

II

The Business Ethics Program

Responsible Business Conduct as Strategy

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*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

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- **Establishing the Nature of the Program**
- **Building a Responsible Business Enterprise**
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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.

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.

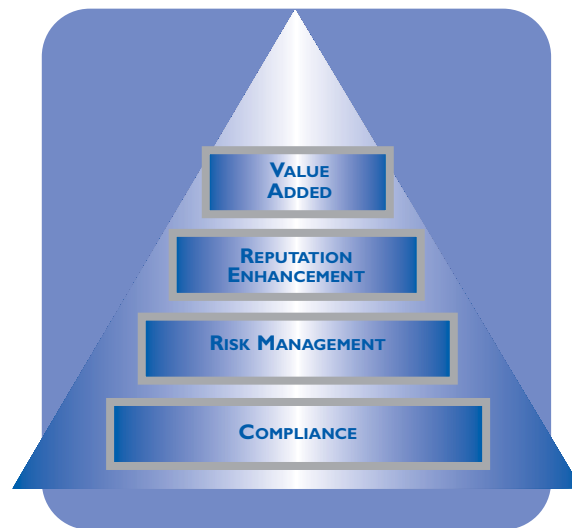


FIGURE 3.1
Levels of an Enterprise's Identity

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

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

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.

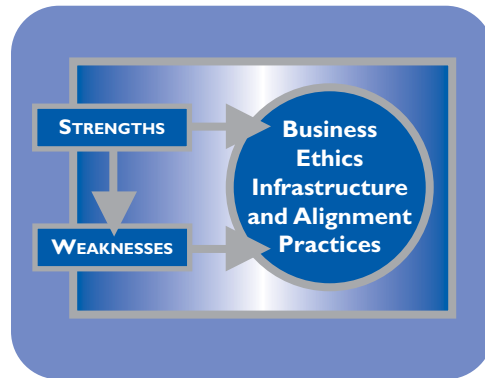


FIGURE 3.2
Best Practices
Reflect Enterprise
Strengths and Deal
with Weaknesses

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 *disadvantage*.

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.



PRACTICE NOTE

Authority

Most managers think about power too narrowly. To them, power is the control that comes from formal authority associated with position: the power to give orders to subordinates and know that their orders will be followed. This power is, in fact, in increasingly short supply. In today's environment, that kind of license is not likely to expand since it presumes a static world in which leaders know all problems in advance and their expertise perfectly matches their organizational position.

David L. Bradford and Allan R. Cohen
Power Up

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.

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, regulations, 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?**

Creation of a Business Ethics Program

4

*T*his chapter is intended to introduce owners and managers to the process of developing, reviewing, and approving a business ethics program. It elaborates on the process for designing a business ethics program described in Chapter 3.

The chapter first helps owners and managers develop the measures through which they will evaluate program effectiveness. It will show how to graphically portray the elements of the program in a business ethics program logic model. It then turns to developing a toolkit for owners and managers to use in designing and implementing their business ethics program.

Planning an Effective Business Ethics Program

Before going forward in the design and implementation process, owners and managers need to decide what they are trying to accomplish through their business ethics program. An effective program will have specific, action-oriented, relevant, and timely performance measures. Also, essential to a business ethics program are mechanisms to measure the program's performance. Chapter 10 examines more fully the design of a performance measurement system for a business ethics program.

For the responsible business enterprise (RBE), an effective program is one that achieves expected outcomes and integrates well into the enterprise itself. As one ethics officer in a recent study observed, "Ethics

- **Planning an Effective Business Ethics Program**
- **Understanding the Program Logic Model**
- **Scanning the Relevant Context**
- **Scanning the Enterprise's Internals**

programs become truly effective to the extent that they can evolve and plug into where a company is going.”¹ The study concludes that a well-integrated program is one that (a) is aligned with an organization’s core beliefs; (b) fits well with organization systems, policies, and practices; (c) addresses leadership priorities as well as employee expectations for ethics; (d) is used by employees at all levels to guide decision-making and action; and (e) becomes a central part of an organization’s culture over time.²

There are two principal areas to consider in setting business ethics program objectives: (a) how owners and managers think the organizational culture will be affected and (b) what specific outcomes owners and managers desire from the program. Although it is difficult to measure directly the extent to which values such as trust and integrity are shared, there are a number of specific outcomes affecting the organization’s culture that can be expected from such a program and that are valuable to monitor, track, and report.

ESSENTIAL CHARACTERISTICS OF ENTERPRISES

A number of elements of organizational culture will give owners and managers a profile of the enterprise to help them design and implement an effective business ethics program. These include five characteristics of a highly effective organization and eight influential cultural factors. When tracked and measured over time, these elements will be extremely valuable in evaluating program success.

Importance of Organizational Culture

The principal predictor of an effective business ethics program is the culture of the organization itself. Responsible owners and managers will shape their management, ethics, compliance, and social responsibility practices to address nuances of the enterprise’s organizational culture.

Organizational culture is shaped by the organization’s origin and history as well as the values, norms, and attitudes of its owners, managers, and other stakeholders. It is a bundle of assumptions about the way the world works and the beliefs, values, symbols, languages, rituals, principles, rules, and practices that consciously or unconsciously drive the thoughts, feelings, and actions of the enterprise and its stakeholders.

Organizational culture influences what the organization senses, cares about, and is capable of dealing with. It will influence how comfortable employees and agents are with engaging the stakeholders. Culture also is a source of conflict. As one noted scholar observed, “The world is full of confrontations between people, groups, and nations who think, feel, and act differently. At the same time these people, groups, and nations . . . are exposed

to common problems which demand cooperation for their solution.”³ Responsible managers are challenged to find the common ground for enterprise stakeholders and to guide their employees and agents to meet their reasonable expectations.

Characteristics of Organizational Culture

The first step in developing measures of an enterprise’s organizational culture is to develop a profile of the enterprise as a whole. This profile can be captured in the following five characteristics:

1. Extent to which leaders and members alike embrace the organization’s core purpose and values, and are adept at preserving them while stimulating progress
2. Extent to which leaders and members hold themselves responsible—and others accountable—for high standards
3. Extent to which leaders encourage members—and members welcome and accept the opportunity—to participate in organizational affairs
4. Extent to which leaders and members have the knowledge they need when they need it
5. Extent to which conflict and mistakes made in good faith are seen as opportunities for learning and growth⁴

Indicators of Organizational Culture

More specific than the profile described above are a number of measurable indicators of organizational culture, which tend to be closely associated with expected business ethics program outcomes. Eight such influential factors are set forth below:

1. Perceiving that leadership cares about ethics and values as much as the bottom line
2. Feeling safe to deliver bad news
3. Feeling treated fairly
4. Feeling valued as an employee
5. Not feeling pressured to compromise values
6. Believing ethical behavior is rewarded
7. Believing unethical behavior is punished
8. Recognizing whether the enterprise has an employee, community, or self-interest focus⁵

These factors reflect the styles of leadership and sense of fair play that characterize the enterprise. They are visible aspects of organizational culture.

EXPECTED PROGRAM OUTCOMES

The primary purpose of a business ethics program is to help an enterprise address all four levels of its identity as an RBE. The four levels, discussed in detail in Chapter 3, are portrayed again in Figure 4.1. An effective business ethics program will include a performance measurement system that captures program outcomes that reflect the goals and objectives of the enterprise. See Appendix A for a model that employees and agents can use to make decisions with outcomes in mind.

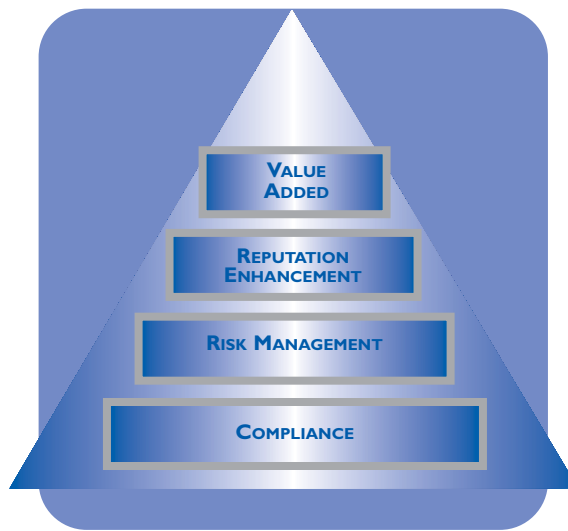


FIGURE 4.1
Levels of an Enterprise's
Identity

Tracking the following nine outcomes will help determine whether a business ethics program is effective for all four levels of identity:

1. How often violations of standards, including legal requirements, can be observed (compliance and risk management levels)
2. How often responsible business conduct issues are raised at the workplace (all four levels)
3. How often employees and agents speak in terms of core beliefs and standards (all four levels)
4. How often employees and agents make decisions based on core beliefs and standards (all four levels)
5. How willing employees and agents are to seek advice on standards (all four levels)
6. How willing employees and agents are to report observed or suspected violations (compliance and risk management levels)

7. How satisfied those who reported observed or suspected violations are with management's response (compliance and risk management levels)
8. How committed employees are to the enterprise (value-added level)
9. How satisfied stakeholders are that the enterprise meets their expectations (reputation enhancement and value-added levels)⁶

BENCHMARKS AND BASELINES

When the data are collected and analyzed, they may be used in a number of ways. They can give owners a picture of the culture, program processes, and business conduct of the enterprise. They can be used as baseline data for comparison with subsequent data. They can also be used to compare the findings with those of other similarly situated enterprises (known as *benchmarking*).

The first usage is helpful for owners and managers because it gives them a sense of how their employees and agents view the fundamental workings of the enterprise. Particularly valuable is comparing how managers, supervisors, and workers answer the same questions. Often, the answers are so different that one might wonder if the respondents work for different enterprises. These data also permit comparison between different plants and locations. For large, complex enterprises (LCEs), regional differences can be explored.

Where program evaluation is done on a regular basis—every one to three years, for example—the data serve as *baseline data*. Once a baseline of organizational culture, processes, and expected program outcomes is established, owners and managers can compare later data with the baseline to detect patterns and identify trends over time.

A final use is to compare the organizational culture, program processes, or expected program outcomes with other enterprises that establish benchmarks of practices or conduct. Benchmarking *can* be an effective practice if it compares program processes, such as code of conduct formats, business ethics office organization, or help-line procedures. For analyzing organizational culture or expected program outcomes, however, benchmarking is very difficult to do well, for a number of reasons.

Very little data are available publicly beyond large national surveys for program outcomes. Enterprises that do evaluate their programs for organizational culture and outcomes seldom share the data with the public. Moreover, business ethics programs are so fundamental to the very identity of an enterprise that it would be difficult to make meaningful comparisons that take into account differing organizational culture, program process, and expected program outcomes.

EMPLOYEE MISCONDUCT

According to the National Business Ethics Survey 2003, published by the Ethics Resource Center, 22 percent of all employees surveyed reported having observed at least some misconduct within the past year (4 percent frequently and 12 percent occasionally).

This finding represented a decline from the 31 percent of all employees who observed misconduct in two previous surveys (2000 and 1994).

Ethics Resource Center, 2003
National Business Ethics Survey

Moreover, the real question is why owners and managers would want to spend valuable resources comparing their enterprise with other enterprises since the goal of a responsible business is to meet the reasonable expectations of their stakeholders, not to compare favorably with some other enterprise having different stakeholders. For example, how much comfort will owners and managers derive from finding that their employees observe half the amount of misconduct found by the Ethics Resource Center described in Box 4.1?⁷ A favorable comparison alone does not help the enterprise learn what it is doing right, or even whether the data are accurately collected. In a culture of distrust, for example, employees will often refuse to answer a question about misconduct or will answer it incorrectly.

Understanding the Program Logic Model

Before beginning to design and implement a business ethics program, owners and managers must have a firm understanding of what will be required for the program to achieve its expected outcomes effectively, efficiently, and responsibly. A simple, but powerful technique to capture and communicate the *who*, *what*, and *why* of any program is the program logic model.⁸

All management programs have common components. Typically, a situation presents a challenge to the enterprise. Owners and managers establish goals and objectives to meet the challenge. They develop a strategy and an action plan or program to achieve those goals. The action plan or program requires input in the form of resources, contributions, and investment. These resources are used by employees and agents through activities with participants to generate output: goods, services, events, and communications. These activities and their output lead to expected program outcomes, the changes or results in people, enterprises, communities, or societies that occur over the short to long term.⁹ See Appendix A for a sample outcomes-based decision-making model.

A program logic model helps planners organize their thinking and encourage stakeholder engagement. It is a particularly effective means of graphically describing the elements of a business ethics program to the owners (or their representatives), senior management, employees and agents, and other stakeholders. A program logic model worksheet (RBE Worksheet 1) is provided at the end of this chapter. Owners and managers can use the program logic model to stimulate dialogue and graphically portray how they envision their business ethics program working. A business ethics program logic model can be completed in four nonlinear steps:

1. **Situation:** Describe the specific problem or issue. For example, a large customer may be requiring its downstream suppliers to comply with global standards. Or, as is currently the case in the United States, regulatory authorities may require that a listed enterprise have some of the elements of a business ethics program.
2. **Outcome:** Determine what the expected program outcomes are. That is, develop the measurable indicators that owners and managers want to accomplish over time that will address the problems or issues of their situation (for example, increased issue awareness or reduced irresponsible behavior). These are the reasons they are pursuing the program.
3. **Process:** Develop the action plans that owners and managers will pursue to design and implement a business ethics program. They will want to address:
 - a. **Input:** what they need to invest in terms of resources, including management attention
 - b. **Activities:** what needs to be done to achieve the expected program outcomes, such as establishing standards, procedures, and expectations and conducting training and education
 - c. **Participants:** the stakeholders who will be involved in each activity
 - d. **Outputs:** what will actually be produced, such as, a code of conduct, three specific policies, or 50 percent of all employees trained within the first year
4. **Contributing factors, including assumptions:** Describe the factors and assumptions that owners and managers considered in designing the business ethics program, such as the enterprise's capacity to draft a code of conduct or conduct training, the industry standards that apply, and the aspects of the organizational culture that they need to be concerned about.

Scanning the Relevant Context

Whether an economy is already developed or emerging, owners and managers in that economy should scan the relevant context of their enterprise to

identify the pressures it places on the enterprise, its employees, and its agents. These pressures take five forms: threats, opportunities, demands, constraints, and uncertainties.

This section describes the process of collecting the essential items of information about the relevant context that owners and managers need to design and implement an effective business ethics program. It describes two ways policy-makers, owners, and managers can analyze and synthesize these data collected: by *context element* or by *stakeholder*.

IMPORTANCE OF CONTEXT

All enterprises—whether large or small—strive to meet enterprise goals and objectives in a context of legal, economic, political, environmental, socio-cultural, and technological elements. Known as the *relevant context* of the enterprise, these elements bring pressures to bear on the enterprise, its employees, and its agents.

Legal Element

Government creates the legal framework in which market processes operate. As a sovereign entity, a state regulates private activities to protect or promote the general welfare of its citizens and residents. Depending on the level of state involvement in market processes, this regulation will involve, to one degree or another, public health, safety, morality, and dispute resolution.

Government regulation also defines how limited liability businesses, such as corporations, limited partnerships, and joint stock companies, are formed and what the limits of their liability are. Government regulations define the generally recognized corporate governance roles and responsibilities of directors, managers, and shareholders. Indeed, it may be that this tendency to define these roles and responsibilities in such detail is what discourages more discussion of corporate governance in terms of ethics and public policy. The very law that establishes minimum standards often comes to define the ceiling as well.

In emerging market economies, institutions are often not sufficiently independent or strong to enforce the law consistently. Indeed, law enforcement engaging in petty corruption may be a part of the problem.¹⁰

Economic Element

An RBE must consider the nature of its market and the amount of trust that characterizes exchange transactions. In emerging market economies, the economic system is often unstable and characterized by frequent crises, causing businesses to seek short-term profits at the expense of long-term growth. Instability and lack of trust increase the cost of each transaction as the par-

ties take expensive steps to protect themselves or avoid entering into a transaction at all. Such a climate can also foster a high tolerance for activities that are unethical, such as an individual using an enterprise's assets for personal gain or paying small bribes to move a transaction along. At the same time, the cost of regulation is often so high that shadow markets emerge, making it more difficult for the RBE to compete ethically.

Consumer expectations are a key economic factor. For example, consumers may be more or less discriminating. High quality may be more or less expected. Brand names may be more or less important. Employee economic expectations are also important. For example, employment security and compensation expectations differ significantly depending on where an enterprise is located. Privacy expectations for e-mail usage on company time also differ, as do employee expectations about policies such as the hiring of relatives.¹¹

Political Element

In scanning its relevant context, an RBE needs to understand the kind and degree of government influence in the market, how laws and regulations come about, who has practical access to influencing them, and the degree of government control over the economy. Government presence in the trade and investment sector often restricts trade: decreasing competition, creating opportunities for corruption, and increasing costs to business. Regulation in the form of decrees may distort the basic rules set by laws.¹² A principal test is the extent to which consumer interests will be sacrificed to protect producers.

Environmental Element

The physical world in which we live forms the widest relevant context for the business enterprise to consider and its most controversial element. The planet itself is a system of interdependent ecosystems that has evolved over millennia in a process of creation and destruction. Human beings are an integral part of this system and the first to influence consciously its evolution. An RBE is concerned with how to be a part of this process responsibly. It must be adept at recognizing environmental issues and consequences. As a leading textbook notes: "Each [environmental] case, involves a highly individualized set of scientific facts, economic and political issues, and social and natural consequences."¹³

Socio-cultural Element

In addition to organizational culture, each enterprise and its members operate within—and are products of—the broader cultures around them. Culture creates collective patterns of thinking, communicating, and acting that influence the decisions, processes, and activities of the enterprise

3 Stakeholder Pressure Data Collection

	Threat	Opportunity	Demand	Constraint	Uncertainty
Customers <ul style="list-style-type: none"> • Major • Minor • Other 					
Employees <ul style="list-style-type: none"> • Managers • Supervisors • Workers • Organized • Families 					
Investors <ul style="list-style-type: none"> • Shareholders • Board • Pension Funds • Activists 					
Suppliers					
Competitors					
Community					
Government					
Environment					

itself. It influences the mental models that employees and agents bring to the job regarding fundamental issues of concern to managers, including the following five “dimensions of culture,” developed by Geert Hofstede:

1. Social inequality, including the relationship with authority
2. Relationship between the individual and the group
3. Concepts of masculinity and femininity
4. Ways of dealing with uncertainty, relating to the control of aggression and the expression of emotions
5. Long-term versus short-term orientation¹⁴

Culture influences the decisions of owners and managers regarding a range of specific issues, including policies regarding conflict of interest, privacy, and nepotism. Culture also influences the willingness of employees to report misconduct, and the nature of the reward and punishment they will receive.¹⁵

Technological Element

An important consideration in planning and implementing a business ethics program is the technology available to the enterprise and its stakeholders. Particularly important are computer and telecommunications capabilities. For example, computer capability will influence how easily recordkeeping, monitoring, and auditing can be accomplished. Telecommunications capability will influence how owners and managers exercise control and relay communications.

RELEVANT CONTEXT AND THE SMALL TO MEDIUM-SIZED ENTERPRISE

As we explore the importance of context in this section, it is important to recognize that, while all enterprises need to have a clear understanding of the elements of their relevant context, the issues facing an LCE and a small to medium-sized enterprise (SME) may be dramatically different in kind and in degree of relative severity. For example, Table 4.1 includes a representative sampling of how differently an LCE and an SME might see the issues their relevant contexts present to them.

DATA COLLECTION, ORGANIZATION, AND ANALYSIS

This manual provides two tools to help owners and managers scan the external context issues. RBE Worksheet 2 aids in collecting relevant context data for each context element: legal, economic, political, environmental, socio-cultural, and technological. Each of these elements is examined in light of the pressures faced: threat, opportunity, demand, constraint, and uncertainty. RBE Worksheet 3 examines the external context by stakeholder category

TABLE 4.1 Relevant Context Comparison Chart

Element	Typical LCE Issues	Typical SME Issues
Legal	<p>Lacking familiarity with domestic legal institutions, fearing local bias, and paying for third-country arbitration</p> <p>Complying with anticorruption legislation and anti-money laundering regimes in multiple countries and competing with companies in countries without such legislation or where it is not enforced</p> <p>Dealing with technology transfer restrictions and national boycotts</p>	<p>Lacking awareness of rights</p> <p>Lacking access to court systems and coping with delays</p> <p>Dealing with laws and regulations that are disproportionately burdensome for SMEs</p> <p>Dealing with lack of enforcement and administrative corruption in system</p>
Economic	<p>Meeting diverse consumer needs</p> <p>Dealing with advocacy group boycotts against globalization or specific practices</p> <p>Managing the supply chain and creating strategic alliances with companies having shared core beliefs</p>	<p>Lacking bargaining power and sufficient infrastructure</p> <p>Lacking access to foreign markets and the ability to convert currency</p> <p>Lacking resources to identify consumer needs</p>
Political	<p>Imposing proper limits to the influencing of government laws and regulations</p> <p>Dealing with the capture of regulatory government agencies through inappropriate relationships or unduly close industry influence</p>	<p>Having no voice in government decision-making</p>
Environmental	<p>Applying home-country environmental standards when the host country's standards are lower</p>	<p>Remaining competitive when other companies abuse the environment to avoid costly waste disposal</p>
Socio-cultural	<p>Preserving core beliefs of a multinational enterprise in multiple cultures</p>	<p>Coping with a low level of latent entrepreneurship</p>
Technological	<p>Respecting customer privacy in collecting data over the Internet</p>	<p>Lacking access to telecommunications and information technologies</p>

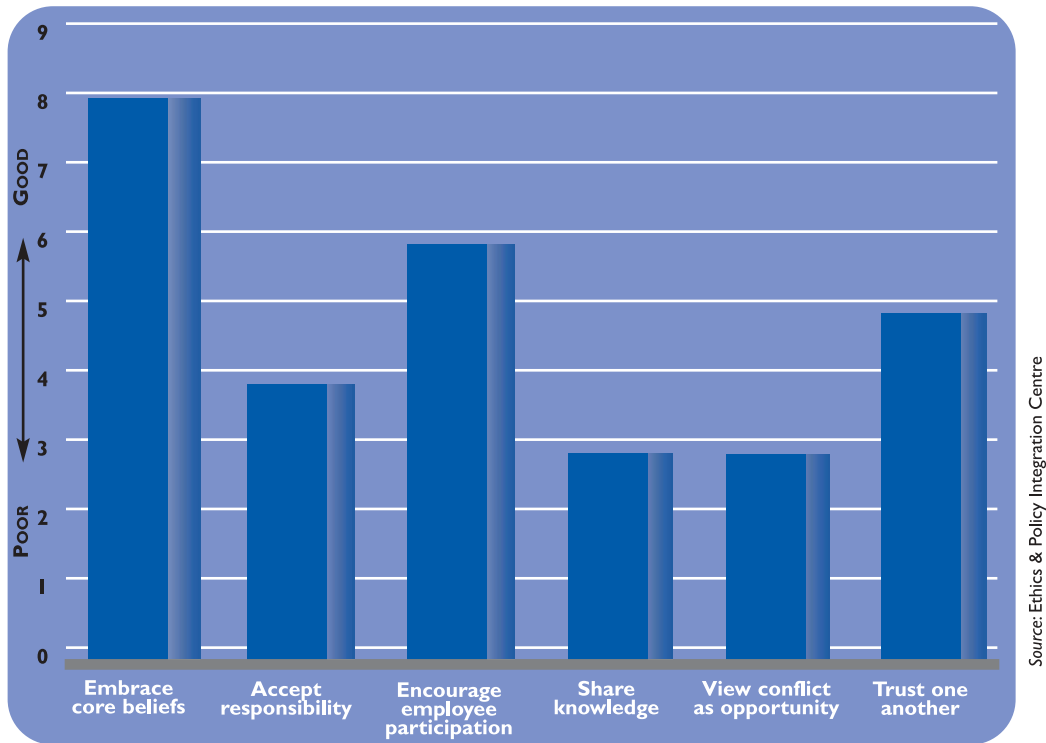
and by the pressures different types of stakeholders bring to the enterprise. Both worksheets are found at the end of this chapter.

This manual recommends that the enterprise form a working group to collect, organize, and analyze the data, using the worksheets as a tool, and to present the findings to the owners and managers.

Scanning the Enterprise's Internals

In addition to scanning the enterprise's relevant context, owners and managers also need to scan the internal structure and dynamics of the enterprise. This manual offers two major tools to help analyze an enterprise's internals. The first is a questionnaire that can be used to develop the organizational

FIGURE 4.2
Organization
Culture Profile



culture profile (RBE Worksheet 4). The second is based on the eight questions listed in Table 2.2 in Chapter 2 (RBE Worksheet 5). Both worksheets can be found in the back of this chapter.

RBE Worksheet 4 can be used as a survey. Owners and managers can average the survey results to develop a profile of the enterprise as seen in Figure 4.2.

RBE Worksheet 5 helps owners and managers answer the eight questions discussed in Chapter 2. Each question is followed by examples of global standards and best practices that can help the RBE adopt appropriate answers.¹⁶ Specific best practices are outlined in the chapters that follow: standards and procedures (Chapter 5), business ethics infrastructure (Chapter 6), business ethics communications and feedback (Chapter 7), enterprise alignment practices (Chapters 8 and 9), and business ethics program evaluation and organizational learning (Chapter 10).

SUMMARY

Before going forward in the design and implementation process, owners and managers need to decide what they are trying to accomplish through their business ethics program. An effective program will have specific, action-oriented, relevant, and timely performance measures of organizational culture and expected program outcomes.

A program logic model helps planners organize their thinking and encourage stakeholder engagement. A program logic model is a particularly effective means of graphically describing the elements of a business ethics program to the owners (or their representatives), senior management, employees and agents, and other stakeholders. Using RBE Worksheet 1, one may capture the essential elements of an entire business ethics program on one page.

This chapter offers a number of worksheets for owner and manager use: RBE Worksheets to scan the external context and the enterprise interior (RBE Worksheets 2–5).

With these processes in mind, Chapter 5 turns to how owners and managers establish enterprise standards of conduct and foster reasonable stakeholder expectations.



RESPONSIBLE BUSINESS ENTERPRISE

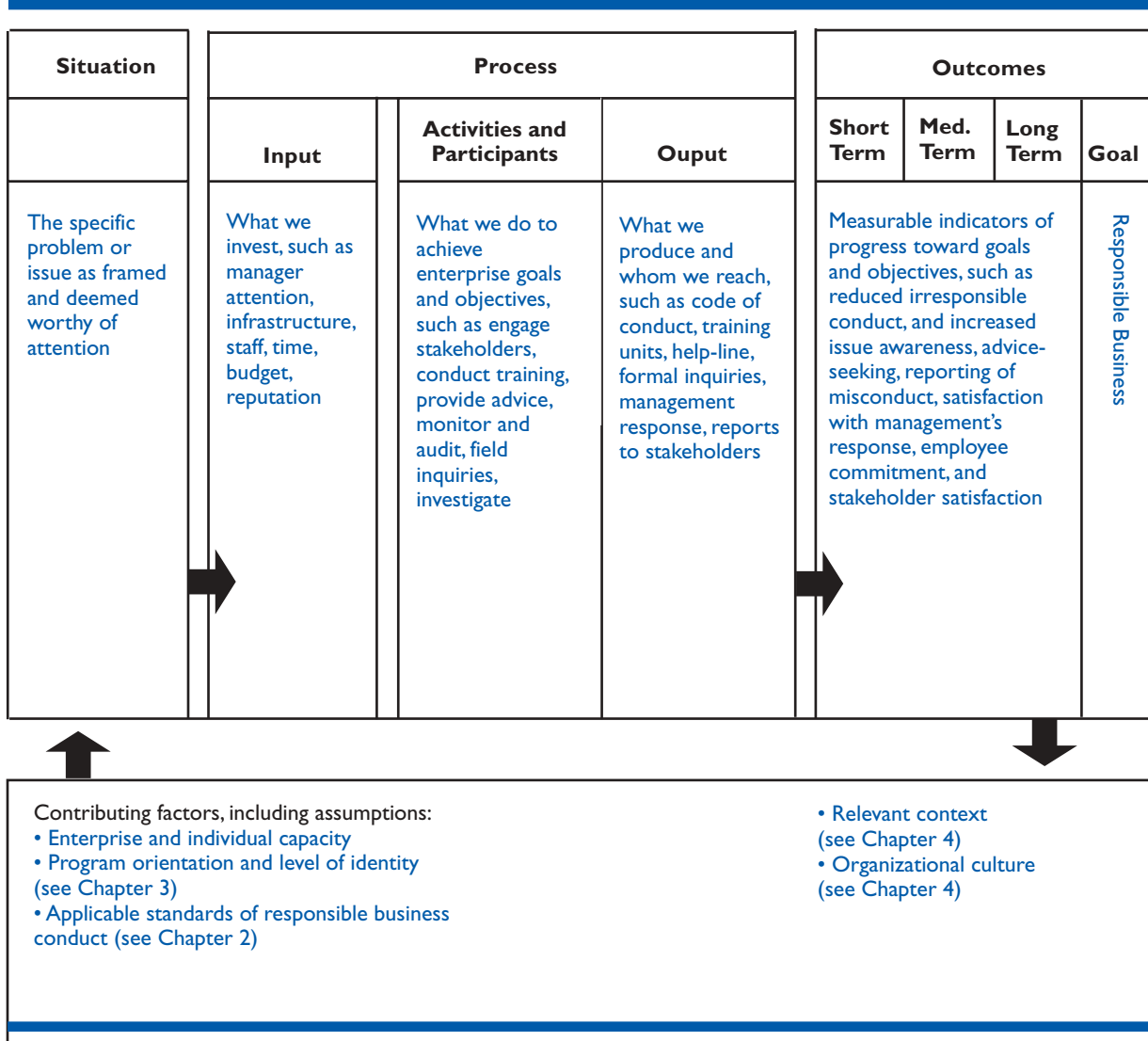
Checklist

1. **How well does your enterprise understand its relevant context?
What elements offer the most threats and opportunities?**
2. **How well does your enterprise understand its own culture?**
3. **How would your enterprise use the RBE Worksheets?**



Business Ethics Program Logic Model

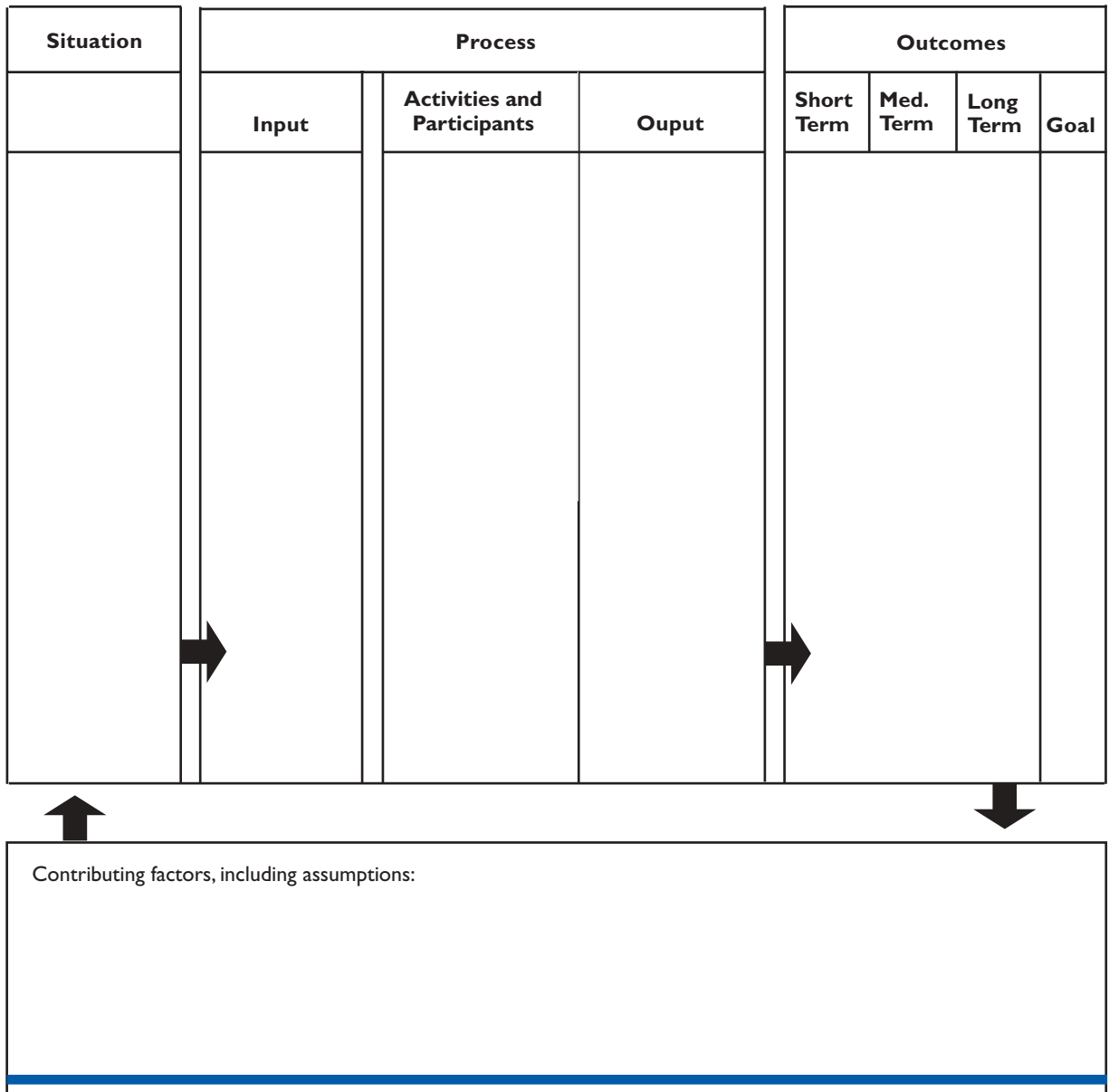
A program logic model graphically depicts elements of a business ethics program. The model below will assist planners of a business ethics program to organize their thinking and encourage stakeholder engagement. Owners and managers can use the program logic model to stimulate dialogue and graphically portray how they envision their business ethics program working.



A blank worksheet, which may be photocopied for use within your organization, follows on the next page.



Business Ethics Program Logic Model



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	<p>New competition enters the market.</p> <p>Competitor introduces new products. Infrastructure is inadequate.</p> <p>Civil society advocates against product or practices.</p>	<p>New market is available.</p> <p>Tariffs have been reduced.</p>	<p>Customer expects quality.</p> <p>Industry has standards for certification.</p>	<p>Supply chain is inadequate.</p> <p>Infrastructure is weak.</p>	<p>Value of currency and interest rates may change.</p>

A blank worksheet, which may be photocopied for use within your organization, follows on the next page.

2 Relevant Context Data Collection

	Threat	Opportunity	Demand	Constraint	Uncertainty
Legal					
Economic					
Political					
Environment					
Socio-cultural					
Technological					

3 Stakeholder Pressure Data Collection

RBE Worksheet 3 helps owners and managers scan the external context by stakeholder category and the pressures stakeholders bring to the enterprise. In this tool, employees are included for balance.

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

	Threat	Opportunity	Demand	Constraint	Uncertainty
Customers	ABC enterprise is a major customer, but it may begin doing more of its contract work in-house.	XYZ Enterprise is a strategic partner and is bidding on a major contract.	Higher quality is demanded by ABC, but also lower prices.	XYZ requires that suppliers meet all International Labor Organization Standards.	XYZ's financial status may be affected if it fails to win contract.

A blank worksheet, which may be photocopied for use within your organization, follows on the next page.

4 Organizational Culture Questionnaire

RBE Worksheet 4 may be used in an anonymous survey or as a device to stimulate dialogue. People answering each question should consider the organizational culture extremes and select one number in the range from 1 to 9. The survey results will allow owners and managers to develop a profile of the enterprise.

<u>Poor</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Good</u>
Organization's core purpose and values are unclear or not embraced by its leaders and members; stimulating progress requires sacrificing the core purpose and values.	Embrace Core Beliefs									Leaders and members alike understand and embrace the organization's core purpose and values and are adept at preserving them while stimulating progress.

<u>Poor</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Good</u>
Leaders, members, and agents try to avoid responsibility for their decisions and actions; they are reluctant to hold others accountable for organizational standards.	Accept Responsibility									Leaders, members, and agents hold themselves responsible—and others accountable—for organizational standards.

<u>Poor</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Good</u>
Leaders discourage members from participating in organizational affairs, or members are uncomfortable with or reject the opportunity to participate in organizational affairs.	Encourage Employee Participation									Leaders encourage members to participate in organizational affairs, and members welcome and accept the opportunity to do so.

continued on the next page

<u>Poor</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Good</u>
Knowledge isn't shared; leaders and members do not have the knowledge they need when they need it.	Share Knowledge									Knowledge is shared; leaders and members have the knowledge they need when they need it.

<u>Poor</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Good</u>
Leaders and members avoid conflict and mistakes, even if made in good faith; they are afraid to deliver bad news.	View Conflict as Opportunity									Leaders and members see conflict and mistakes made in good faith as opportunities for learning and growth.

<u>Poor</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Good</u>
Leaders and members do not trust one another and are polite, careful, closed, and guarded; they listen superficially but inwardly reject what others say; they are afraid to criticize or to be criticized.	Trust One Another									Leaders and members trust one another; they reveal to the group what they would be reluctant to reveal to others; they respect and use the responses they get; they can freely express negative reactions without fearing reprisal.

5 Questions for the Responsible Business Enterprise

Owners and managers use this RBE Worksheet to determine what strategies and action plans they should pursue to move from where they are currently to where they believe the enterprise should be. From the myriad standards and best practices known, the enterprise should determine which standards and best practices to adopt. For example, in answering Q.1 regarding standards, the following may be used as a reference:

- Sound set of core beliefs including core purpose, core values, and envisioned future¹⁷
- Modified OECD Guidelines for Multinational Enterprise/Corporate Governance beyond domestic requirements
- Minimum requirements of U.S. Federal Sentencing Guidelines for Organizations, including all industry standards and government regulations

Owners and managers may find, while analyzing how to fill a gap, that they had set unreasonably high or unnecessarily low expectations in their reference standards. Then, they can go back and reconsider their answers to the question.

	Reference Standards	Current Practices	Gap Analysis
Q.1 What norms, values, and standards should we set to guide our members and foster reasonable expectations among our stakeholders?	<ul style="list-style-type: none"> • Sound set of core beliefs • OECD Guidelines for Multinational Enterprise/Corporate Governance • U.S. Federal Sentencing Guidelines • Australian corporate culture 		
Q.2 What style, structure, and systems of authority and responsibility at all levels should we exercise?	<ul style="list-style-type: none"> • Sound set of core beliefs • Leadership styles • Board-level committees • High-level person responsible for program • Executive-level ethics committee • Ethics office • Individual duty to report misconduct 		
Q.3 How can we most effectively communicate our standards and procedures and foster reasonable expectations among our stakeholders?	<ul style="list-style-type: none"> • Executive modeling • Formal communications • Orientation • Ethics training • Posters • Newsletter 		

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	Reference Standards	Current Practices	Gap Analysis
Q.4 How can we know that our members follow our standards and that reasonable stakeholder expectations are met?	<ul style="list-style-type: none"> • Independent audit committee • Audit department • Ethics office investigation resources/availability • Mechanisms free of fear of retaliation • Organizational ombudsman • Policy on retaliation 		
Q.5 How can we ensure that we have the right people in the right places while we pursue our purpose as an enterprise?	<ul style="list-style-type: none"> • Recruiting • Hiring • Skills training • Assignment • Promotion • Termination 		
Q.6 How can we encourage our employees and agents to follow our standards and procedures?	<ul style="list-style-type: none"> • Recognizing ethical behavior equal to standards in tough situations • Punishing behavior not to standards • Consistent compensation schemes, especially bonuses and incentive pay 		
Q.7 What do we owe our stakeholders when mistakes, misconduct, or misunderstandings occur that involve our standards and procedures or their reasonable expectations?	<ul style="list-style-type: none"> • Voluntarily reporting mistakes and misconduct • Cooperating with proper authorities • Correcting harm caused • Conducting training in required skills and knowledge 		
Q.8 How should we monitor, track, and report our performance as an enterprise and continuously learn from it?	<ul style="list-style-type: none"> • Tracking, measuring, and reporting to stakeholders • Establishing program goals and objectives • Developing appropriate action plans • Establishing performance indicators • Developing performance measurements • Instituting data recording, collection, and analysis • Establishing reporting frameworks and schedules 		

A blank worksheet, which may be photocopied for use within your organization, follows on the next two pages.

5 Questions for the Responsible Business Enterprise

	Reference Standards	Current Practices	Gap Analysis
<p>Q.1 What norms, values, and standards should we set to guide our members and foster reasonable expectations among our stakeholders?</p>			
<p>Q.2 What style, structure, and systems of authority and responsibility at all levels should we exercise?</p>			
<p>Q.3 How can we most effectively communicate our standards and procedures and foster reasonable expectations among our stakeholders?</p>			
<p>Q.4 How can we know that our members follow our standards and that reasonable stakeholder expectations are met?</p>			

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	Reference Standards	Current Practices	Gap Analysis
Q.5 How can we ensure that we have the right people in the right places while we pursue our purpose as an enterprise?			
Q.6 How can we encourage our employees and agents to follow our standards and procedures?			
Q.7 What do we owe our stakeholders when mistakes, misconduct, or misunderstandings occur that involve our standards and procedures or their reasonable expectations?			
Q.8 How should we monitor, track, and report our performance as an enterprise and continuously learn from it?			