidelines for Organizations (FSGO) set forth seven minimum steps for an organization to demonstrate that it has an effective program to prevent and detect criminal activity.[12] These steps have come to constitute the minimum characteristics of an effective compliance program. In general, they require that an enterprise set forth adequate standards to guide its employees and agents. These standards must reflect industry standards and government regulations. They must be communicated effectively to employees and agents. The enterprise must have means of knowing whether its employees and agents are following its standards. It must actually enforce them, and it must respond appropriately if they are violated. A high-level person must be responsible for executing the program. No high-level person can be involved in the misconduct.[13] See Appendix H for extracts from the FSGO.

In a similar vein, U.S. law requires many enterprises to have an anti–money laundering (AML) program, which has four elements: (1) standards and procedures, (2) a compliance officer, (3) training procedures, and (4) an external or internal audit. Financial institutions are also required to have a specific customer identification program. Under certain circumstances, foreign individuals and enterprises with no direct contact in the United States will be affected by the procedures of an AML program, as discussed in more detail in Chapter 9. Moreover, many U.S. government agencies, including the Department of Justice, the Department of Health and Human Services, and the Environmental Protection Agency, recommend, or in some circumstances require, compliance programs similar to the FSGO.

Australia has an alternative approach that looks to the culture of the enterprise. This approach is concerned with whether "a corporate culture existed within the body corporate that directed, encouraged, tolerated, or led to non-compliance with the relevant provision" or "failed to create and maintain a corporate culture that required compliance with the relevant provision."[14] See Appendix I for extracts from the Australian Criminal Code on corporate criminal responsibility.

It is generally recognized, however, that these standards and practices are not enough to create an effective business ethics program. They do not address, for example, whether an enterprise is effectively pursuing its core purpose or whether its policies, procedures, and activities are congruent with its core values. With the exception of standards that are designed to prevent breaches of fiduciary duties, these standards and practices do not require that the enterprise meet the reasonable expectations of its stakeholders effectively or well.

RISK MANAGEMENT LEVEL

To make ethics and compliance programs more effective, practitioners argue that enterprises should go beyond legal compliance and should systematically consider the industry and market risks that enterprises face. This involves assessing customer, supplier, and competition risk; examining enterprise policies, processes, and activities; and looking closely at organizational culture to establish whether there is a history of problems, disharmony, and conflict.[15] Often expressed in terms of protecting the reputation of the enterprise, risk management is an important next level.

The consequences for failing to address these risks include, but are not limited to, criminal prosecution, regulatory action, debarment from government contracting, civil lawsuits, compromised strategic partnerships, labor–management disagreements, stakeholder dissatisfaction, and calls from civil society for more regulation.

REPUTATION ENHANCEMENT LEVEL

Damage to the enterprise's reputation has always been viewed as a reason to care about responsible business conduct. More recently, the kind and number of stakeholders that an enterprise needs to be concerned about has expanded to include media, nongovernmental organizations (NGOs), and international institutions. Some enterprises strive to be RBEs simply to avoid criticism from this expanded stakeholder list.

It is more positive and creative to enhance one's reputation by making choices and acting in a manner such that one deserves a good reputation. Hence, enhancing one's reputation among a larger and more diverse group of stakeholders represents a third, more important level of enterprise identity.[16]

VALUE-ADDED LEVEL

Increasingly, responsible business conduct includes adding value to the RBE's community through its decisions and activities.[17] It is understood that the RBE strives to make a profit, but it is also expected to take into account its impact on its stakeholders. For example, many enterprises have quality assurance programs to meet their responsibilities to customers. Though not often considered part of a business ethics program, producing goods and services of low quality may constitute consumer fraud or violate product liability laws (thus violating the compliance and risk management levels). Producing low-quality goods does not enhance the enterprise's reputation—or contribute to employee pride or morale (thus causing the enterprise to fail to meet the reputation enhancement level). And ultimately, producing low-quality goods or services adds little value to the

PRACTICE NOTE

Maintaining Reputation

Nestlé has had to deal with a number of highly contested and sometimes quite acrimonious debates. . . . Yet I am struck by one fact: our corporate reputation has not suffered in spite of decade-long campaigns and public debate. I am convinced that two elements played in our favor: Nestlé has managed to build that "institutional" trust in broad segments of the public, through an unquestionable priority given to the quality and security of its products, and we have learned over time to show a high degree of consistency in handling difficult issues in a transparent and responsive manner. In other words, trust has been nurtured throughout this period.

Peter Brabeck-Letmathe, Chief Executive Officer
Nestlé
"The Search for Trust"

community for the resources devoted to it (so that the enterprise fails to achieve the value-added level).

As noted in Chapter 1, an enterprise may add value to its community in many ways:

- Serving the most important needs of its customers and consumers
- Providing gainful employment for its employees and agents, so that they can provide for their families and be responsible citizens
- Providing an adequate return to investors
- Purchasing goods and services from suppliers and service providers
- Competing intensely, but fairly
- Forming strategic partnerships and alliances to create new business opportunities
- Supporting community infrastructure through taxes and fees
- Participating in the political process to improve market conditions
- Respecting the environment

To be truly responsible, an enterprise must fully embrace all four levels of identity.

UNDERSTANDING AN ENTERPRISE'S STRENGTHS AND WEAKNESSES

There is no one-size-fits-all business ethics program. The business ethics infrastructure should be designed to encourage responsible choices and actions, such that they become part of the culture of the enterprise itself over time. All enterprises have strengths and weaknesses. It is important to form enterprise strategies with a clear understanding of each.

As Figure 3.2 suggests, the business ethics infrastructure and alignment practices selected by owners and managers must reflect enterprise strengths and must deal with enterprise weaknesses. Owners and managers should design a business ethics program that will accentuate enterprise strengths and will reform enterprise weaknesses. Some apparent enterprise strengths may even be weaknesses, when not kept in perspective.
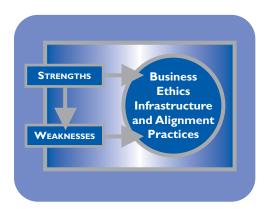

FIGURE 3.2
Best Practices
Reflect Enterprise
Strengths and Deal
with Weaknesses

Consider, for example, a recently privatized enterprise's reliance on personal relationships with government regulators to propel its success. In the short run, the enterprise may secure contracts or competitive advantages not warranted by the quality of its goods or services. As a result, research and development, quality programs, and effective marketing will tend to be undervalued and underused. When governments change or markets are opened, however, the enterprise will inevitably find itself at a competitive *dis*advantage.

Knowing the Structural Components of the Program

When an enterprise undertakes to design a business ethics program, it seeks answers that go beyond what is required, at a minimum, to comply with law.

It seeks broader, more creative answers based on emerging global standards and best practices.

Every enterprise already has some or all of the structural components of a business ethics program, even though no formal program may exist. All enterprises set standards and procedures that they expect their employees and agents to follow, communicate those standards and procedures, want to know whether their standards are being followed, and respond when standards and procedures are violated or stakeholders complain. What distinguishes the RBE is that its management works consciously to find those structures and systems that will ensure an *effective* program.

A well-designed and implemented business ethics program provides enterprise employees and agents with the guidance and information they need for effective, efficient, and responsible choices and actions. Research and experience over the past few decades suggest that an effective program contains the following nine structural components:

1. Standards and procedures to guide member behavior and foster reasonable stakeholder expectations
2. Adequate structures and systems that provide for authority, responsibility, accountability, and sustainability
3. Communication of standards, procedures, and expectations to the enterprise's members
4. Programs that monitor and audit member conduct
5. Encouragement of members to seek advice and report concerns
6. Due diligence in hiring, especially for sensitive positions in, for example, management, finance, and contracting
7. Encouragement of members to follow standards and procedures
8. Appropriate responses when standards and procedures are violated
9. Regular evaluations of program effectiveness

These nine components are discussed further in the chapters that follow.
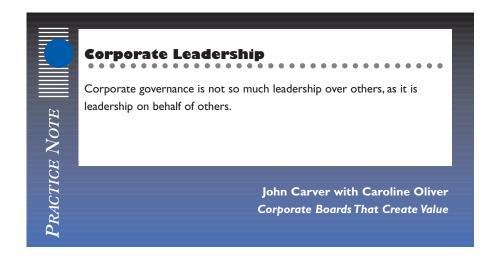
Planning the Business Ethics Program

Five principles should drive the planning process and be honored in implementation of the program itself.

DIFFERENTIATE BETWEEN GOVERNANCE AND MANAGEMENT

Owners and managers should sharply differentiate between the governance and management of an enterprise by delineating clear roles, responsibilities,

and areas of accountability for policy-makers and managers. Even if the owner is the senior manager or if managers sit on a board of directors, the different roles and responsibilities need to be respected. Governance, for example, takes the broader view: setting policies to guide all employees and agents, including the owners.

The source of a corporate board's authority is the owners of the enterprise.[18] The board is the pivotal authority. Its authority is neither granted nor defined by management. Policies generated by the board control everything, both governance and management.

In practice, however, the board is often considered an adviser to management rather than its source of authority. Indeed, many recent corporate ethics failures in the United States can be traced to the failure of boards to exercise their authority as representatives of the owners. In emerging market economies, lack of a strong voice for shareholders may lead to asset stripping and to rent diversion. As a result, corporate governance is under different stages of review and reform in nations across the globe, and the review is based largely on the distinction between governance on the part of the board and management on the part of executives.

PRACTICE NOTE

Corporate Leadership

Corporate governance is not so much leadership over others, as it is leadership on behalf of others.

John Carver with Caroline Oliver
Corporate Boards That Create Value

BUILD ON STRENGTHS

An RBE strives to be effective, efficient, and responsible through constructive and creative engagement with its stakeholders. To this end, it is helpful to identify and build on the core strengths of the organization. As Figure 3.2 illustrates, an enterprise is a bundle of strengths and weaknesses. The

ultimate goal of a business ethics program is to appreciate an enterprise's strengths. This does not mean that weaknesses are ignored.

To the contrary, management applies what it knows about responsible business conduct to compensate for weaknesses. For example, if an enterprise is vulnerable to employee misconduct, the enterprise uses a business ethics program to prevent and detect wrongdoing. If employees are afraid to speak up, the enterprise provides effective mechanisms for employees to seek advice and report misconduct without fear of retaliation.

MOBILIZE THE ENTIRE ENTERPRISE AROUND CORE BELIEFS

Employees and agents can be empowered most effectively and safely when they share core beliefs. In fact, this may be the only way to empower employees and agents responsibly. If becoming an RBE is an enterprise's policy and goal, the effort must be based on core beliefs. An objective of any business ethics program is that every stakeholder, to the appropriate degree, knows the core beliefs that should order the decisions and activities of the enterprise. Every employee and agent should be able to describe the core beliefs that will always guide his or her choices and actions, and should be able to define what constitutes success for the enterprise.[19]

A few inspiring goals can provide further direction to employees and agents. They provide focus of effort and guide the allocation of resources. They order every task and form every structure so that the people involved know exactly how such tasks contribute to achieving the enterprise's goals and why such tasks are consistent with the core beliefs. Perhaps most important is for all people in the enterprise to use a common language that is based on the core beliefs.

DELEGATE AUTHORITY ACROSS ALL LEVELS

To design and implement a business ethics program well, people at all levels of the enterprise must embrace it. A core of people, who are dispersed throughout the enterprise, must be personally responsible for seeing that the project succeeds.

Owners and managers must lead from the front, and it must be clear to all that responsible business conduct is their personal project. The various tasks of designing and implementing the business ethics program must be assigned throughout the enterprise. To do this effectively, owners and managers must know the people and the organizational culture of the enterprise well enough to know whom to assign leadership tasks to—and what results to expect. Moreover, these dispersed leaders must have the authority and resources they need to develop and exercise their responsibilities.[20] Often,

owners and managers will have to direct middle management and supervisors to gracefully release key employees from day-to-day operations to support the business ethics program.

BUILD IN CONTINUOUS IMPROVEMENT

A business ethics program involves so many levels of the enterprise and so many of its operations and functions that the process itself must be designed for continuous improvement. Moreover, other programs not usually considered part of a business ethics program should be integrated with it:

- Quality management programs
- Preferred supplier programs that help an enterprise integrate responsible suppliers into its operational "family"
- Environmental, health, and safety programs to meet responsibilities to employees and the environment
- Human resource programs to be fair to employees
- Sexual harassment programs to protect employees from abuse
- Labor–management programs to respect employee rights to collectively bargain

This process of continuous improvement requires built-in flexibility and frequent reference to a plan of action, milestones, and interim objectives. As is the case for the other principles, this process should be based on the core beliefs of an RBE itself.

Engaging the Enterprise's Stakeholders

For an enterprise to be responsible, its management must understand what its stakeholders expect and work with them to form reasonable expectations.[21] This is the case for every enterprise, whether it is an LCE or an SME. The discussion that follows addresses specific functions in the business ethics program design and implementation process with the owners and managers of an SME in mind. How they choose, in practice, to staff the functions will depend on the size, complexity, and resources of the enterprise.

An RBE recognizes that its stakeholders cannot be easily labeled. Some employees will also be customers or consumers of its goods or services. They may hold stock or options on stock in the enterprise and may be owners. They may live in communities affected by waste products leaked into the environment by the enterprise. They will have neighbors who have strong opinions about the way the enterprise does business. They look to government to provide good roads and other services, which may be compromised by business bribery and corruption. As one scholar notes, "the notion of 'stakeholder' suggests discrete groups or entities, whereas the primary source of dilemmas in business ethics is the fact that virtually all of us wear (at least) two hats."[22]

To be effective, efficient, and responsible, an enterprise must have core beliefs that include an envisioned future of what its stakeholders can reasonably expect—and how it will be held accountable. The discipline of responsible business conduct helps owners and managers engage stakeholders to foster their reasonable expectations.

ENGAGING STAKEHOLDERS IN THE DESIGN PROCESS

Before turning to the RBE Worksheets described in the following chapters, we must discuss who should be involved in the project of designing and implementing the business ethics program. Engaging stakeholders as early as possible applies the core beliefs and principles of an RBE, leads to better information on which to base design decisions, and builds goodwill with stakeholders. This principle applies to all enterprises—whether large or small. Although an SME may have far fewer stakeholders than an LCE, each of its stakeholders may have far more influence in the success of the SME as a result.[23]
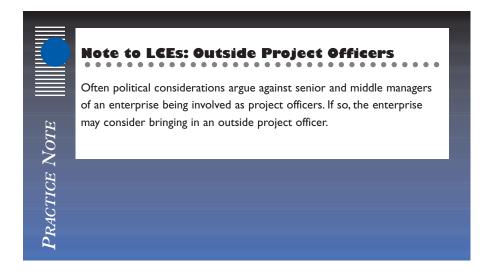
Project objectives will be achieved only if the project is staffed with people who fully subscribe to them, have the knowledge they need when they need it, and are trusted throughout the enterprise. These people undertake a variety of roles and responsibilities, enter and exit the project at various points, and can be thought of as key players, support staff, and stakeholder representatives. They generally maintain their normal duties within the enterprise during the design process.

BRINGING TOGETHER THE KEY PLAYERS

In the early stages of the project, there should be a designated *program catalyst*—usually an owner or the chief executive of the enterprise—who drives the project. His or her involvement will gradually decline as the project progresses, but he or she will retain responsibility to support the significance of the project objectives.

A *project officer* is primarily responsible for developing good ideas and approaches and inspiring people to embrace the eventual plan. He or she plays a prominent and important role in the early stages of the project. Ideally, the project officer is an employee familiar with the operations of the enterprise—but often the skills, time, or effort required to drive the project are not available within the enterprise. The enterprise might then retain a trusted adviser, such as an accountant or attorney, or might employ an independent consultant.

It is valuable for owners and managers to create special *working groups* to develop project objectives, scope of work, and roles and responsibilities.

PRACTICE NOTE

Note to LCEs: Outside Project Officers

Often political considerations argue against senior and middle managers of an enterprise being involved as project officers. If so, the enterprise may consider bringing in an outside project officer.

Note to LCEs: Committees and Consultants

Global best practices suggest that the following committees be formed and consultants be hired:

- A **decision-making committee** is regularly briefed on the status of the project and makes the executive-level decisions that arise through the course of the project.
- A **project steering committee** serves as a standing committee to provide information and guidance to the various project agents.
- **Management-level consultants** present the management perspective on the project.
- **Worker-level consultants** present the shop-floor perspective on the project.
- **External stakeholder consultants** present the perspectives of stakeholders outside of the organization.

Such a group (sometimes called a "task force") can serve as adviser, sounding board, and eyes and ears of the project as it progresses. With the assistance of staff, the working group can draft key documents and concept papers.

As the project progresses, the working group can serve as voice of the project. The group can communicate progress to the other stakeholders and test for reaction to date. Its members may be especially effective at evaluating the effectiveness of project communications. Indeed, if properly constituted, the working group can perform much of the reporting function that might otherwise have to be placed on managers.

It is important to organize and build a *project network* to bring in more varied perspectives. Such a network is composed of various designated enterprise and external *stakeholder consultants*, who are individuals respected for their subject matter expertise or are recognized leaders and opinion molders. They become resources to whom the staff or working group can turn for information or reaction.

It is valuable to have *resource teams* available to a working group on short notice, such as legal counsel; environment, health, and safety personnel; and an investor relations team. Individuals or teams can be assigned to research particular elements as subject matter experts.
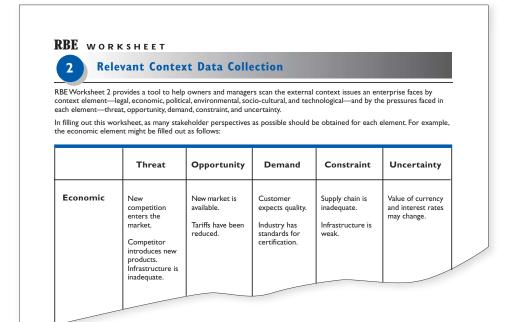
USING THE **RBE** WORKSHEETS

At the heart of the design and implementation of a business ethics program is a structured approach to (a) understand the pressures facing the enterprise, its employees, and its agents, and (b) understand its organizational culture, and (c) systematically enhance its strengths and reform its weaknesses through appropriate standards, structures, systems, and practices. The RBE Worksheets described in the following chapters help guide owners and managers through a systematic process of collecting and analyzing data about the enterprise's organizational context and culture. They can then use their findings to answer fundamental questions about how the enterprise should be organized and operated.

To use an RBE Worksheet, representative members of the enterprise and external stakeholders should form a working group. To include more voices, owners and managers might choose additional stakeholder representatives. Role-playing employees are often preferable to external stakeholders to preserve privacy and confidentiality. The average SME might simply invite key stakeholders in for a talk over tea or coffee about their needs and concerns—and how the enterprise might meet them better.

Generally, an RBE Worksheet is a table with multiple elements or cells to stimulate dialogue and decision-making. The working group engages in a facilitated dialogue about each element of an RBE Worksheet, from the

**FIGURE 3.3
Extract of RBE
Worksheet 2**

RBE WORKSHEET

2   Relevant Context Data Collection

RBE Worksheet 2 provides a tool to help owners and managers scan the external context issues an enterprise faces by context element—legal, economic, political, environmental, socio-cultural, and technological—and by the pressures faced in each element—threat, opportunity, demand, constraint, and uncertainty.

In filling out this worksheet, as many stakeholder perspectives as possible should be obtained for each element. For example, the economic element might be filled out as follows:

	Threat	Opportunity	Demand	Constraint	Uncertainty
Economic	New competition enters the market. Competitor introduces new products. Infrastructure is inadequate.	New market is available. Tariffs have been reduced.	Customer expects quality. Industry has standards for certification.	Supply chain is inadequate. Infrastructure is weak.	Value of currency and interest rates may change.

perspectives of the enterprise and its stakeholders. For each element in an RBE Worksheet, there will be at least one item of information of value to the enterprise.

For example, "Relevant Context Data Collection," RBE Worksheet 2 (Chapter 4), is composed of context element and stakeholder pressure cells. In the portion of the worksheet extracted in Figure 3.3, there are cells for five types of pressures: threat, opportunity, demand, constraint, and uncertainty. As the typical enterprise scans its relevant context, it will find *threats* from competition, potentially both foreign and domestic. Another threat might be a stagnant economy or an anticipated rise in interest rates or adverse currency fluctuation. There may also be *opportunities*, such as new products, markets, or strategic alliances. There will be economic *demands* to do certain things, such as meeting new quality standards. There will be some things the enterprise cannot do—that is, *constraints* established by law, reglulations, or industry norms and standards. There will be many economic factors that create *uncertainties*.

A working group should explore each cell, throwing out as many ideas as possible. All members should participate, and no idea should be considered unacceptable. Then they should go back over the ideas and discuss how the ideas may relate to one another. When the ideas themselves have been organized and evaluated, the group can work through their implications by asking, "If _____ is true, what does it mean for our enterprise?"

If subject matter experts are engaged, they should contribute to, but not dictate, the conditions of dialogue. After analyzing the data, the working group should take adequate time to reflect on what it means. The participants might then appoint a smaller team to synthesize what was learned; to make findings, conclusions, and recommendations; and to develop a report for use as a planning document. Routing drafts of the report to all participants helps develop consensus and commitment.

The working group should expect to make a more or less formal presentation of the report to management. The approved report then becomes a key planning document.

TABLE 3.1	Business Ethics Program Development Process
Step	Direction
1. A high-level decision or commitment to develop the business ethics program is made.	Owners and managers communicate to the enterprise as a whole their commitment to the project and give guidance to key players.
2. A working group develops information requirements.	As the design and implementation project begins, a working group will accumulate data, determine what more information is needed, and identify sources for such information, including external stakeholders.
3. A working group develops an initial draft of a document or concept paper.	When the working group has accumulated the information it needs or has arranged to receive it in due time, it develops the initial draft of a document, such as a code of conduct or a concept paper on, for example, how an ethics office might be structured. Consultant individuals or groups as well as enterprise staff members provide input for the draft.
4. Senior managers review the draft.	Senior managers review the draft and return it with comments. This step is an integral part of the drafting process, and the comments provide a management perspective to the drafting.
5. A working group integrates the managers' comments and produces a second draft.	The working group will redraft the document or concept paper and resubmit it to the senior managers as many times as necessary. Often, the group will find that it needs more information or more perspectives.
6. A representative stakeholder group reviews a later draft and provides comments.	When the document or concept paper nears its final state, the working group can present it to representative stakeholder groups to gauge their reactions—and receive their feedback. This step often provides an excellent opportunity to conduct interviews and focus groups.
7. A working group integrates the stakeholder group's comments and produces a final draft.	By this point, the working group should have all the information it needs and should have considered as many perspectives as possible.
8. Senior managers make a final review of the document or concept.	Senior managers give the document or concept paper a final review and approve it before it is presented to the owners or their representatives. Senior managers are charged with ensuring that the document or concept is sound and consistent with enterprise core beliefs. Often their approval is tentative, pending the development of other documents or concepts.
9. Owners or their representatives review and approve the business ethics program as a whole.	When all documents and concept papers have been assembled, the program should take form, and the owners or their representatives should review and approve the paper.

Adopting a Design, Review, and Approval Process

This manual recommends the process shown in Table 3.1 for developing, reviewing, and approving each element of a business ethics program. As discussed in more detail in Chapters 5 through 8, such elements include a code of conduct and concept papers on specific issues, such as a concept for how a business ethics office might be structured. In the process of creating these documents, any step along the way may be revisited, including the first step, until the document or concept paper is approved as part of a complete system.

SUMMARY

The RBE needs to take a number of practical steps before establishing a business ethics program. Owners and managers must determine the approach and orientation of its business ethics program. They must identify and engage all of an enterprise's stakeholders, foster their reasonable expectations, and order the enterprise's business affairs so that it improves its business performance and increases the prosperity of its community by meeting those expectations.

The responsible business enterprise operates at all four levels of identity: compliance, risk management, reputation enhancement, and value added. It meets all legal requirements through an effective program to prevent and detect misconduct. It works to ensure that its organizational culture does not encourage or tolerate misconduct. It also works to identify and reduce the risks it faces in its markets. In addition, an RBE goes beyond these two lower levels to enhance its reputation and add value to its community.

A business ethics program has nine structural components that reflect global standards and best practices of responsible business conduct:

1. Standards and procedures to guide member behavior and foster reasonable stakeholder expectations

2. Adequate structures and systems that provide for authority, responsibility, accountability, and sustainability

3. Communication of standards, procedures, and expectations to the enterprise's members

4. Programs that monitor and audit member conduct

5. Encouragement of members to seek advice and report concerns

6. Due diligence in hiring, especially for sensitive positions in, for example, management, finance, and contracting

7. Encouragement of members to follow standards and procedures

8. Appropriate responses when standards and procedures are violated

9. Regular evaluations of program effectiveness

Many enterprises have published standards of responsible business behavior. Over the past two decades, in particular, they have developed a body of best practices that enterprises in emerging market economies can consider and adapt for their circumstances.

RESPONSIBLE BUSINESS ENTERPRISE
Checklist

1. How adept is your enterprise at dealing with change?

2. How many of the components of a business ethics program does your enterprise have?

3. What level of identity is your enterprise most concerned about? Compliance? Risk management? Reputation enhancement? Value added?

4. If your enterprise were to initiate a business ethics program, how would it go about engaging its stakeholders?

5. How are important decisions made in your enterprise? Is there a process of engaging stakeholders involved in such decisions?