III

Structuring the Business Ethics Program

Standards, Procedures, and Expectations for the Responsible Business Enterprise

*T*he responsible business enterprise (RBE) establishes appropriate standards of conduct for its employees and agents and fosters reasonable expectations among its stakeholders. This chapter describes basic principles and best practices to help owners and managers develop, review, and approve such standards, procedures, and expectations.

Standards and Procedures

The first question owners and managers of an RBE must ask themselves is, "What norms, values, and standards should we set to guide our members and foster reasonable expectations among our stakeholders?"[1] Their answers define how the RBE will improve its performance, make profits, and increase the prosperity of its community by learning to meet the reasonable expectations of its stakeholders. Whether an enterprise is large or small, the question of what standards, procedures, and expectations to establish touches all aspects of an enterprise.

HOW THE RBE DIFFERS FROM OTHER ENTERPRISES

All enterprises set standards and procedures and foster stakeholder expectations. What distinguishes an RBE from other enterprises is that its owners and managers consciously develop the RBE's standards, procedures, and reasonable expectations as the surest

route to improving performance, making profits, and contributing to economic progress.

A well-designed and well-implemented business ethics program provides all members of an enterprise with the guidance and information they need for effective, efficient, and responsible choices and actions. Employees and agents need to know what performance is expected of them. They need to know what they should do—and what they shouldn't do—to meet performance goals and objectives. All stakeholders, both internal and external, have expectations of the enterprise, which are more or less reasonable. An effective business ethics program helps owners and managers develop standards, procedures, and expectations that establish the following:

- Who has authority to do what within the enterprise
- Who is responsible for which decisions and activities
- How people will be held accountable for their individual choices and actions
- What stakeholders can reasonably expect from the enterprise

An RBE develops standards, procedures, and expectations with complete understanding of its relevant context and organizational culture.[2]

WHY STANDARDS AND PROCEDURES ARE IMPORTANT

There are many reasons for an enterprise to set standards and procedures for its employees and agents and to foster reasonable expectations among its stakeholders. Standards, procedures, and expectations help focus the energy of employees and agents on achieving enterprise goals and objectives. They let stakeholders know what they can expect.[3] When standards and procedures are clear and stakeholders hold reasonable expectations, relationships based on trust are possible. The enterprise accumulates the social capital it needs to compete effectively, efficiently, and responsibly in global markets.

When standards, procedures, and expectations are not well established, owners and managers may not safely delegate their authority or expect stakeholders to be well served. The enterprise will often find its members operating at cross-purposes, because it is not clear what is expected of them. Its strategies and action plans will lack focus and power. When standards, procedures, and expectations are unclear, it cannot readily measure its performance. Holding an employee or agent accountable for bad faith or poor judgment is unfair if the criteria are uncertain. Stakeholders, both internal and external, may become frustrated, cynical, or distant because their expectations have not been realized. Investor confidence, customer satisfaction, status as a preferred supplier or strategic partner, and employee morale will be at serious risk.

Setting Employee Expectations

Employee relations at Nucor are based on four clear-cut principles:

1. Management is obligated to manage Nucor in such a way that employees will have the opportunity to earn according to their productivity.

2. Employees should feel confident that if they do their jobs properly, they will have a job tomorrow.

3. Employees have the right to be treated fairly and must believe that they will be.

4. Employees must have an avenue of appeal when they believe they are being treated unfairly.

Nucor Fastener Division
"Nucor's Management Philosophy"

HOW EMPLOYEE CREATIVITY CAN BE PRESERVED

Standards, procedures, and expectations are more than just control mechanisms. They give the guidance employees and agents need so that they can choose and act confidently. A well-developed set actually provides a sense of stability. If owners and managers honor their own policies, employees and agents can act freely and confidently within defined boundaries. Considerable human potential can be realized because employees and agents no longer fear being punished for violating some standard of which they are not aware. They will have bounded freedom to use their considerable imaginations and talents to perform on behalf of the enterprise.[4]

Standards, procedures, and expectations establish criteria for the development of policies and performance measurement. They are the basis for determining whether choices or actions were made or taken in good faith or reflect good judgment. The confidence and creativity that standards, procedures, and expectations bring to an enterprise and to its employees and agents build trust over time when everyone in the enterprise understands them and acts consistently.

Responsible Governance

There is a flow of authority, responsibility, and accountability throughout all enterprises. At the top of this flow are the owners or their representatives. The owners or representatives of an RBE follow a three-step process to establish policy guidelines for responsible governance. First, they delegate some measure of authority to managers. Next, they establish the purpose of the enterprise, including the value it brings to its community.[5] Third, they establish clear limitations or constraints on the exercise of the authority they granted. These policy categories are comprehensive: they embrace all choices and actions of the enterprise's employees and agents—managers, supervisors, and workers.[6]

Following the responsible governance policies and procedures of the owners or their representatives, managers define methods, activities, conduct, and tasks for employees at all levels and for agents. They define the core beliefs of the enterprise and establish the guidance that employees and agents need to meet reasonable stakeholder expectations.

Where there are owner representatives, such as a board of directors, these representatives also define the purpose, functions, and character of their own governance. These policies define how they will work together and their commitment to doing so.

RESPONSIBLE GOVERNANCE PROCESS

The policy governance commitment statement in Box 5.1 is an example of a general statement that describes the purpose of a board of directors.[7] Three

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BOX 5.1

POLICY GOVERNANCE COMMITMENT

The purpose of the board, on behalf of the shareholders, is to see to it that the company (a) achieves appropriate results for shareholders and (b) avoids unacceptable actions and situations.

1. Accountability Philosophy: The board's fundamental accountability is to the shareholders.

2. Social Responsibility: Although the board accepts as its primary obligation to operate in the best interests of shareholders, that fidelity is tempered by an obligation to the social order and to be a good member of the community.

3. Directors' Conduct: The board commits itself and its members to ethical, businesslike, and lawful conduct, including members' proper use of authority and appropriate decorum when acting as directors.

John Carver with Caroline Oliver
Corporate Boards That Create Value

BOX   5 . 2

POLICY GOVERNANCE MODEL DELEGATION OF AUTHORITY STATEMENT

Delegation to the CEO

The board's sole official connection to the operational company, its achievements, and its conduct will be through a chief executive officer (CEO).

1. Unity of Control. Only officially passed motions of the board, speaking authoritatively as a group, are binding on the CEO.

2. Accountability of the CEO. The CEO is the board's only official link to operational achievement and conduct, so that all au-

thority and accountability of management is considered by the board to be the authority and accountability of the CEO.

3. Nature of CEO Delegation. The board will instruct the CEO through written policies that prescribe the shareholder benefit to be achieved and describe organizational situations to be avoided, allowing the CEO reasonable interpretation of these policies.

John Carver with Caroline Oliver
Corporate Boards That Create Value

specific provisions are particularly important: accountability, social responsibility, and directors' conduct. An accountability philosophy statement affirms the board's understanding that its primary responsibility is to the shareholders it represents, not management. A social responsibility statement affirms the board's understanding that, while the board owes faithful attention to the interests of shareholders, it also must pay attention to social order and must see that the enterprise is a good member of a community. Finally, a director's conduct statement commits individual board members to ethical, businesslike, and lawful conduct.

BOARD–MANAGEMENT DELEGATION

In situations when owners are not actively engaged in an enterprise, they or their representatives will delegate a substantial amount of their authority to management. Responsible governance calls for such authority to be delegated to one person. That person, whether called the chief executive officer (CEO), president, or general director, is given the authority to manage everyone else in the enterprise. A sample policy delegating authority to management is set forth in Box 5.2.[8]

Under this arrangement, the lines of authority are clear. The owner representatives have one employee for operational purposes: the CEO. The CEO, in turn, is accountable to the board itself. The CEO will delegate some of his or her authority to other employees through standards, procedures, and expectations, but the CEO remains accountable to the board for all decisions made and actions taken.

OWNER EXPECTATIONS OF MANAGEMENT PERFORMANCE

Owner policies regarding management performance relate to the ends sought for the enterprise. The CEO is not entitled to make any choices or to take any actions that are not reasonably calculated to achieve the designated ends of the enterprise.

Policies Defining Ends

Responsible governance calls for precise definition of the ends of the enterprise. There are three components to an effective ends statement: "first, the *results* for which the [enterprise] exists; second, the *recipients* of those results; and third, the *relative worth* of those results."[9]

At first glance, the *results* component relates to financial performance. Certainly for enterprises whose shares are actively traded results must be related to financial performance. As one scholar, John Carver, notes, however, this is not always the case:

> In some small start-up companies, for example, desired results may include working independently with trusted partners in an exciting field—plus satisfactory financial return. In some family-owned companies, the value owners want is satisfaction of having family members working together in the same business—plus satisfactory financial return.[10]

A range of performance results is possible: market share, long-term capital growth, profits, reliable income, and successful research and development. Owner representatives must take the desires of all owners into account to determine what the desired results of the enterprise are and how to communicate them to employees and other stakeholders.

The *recipients* component seems clear enough, since the owners are the recipients. However, as Carver notes, "owners do not all have the same interests, and the board represents all owners."[11] The board must take into account the diverse interests of the owners. The relative strength of blocs of shareholders must also be considered. Although majority shareholders are entitled to a proportionate share of enterprise results, the board must not disproportionately benefit majority shareholders.

Finally, the *relative worth* component requires that the owner representatives prioritize among the results and recipients it has identified. Rarely will all owners have the same desired performance results. Some, for example, may be willing to forgo current income in favor of capital investment in research and development. Others may be certain that their majority interest entitles them to disproportionate returns or influence over the board. Whatever a given ends statement might contain, management deserves a

MODEL LIMITATIONS POLICY ON BASIC EXECUTIVE CONSTRAINTS

Delegation to the CEO

The CEO shall not cause or allow any practice, activity, decision, or organizational circumstance that is unlawful, imprudent, or in violation of generally accepted business and professional ethics or generally accepted accounting principles.

John Carver with Caroline Oliver
Corporate Boards That Create Value

clear statement from the owners or their representatives as to what successful enterprise performance looks like.

Policies Defining Means

When the board is setting management limitations, Carver suggests they set "basic executive constraints" (see Box 5.3).[12] It is up to management to decide how to achieve the ends of the enterprise within the authority granted to it by the board.

Given that the ends of an RBE are ultimately to produce value for the owners, what about the many other considerations of the RBE, such as other stakeholders, the rule of law, and ethical conduct?

These are means issues. They are not the reason for the enterprise's existence, but they suggest how it may obtain its objectives. For example, the enterprise's legal obligations and its relationships with stakeholders, while critical, are not the reason the enterprise exists. To preserve management flexibility, therefore, the board should establish policies that define the boundaries of management authority, rather than offer prescriptions for action.[13]

Carver recommends that the board ask itself, "What management situations, activities, or decisions would be unacceptable to us even if they worked? Even if the ends are being achieved, what risks, ethical violations, and proprieties does the board want to put off limits?"[14] When the board has answered these questions, responsible governance requires that it specify all the limitations it intends to place on management authority. See, for example, the sample means limitations in Box 5.4. The power of this approach is that management authority not expressly limited is, in effect, authorized. Management authority exercised within those boundaries—and reasonably intended in good faith to achieve the ends of the enterprise—has bounded freedom to be agile and creative.[15]

MODEL MEANS POLICY LIMITATION

1. Treatment of Stakeholders. With respect to interactions with business partners, regulators, vendors, the local community, and the environment, the CEO shall not cause or allow conditions, procedures, or decisions that are unsafe, undignified, or unnecessarily intrusive.

2. Treatment of Employees. With respect to the treatment of employees, the CEO may not cause or allow conditions that are unsafe, unfair, or undignified.

John Carver with Caroline Oliver
Corporate Boards That Create Value

Principles for Setting Management Standards, Procedures, and Expectations

Just as responsible governance at the board level involves setting ends and means for the executive, responsible management establishes a vision for the enterprise; goals and objectives; and standards, procedures, and expectations to guide enterprise employees and agents. As owners and managers establish these, this manual recommends applying the principles described below.

STRIVE TOWARD HIGHER STANDARDS

An enterprise should always strive toward higher standards. Expectations of an enterprise's ethical behavior evolve constantly in response to changing market conditions, both regionally and globally. New values and beliefs emerge not only in the market, but also in the organizational culture and the personal lives of employees. An enterprise should constantly solicit feedback from both internal and external stakeholders to update and modify its business ethics program.

CONSIDER CULTURAL DIFFERENCES

Culture is difficult to measure, and dimensions of culture are even trickier to use in setting standards, procedures, and expectations. However, an increasing number of studies suggest that ethical decision-making processes differ, if not in the result, by country, nationality, and culture. Significant differences have been found in the matters of responsible business conduct, tone taken in addressing issues, and appropriate management responses to employee conduct.[16]

IDENTIFY EXCEPTIONS FROM HOME-COUNTRY STANDARDS

Globalization and the increase of cross-border trade and investment introduce enterprises to a wide range of cultures and values. The globalization process includes increased pressure from civil society, the media, and governments from different nations. Enterprises are expected to abide by the ethical values of their home countries. They must also take into account standards introduced by the forces of globalization, particularly if they operate on a transnational basis.

Sometimes, exceptions to standards, procedures, and expectations must be made when working with actors outside of the enterprise's home country. To do business in other markets without sacrificing their own core beliefs, enterprises must clearly identify when they are making exceptions to home-country standards.

COMMUNICATE WHY

To ensure that the organizational culture is integrated and works toward an enterprise's goals and objectives, owners and managers should communicate not only the enterprise's standards, procedures, and expectations but also the reasons behind them. They should explain why responsible business conduct is important to improving business performance, to making a profit, and to increasing prosperity in the enterprise's community.

Owners and managers should explain to employees and agents why complying with standards, procedures, and expectations is necessary and consistent with the enterprise's core beliefs. For example, simply declaring to an employee that it is unethical to provide confidential information to a third party may be ineffective. Managers should explain that such information could undermine a competitive advantage held by the enterprise and adversely affect its profitability. This explanation will impart perspective to the employee and help him or her understand the purpose behind the rules.

INCLUDE EMPLOYEES IN SETTING STANDARDS

Dialogue is required to set responsible standards, procedures, and expectations that fit the needs of the enterprise and its employees and agents. When developing or modifying a business ethics program, management must understand which responsible business conduct issues are of central importance to employees. Securing employee input is essential. Failure to do so can result in employee cynicism and erosion of trust between employees and management. Ultimately, employees may decide not to comply with enterprise standards and procedures and may fail to pursue

the enterprise's purpose, thus causing the enterprise to fail to meet reasonable stakeholder expectations.

CLARIFY OPERATIONAL AND ETHICAL RESPONSIBILITIES

The operational and ethical responsibilities of managers and other employees must be clearly expressed in codes of conduct and other aspects of a business ethics program. The relationship between employees and their supervisors should be governed by two central principles: authenticity and accountability. Authenticity requires honest communication about who is responsible for ethical practices, mistakes, and misconduct. Accountability requires that each party to the relationship accept personal responsibility for what he or she brings to the relationship. An effective business ethics program sets forth these expectations and shows how the enterprise will address mistakes, misconduct, and misunderstandings.

Management Vision for the Enterprise

Responsible management defines the enterprise's core beliefs: its purpose beyond profit, its core values, and its envisioned future. In addition, as developed at length in Chapter 4, owners and managers establish expectations for the business ethics program itself by describing supportive cultural characteristics of the organization and expected program outcomes.

Two researchers, James Collins and Jerry Porras, found that what separates good companies from great ones, in large part, is the vision framework they provide their employees and aligning their choices and actions to that framework.[17] The vision framework that they recommend has three components: a core purpose, core values, and an envisioned future.

CORE PURPOSE

Without losing sight of returning value to the owners, responsible management establishes the fundamental reason for the existence of the enterprise in the form of a purpose statement that inspires its employees and agents. An enterprise purpose beyond profit helps define the enterprise. Unlike goals and objectives, the purpose is never actually achieved. As Collins and Porras describe it, enterprise purpose "like a star on the horizon can never be reached; it guides and inspires forever."[18]

Purpose should be a succinct statement of how the enterprise intends to meet some important need of its community. A purpose statement captures the reasons that employees and agents are eager to go to work. It takes as

given that owners want profits and that employees want livelihoods. But one can be certain that most employees do not go to work eager to make more money for the owners or even to earn their next paycheck. They go to work eager to contribute because there is something in the purpose of the enterprise that excites them.

Defining an enterprise's purpose is not an easy process. Collins and Porras suggest describing what the enterprise does in business—its mission, for example—and then asking five times: "Why is that important?" Though deceptively simple, asking "Why is that important?" will help establish the value the enterprise brings to the community. This sense of value added becomes the ordering principle of all subsequent decisions and activities.[19]

CORE VALUES

Responsible management defines four or five values to guide the choices and actions for all employees and agents. These core values should be so fundamental to what the enterprise sees itself to be—and the way that it does business—that they will not be sacrificed for short-term gain.

There is no right set of values for an enterprise. Royal Dutch/Shell, for example, has three core values: *honesty*, *integrity*, and *respect for people*. Chiquita Brands, International, which has plantations around the globe, has four core values: *integrity*, *respect*, *opportunity*, and *responsibility*. Alcatel, a multicultural company with employees in 130 countries, has four values as well: *customer focus*, *innovation*, *teamwork*, and *accountability*.

Core values should reflect the fundamental qualities that the enterprise wants to use to guide employee and agent decisions and activities, but they should not be so far removed from the reality of the enterprise that they are impossible to follow or that they breed cynicism. Moreover, the process of defining core values will influence how they are understood, accepted, and followed. The more stakeholders participate in developing the core values, the more likely these core values are to reflect the enterprise and to be accepted by its members and other stakeholders.

Some enterprises arrive at their core values through a carefully crafted survey of their employees, including interviews and focus groups. Others establish advisory groups at various levels of the enterprise to work with a small working group to draft a set of values for further dialogue. A few enterprises survey all or most of their members plus many other stakeholders.

To bring to the surface enterprise values among employees, ask a simple question such as, "What would you tell a new employee who asks 'What does someone have to do to succeed around here?'" Following through on

employee and other stakeholder answers to these questions will lead eventually to four or five values that should guide members of the enterprise.

VISION OF A DESIRED FUTURE

Responsible owners and managers visualize enterprise goals and objectives and the enterprise's role in the community over the long term. Goals should include responsibility to the community and to external stakeholders. They should incorporate relevant political, economic, and socio-cultural considerations. From this vision flow the goals, objectives, and expected outcomes of the enterprise's strategies and action plans.

Research suggests that there are two components to an effective envisioned future: (a) a specific goal that gives direction and meaning to enterprise decisions and activities and (b) a vivid description of the desired future.[20] Box 5.5 shows how Novo Nordisk describes embedding its vision throughout the enterprise.[21]

A good example of describing an envisioned future is the vision of Sony, portions of which are set forth in Box 5.6. This vision was formed in the 1950s, when Japan was still recovering from the devastation of World War II. It contained an audacious long-term goal and a vivid description of the desired future.[22]

BOX 5.5

EMBEDDING VISION IN AN ENTERPRISE

Vision

- We will be the world's leading diabetes care company.
- We will offer products and services in other areas where we can make a difference.
- We will achieve competitive business results.
- A job here is never just a job.
- Our values are expressed in all our actions.
- Our history tells us, it can be done.

The Charter

The Charter describes our Values, Commitments to the Triple Bottom Line, Fundamentals and Methodology—our basic management principles. The full text can be found on the Novo Nordisk corporate website.

Policies

Our Vision expresses the company's key business objectives and guides a set of policies on bioethics, communication, engineering, environment, finance, health and safety, information technology, legal, patents, people, purchasing, quality, regulatory and risk management.

Novo Nordisk
"Novo Nordisk Way of Management"

BOX 5.6

Sony Corporation's Vision

Purpose statement. To experience the sheer joy of innovation and the application of technology for the benefit and pleasure of the general public.

Goal. Become the company most known for changing the worldwide image of Japanese product as being of poor quality.

Vivid description. Fifty years from now, our brand name will be as well known as any on earth . . . and will signify innovation and quality that rivals the most innovative companies anywhere. . . . "Made in Japan" will mean something fine, not shoddy.

James C. Collins and Jerry I. Porras
Built to Last: Successful Habits of Visionary Companies

Management Standards, Procedures, and Expectations

Enterprises of all sorts and sizes are experiencing increasing pressure from home countries, international institutions, and nongovernmental organizations to demonstrate responsible business conduct. Management standards, procedures, and expectations give specific guidance that demands certain activities and restricts others, unlike board-level means limitations, which set limits only.

As discussed in Chapter 3, an RBE functions at four levels of identity: compliance, risk management, reputation enhancement, and value added to the community. Responsible management sets standards, procedures, and expectations at all four levels to give adequate guidance to employees and agents. These standards, procedures, and expectations tend to foster reasonable external stakeholder expectations of enterprise performance.

Standards, procedures, and expectations are often set in a number of basic documents: a set of guiding principles, a code of conduct,[23] and specific policies. Although this chapter discusses how to draft a code of conduct and refers to a number of examples, there is no one right approach. For example, an enterprise can draft the basic documents as separate documents or as a single document.

GUIDING PRINCIPLES

Enterprises will find value in establishing a number of general principles to guide employees and agents. With the core beliefs providing the basis, a statement of general principles aids employees and agents in making choices and taking action. A statement of general principles is more specific than the core beliefs, but it is broader than a code of conduct.

For some enterprises, like Royal Dutch/Shell, its fundamental guiding document is its "Statement of General Business Principles."[24] Another executive-level set of guiding principles to consider is the U.N. Global Compact.[25]

Statements of guiding principles tend to be accessible to employees and agents because they are considerably shorter than the average code of conduct. These principles may be one-sentence statements or short paragraphs, but usually no longer.

Using Royal Dutch/Shell as an example, an enterprise might set forth its basic principles under nine topics: (1) objectives; (2) responsibilities to stakeholders; (3) economic principles; (4) business integrity; (5) political activities; (6) health, safety, and the environment; (7) community, (8) competition; and (9) full relevant disclosure.

Shell begins with a general preamble that states the purpose of the principles themselves. The preamble reads in part as follows:

> Shell companies recognize that maintaining the trust and confidence of shareholders, employees, customers and other people with whom they do business, as well as the communities in which they work, is crucial to the Group's continued growth and success.
>
> We intend to merit this trust by conducting ourselves according to the standards set out in our principles.[26]

The first principle sets forth a general statement of the *objectives* of the enterprise. These closely track its core purpose. The second principle sets forth the *responsibilities* that it believes it owes its primary stakeholders: shareholders, customers, employees, those with whom it does business, and society as a whole, which includes the environment. These descriptions are, for the most part, one or two sentences each. The description of the responsibilities it owes society incorporates a number of the principles of the U.N. Global Compact. Shell sees these five areas of responsibility as inseparable.

The third principle sets *economic* principles to guide its employees and agents (see Box 5.7).[27] Shell notes that profitability and a strong financial foundation are fundamental to meeting its responsibilities. It also notes that pursuit of financial aspects is qualified by social and environmental considerations and an "appraisal of the security of the investment."

Shell's fourth principle addresses its notion of *business integrity*. Shell maintains that its companies "insist on honesty, integrity, and fairness in all aspects of their business and expect the same in their relationships with all those with whom they do business."[28] Going into somewhat more detail than

BOX 5.7

Royal Dutch/Shell's Economic Principles

3. Economic Principles

Profitability is essential to discharging these responsibilities and staying in business. It is a measure both of efficiency and of the value that customers place on Shell products and services. It is essential to the allocation of the necessary corporate resources and to support the continuing investment required to develop and produce future energy supplies to meet consumer needs.

Without profits and a strong financial foundation it would not be possible to fulfill the responsibilities outlined above.

Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental considerations and an appraisal of the security of the investment.

Royal Dutch/Shell
"How We Work"

a statement of principle, Shell's business integrity principle expressly addresses bribery, conflicts of interest, and maintaining accurate books and records.

Shell's fifth principle, regarding *political activities*, reinforces its sense of social responsibility and restricts its companies and individual employees in their political activities. However, Shell conspicuously reserves the right to take a public position on matters that affect it or its primary stakeholders.

Shell's sixth principle addresses its commitment to contribute to *sustainable development* and its "systematic approach to health, safety, and environmental management in order to achieve continuous performance improvement." Shell commits to "manage these matters as any other critical business activity, set targets for improvement, and measure, appraise and report performance."[29]

Shell's seventh principle addresses its relationship with the *community*. It expressly notes that its most important contribution is to pursue what we term its core purpose and its envisioned future as a business as effectively as possible. Shell then specifically authorizes community involvement going beyond being a socially responsible business to include ultra-social responsibility where appropriate.[30]

Shell's eighth principle is express support for the *competition* inherent in free enterprise.

Finally, Shell commits to providing *full relevant information* about its "activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost."[31]

Shell's "Statement of General Business Principles" covers many aspects of general business conduct and can serve as an excellent guide for an RBE,

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B O X   5 . 8

CHIQUITA BRANDS' APPROACH TO CORPORATE RESPONSIBILITY

- We take pride in our work, in our products, and in satisfying our customers.
- We act responsibly in the communities and environments in which we live and work.

- We are accountable for the careful use of all resources entrusted to us and for providing appropriate returns to our shareholders.

Chiquita Brands International
"Corporate Responsibility"

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even though it does not address a number of the emerging global standards we described in Chapter 2. Nongovernmental organizations (NGOs), while applauding Shell's statement in general, have noted, for example, that it does not specifically address a number of international conventions, notably the Universal Declaration of Human Rights, as well as the Tripartite Declaration of Principles of the International Labor Organization.[32]

Another common approach to a guiding set of principles is to list the enterprise's core values with a number of guiding principles or practices below each value. See, for example, an extract from the Chiquita Brands, International core values statement in Box 5.8.[33] Another example is United Technologies Corporation, which sets forth five "Commitments": "performance, pioneering innovation, personal development, social responsibility, and shareowner value" (see Box 5.9).[34] The value of this approach is that it demonstrates the significance of a few core values, while using principles and practices to define them and to provide concrete examples in one document.

Management may also consider any number of other general principles for ideas. One set to consider is the "Principles for Business" of the Caux Round Table, which are widely considered a good starting point for developing an

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B O X   5 . 9

UNITED TECHNOLOGIES' PERFORMANCE

Our customers have a choice, and how we perform determines whether they choose us. We aim high, set ambitious goals and deliver results, and we use customer feedback to recalibrate when necessary. We move quickly and make timely, well-reasoned decisions because our future depends on them. We invest authority where it needs to be, in the hands of the people closest to the customer and the work.

United Technologies Corporation
"Our Commitments"

enterprise's sense of ethical and responsible business conduct.[35] Another set of principles to consider is the *Basic Guidelines for Codes of Business Conduct* (reprinted in Appendix B), which can be used as a foundation or guide for developing codes of conduct.

CODE OF CONDUCT

A code of conduct is often the primary means by which management gives guidance to its employees and agents as to what is expected of them by way of business conduct. Indeed, among large enterprises globally, most now have some form of code of conduct.[36]

A code demonstrates management's commitment to meeting all applicable industry practices and government regulations. Its target audience is the enterprise as a whole. Other, more specific policies and procedures will be directed at specific functions, such as procurement or contracting.

A code of conduct addresses minimum standards of conduct and procedures to reduce the enterprise's risk of liability and damage to its reputation. A code of conduct also goes beyond these minimums to guide employees and agents toward enhancing the enterprise's reputation and adding genuine value to its community.

It is important not to place too much significance on a code of conduct standing alone. Most research suggests that a code is important less for its specific provisions than as part of a program or strategy to encourage responsible business conduct. When examining the incidence of misconduct, researchers have found relatively little difference between organizations that have a code and those that do not.[37]

As part of a business ethics program, however, a code is a central component of a process by which the enterprise engages its stakeholders, both internal and external. In recent years, the process of formulating codes of conduct has become more interactive and inclusive. Increasingly, codes are an essential part of an ongoing dialogue designed to shape programs. Indeed, a senior official at Royal Dutch/Shell has declared:

> Shell is increasingly focusing on dialogue, and we have found many NGOs who are willing to enter into debate with us. Discussion based on a broad framework of principles offers a constructive atmosphere for cooperation—and for the compromise that is sometimes necessary in the face of real-life ambiguities.[38]

An enterprise should carefully examine its relevant context when deciding on the scope of its code of conduct. It should consider the priorities of

its community and external stakeholders; the state of decrees, laws, and regulations; and industry standards. It should also show respect for national and organizational culture.

Compliance with the Law

When designing a business ethics program, an enterprise must ensure that it complies with all laws and regulations that govern its area of commerce: local, foreign, and international. The codes themselves tend not to set forth the details of the law. However, they will set the general policy of complying with all laws, and they may refer to laws that have specific application to the enterprise's business conduct such as corporate governance, workplace practises, and relationships with government officials. Where more detail is required, these matters will typically be treated in policies and procedures documents. Working closely with legal counsel, an RBE will incorporate changes and amendments to the law and regulations into its business ethics program on a regular basis.

The general nature of a code of conduct—as well as the issues addressed—differ widely between the European Union and the United States. Codes in the United States tend to be more compliance-oriented and are even legalistic, because the laws in the United States tend to leave more business matters to the private sector. They also address the significant risk of litigation. Codes in the European Union tend to be more focused on social responsibility. In part, this difference in focus arises because many matters that are covered in codes tend to be addressed by law and regulation in the United States or by individual or work council contract provisions in the European Union.[39]

PRACTICE NOTE

Anti-corruption Provisions

Enterprises should have a clear and concise accounting policy that prohibits off-the-books accounts or inadequately identified transactions.

Boeing Company
Boeing Ethics and Compliance Program

Compliance with Industry Standards

An RBE is often a member of an industry as well as a community. Owners and managers take into account industry-specific issues and standards and procedures. In doing so, they should strive to achieve the highest standards of compliance in their industry. Improved industry standards increase transparency and trust in the marketplace, and they enhance the reputation of the industry as a whole. For an example of industry standards regarding the scope of a code of conduct, see the New York Stock Exchange's recently promulgated exchange rules (Box 5.10).[40]

Protection of the Environment

A code of conduct should address the enterprise's standards, procedures, and expectations regarding the environment. Governments, local communities,

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BOX 5.10

NEW YORK STOCK EXCHANGE RULES

In November 2003, in response to great turmoil in the U.S. markets, the New York Stock Exchange (NYSE) promulgated a series of requirements to improve the corporate governance practices of companies listed on the NYSE. A listed enterprise is now required to adopt and disclose a code of ethics addressing, at a minimum, the following issues:

- Conflict of interest: Defines conflicts of interest and requires a policy proscribing conflicts and providing a means to report potential ones.

- Corporate opportunities: A policy should prohibit officers, directors, and employees from taking corporate opportunities, using corporate property, position, or information for personal gain, or competing with the company. All employees, officers, and directors owe a duty to advance the legitimate interest of their company.

- Confidentiality: Information entrusted to employees, directors, and officers by the company or customers should be kept confidential, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information that may be of use to competitors or harmful to the company or clients of the company if disclosed.

- Fair dealing: Each employee, officer, and director should deal fairly with the customers, suppliers, competitors, and other employees of the company. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

- Protection and proper use of company assets: Employees, officers, and directors should protect company assets and ensure the efficient and legitimate use of all business assets.

- Compliance with laws, rules, and regulations (including insider trading laws): The company should actively promote compliance with laws, rules, and regulations, including insider trading laws.

- Encouraging the reporting of any illegal or unethical behavior: The company should encourage employees to talk to supervisors, managers, or other appropriate personnel about the best course of action they should take when presented with a particular situation. In addition, companies should encourage employees to report violations of laws, rules, regulations, or the code of business conduct to appropriate personnel. To encourage employees to report such violations, the company must ensure that employees know that the company will not allow retaliation for reports made in good faith.

BOX 5.11

FROM THE NTT GROUP GLOBAL ENVIRONMENTAL CHARTER

Basic Principle

To ensure the harmonious coexistence of people with nature and to achieve sustainable growth, we will do our utmost to protect the global environment in all our corporate activities.

Basic Policies

1. Compliance with laws and regulations and fulfillment of social responsibilities

To observe all laws and regulations regarding environmental protection issues and to carry out our responsibilities as global corporate citizens.

2. Reducing environmental loads

To establish action plans for energy conservation (reduction of greenhouse gas emissions), resource conservation (conservation of materials such as paper), and waste reduction, and to strive to make continuous improvements.

3. Establishing and maintaining environmental management systems

To establish an environmental management system enabling each business unit to pursue voluntary environmental protection activities.

4. Developing environmental technologies

To contribute to the reduction of environmental load through various areas of research and development, including multimedia services.

5. Social contribution efforts

To promote daily environmental protection efforts in coordination with citizens and government agencies.

6. Disclosure of environmental information

To enhance both internal and external communications through the disclosure of environmental information.

NGOs, and international institutions are increasingly using their influence to promote sound environmental practices by business.

A code should include a statement that the enterprise will abide by both local and international laws and regulations designed to protect the environment. It should address how the business balances production objectives with environmental protection in general. In more detailed standards, procedures, and expectations, the enterprise might discuss how to reduce waste products, how to avoid polluting air and water, and how to manage and report chemical use and disposal.

An example of the flow from core values regarding the environment through a basic principle and basic policies to principal activities (leading to achieving goals and objectives) is set forth in the Japanese NTT (Nippon Telegraph & Telephone) Group ethical code of environmental issues (see Box 5.11).[41]

Respect for Cultural Norms

A code of conduct should demonstrate respect for the cultural norms of the society in which the enterprise operates—especially if it is a transnational

enterprise. Employees and agents bring their beliefs, values, and cultural norms to the job. Each society has cultural practices that are unique, including practice of religion, gender relations, and power relationships in the workplace. An RBE is sensitive to these practices and ensures that its business ethics program takes them into consideration without sacrificing its core beliefs. Implementing and enforcing a code of conduct that does not take these factors into consideration may be seen as unfair and may lead to confusion and frustration.[42]

A number of responsible business conduct issues are unusually culturally sensitive: dealing with conflicts of interest, accepting and giving gifts and gratuities, making facilitation payments, hiring relatives and friends, seeking advice, and reporting misconduct. Reporting misconduct, in particular, touches on deeply held cultural values and even relatively recent histories, as discussed in Chapter 7.

A best practice for dealing with these cultural nuances is to require regional divisions of an enterprise to formulate local policies and to submit them for approval. Provided that the local policy reflects the spirit of the general policy and is applied consistently, regional policies can be effective ways to address cultural differences. Note, however, that the general rule should apply unless a specific local policy has been proposed and approved. An employee or agent should not be able to claim a regional difference without an approved local policy in place.

PRACTICE NOTE

Gifts Given by Motorola

Some business situations call for giving gifts. Motorola's gifts must be legal, reasonable, and approved by local management. Motorolans never pay bribes.

We understand that gift-giving practices vary among cultures. Our local gift policies and guidelines address this.

We will not provide any gift if it is prohibited by law or the policy of the recipient's organization. For example, the employees of many government entities around the world are prohibited from accepting gifts. If in doubt, check first.

Motorola Corporation
"Code of Business Conduct"

Guidelines for Developing a Code

The process for developing a code of conduct is as important as the code itself. Engaging stakeholders, demonstrating management commitment, and honoring core beliefs will lead to a clear statement of what the enterprise values. Moreover, the process is an important step toward reinforcing the desired aspects of organizational culture.

At the end of the process, the code must be comprehensive enough to give guidance on all important matters to employees and agents. It must have had enough participative feedback from internal stakeholders—especially the owners, managers, and workers—that they will recognize it as their own, support it, and be willing to live by it. It must describe external stakeholder expectations well enough that they will recognize the enterprise as a contributing member of the community.

One noted author in this field, W. Michael Hoffman, encourages drafters to be particularly concerned with the tone of the code. He recounts how he was once asked to review a code titled "Our Responsibilities." Though he thought it was a good title, "every rule that followed began with 'it is your responsibility to . . .'" He suggested changing every "your" to "our" to convey the sense that the rules applied to everyone in the company.[43]

Style for a code also depends on the needs and culture of the enterprise. The more readable codes use large type, color, often pictures, and examples or text boxes for frequently asked questions. There are many fine examples on the Internet.

- WMC Resources Ltd., an Australian global mining company, has a very straightforward, colorful, animated code of conduct. It has many pictures and examples presented as drop down pages under five major topics.[44]
- NTT Group, a Japanese telecommunications company, has a detailed environmental code as part of its "Environmental Report 2002." It is organized as eight questions and their answers.[45]
- Guardsmark LLC, a medium-sized U.S. firm, has a short code of conduct that lays out principles organized by values and major topics. All employees review and acknowledge the code annually.[46]
- HCA Inc., a large U.S. health care company, has a comprehensive code of conduct, as well as policies and procedures for implementing its ethics, compliance, and corporate responsibility program.[47]
- United Technologies Corporation, a large, global manufacturing firm, has a code of ethics translated into 27 languages, which describes multiple means for an employee or agent to seek advice or report concerns, including regional and headquarters ombudsman offices.[48]

PRACTICE NOTE

Expecting Good Judgment from Employess

We are accountable for our actions and their consequences.

Question: I am a geologist in charge of an exploration project. A well-known local politician, who owns a small bankrupt company, has asked me to hire some of the 70 employees he will have to dismiss. In exchange, he has offered to facilitate local government permits for WMC. If I do not accept, he threatens to do the opposite. Should I accept the proposition? Should I accuse him of blackmail?

Answer: You should not accept the proposition. Your discussion with the politician should be documented, and you should seek guidance from the appropriate WMC manager as to the steps to take including going to police or local authorities.

WMC Resources, Ltd.
"Illustrative Examples"

A code of conduct should be a practical, easily accessible document. It should be written in plain language, avoiding technical or legal terms. It should be available in the languages key stakeholders understand.[49]

Aspirational versus Obligatory Provisions

Some authors distinguish between code provisions that are aspirational and those that are obligatory. Aspirational provisions are said to be ones that employees and agents are to strive for but for which they will not be held accountable. Obligatory provisions are said to be ones for which employees and agents can be held accountable and ones that will result in punishment if violated.

An enterprise's standards, procedures, and expectations are intended to guide employees and agents in dealing with real-life issues. Owners and managers should expect employees and agents to demonstrate awareness of all relevant standards and to use good judgment. If the underlying standard is to apply good judgment, therefore, we are reluctant to say that any standard worth putting in a code of conduct is purely aspirational. The better view is that if a provision is worth putting in a code, then it should be followed.

For the most specific standards—rules—good judgment seldom leads one to violate a rule. When rules are violated, punishment is appropriate since a clear intention to violate rules exists. For more general provisions such as val-

ues or principles, good judgment is still required, and it makes little sense to describe such provisions as unenforceable. Although the employee may not be punished as such, failure to use good judgment should not be tolerated.

Adaptations, Updates, and Improvements to the Code

Though a code of conduct is a fundamental document, it is not static. To be effective, it must anticipate the guidance that employees and agents will need to deal appropriately with the challenges they face. Laws and regulations change. Stakeholder expectations change as well. Through commerce with enterprises from different markets, businesses become exposed to new values and beliefs that can affect the way employees view the enterprise and markets. All these tend to create new gray areas for employees.

An RBE should plan in the code itself to monitor closely changes in its relevant context, organizational culture, and stakeholder expectations and to adapt, update, and improve the code accordingly. The RBE must be able to react quickly to changes that affect the enterprise, its markets, and its communities. It must adapt its code to reflect its relationships with new suppliers, service providers, partners, competitors, and markets.

Code Formats

An author who has tracked the trends in drafting codes of conduct has found that most codes apply one or more of three basic formats: (a) *compliance codes*—specific statements giving guidance and prohibiting certain kinds of conduct; (b) *corporate credos*—broad general statements of corporate commitments to constituencies, values, and objectives; and (c) *management philosophy statements*—formal enunciations of the company or CEO's way of doing business.[50]

An Australian author further distinguishes the formats and objectives of corporate codes of ethics as being of three types: (a) *codes of ethics*—statements of the values and principles that define the purpose of an organization, (b) *codes of practice*—which guide and direct decision-making, and (c) *codes of conduct or behavior*—which prescribe or proscribe certain behavior. "In practice," the author notes, "corporations tend to use varying mixes of each type of code, under various labels."[51]

RBE Worksheet 6, found at the end of this chapter, provides a sample outline for a code of conduct.

RESPONSIBLE BUSINESS CONDUCT POLICIES

Once a set of guiding principles, a code of conduct, or both are developed, the process of establishing adequate standards is not complete. To keep these defining documents relatively concise, enterprises typically publish much of the detail that surrounds specific offices or functions, such as internal audit

or government contracting, as policies or procedures. An RBE also addresses specific risk areas and opportunities to enhance its reputation or add value to the community. A number of fundamental issues are noted in RBE Worksheet 6, such as ethics, compliance, and responsibility functions and help-line policy and procedures. There may be many others.

Effective business ethics programs are designed specifically for the day-to-day challenges of the individual enterprise, its management styles, and its organizational culture. For example, the comprehensive business ethics program of HCA Inc., a large U.S. health care company, has 20 ethics and compliance-specific policies and procedures and dozens more related policies and procedures from other departments.[52] These policies include the following:

- Policy and procedure development
- Internal handling of ethics-line calls
- Self-reporting of violations of certain laws and regulations
- Business courtesies to potential referral sources
- Business entertainment
- Vendor-promotional training
- Approval of gifts in recognition of volunteer efforts
- Ethics and compliance officer
- Code of conduct distribution and training
- Records management
- Ethics and compliance program contracts
- Ethics and compliance office quarterly reports
- Training for senior management
- Reportable events

There is no set format for issuing policy and procedures. The form shown in Figure 5.1 is provided courtesy of HCA Inc.[53]

Typical Code of Conduct Provisions

The best way to think about what standards, procedures, and expectations to put in a code of conduct is to try to anticipate, from the points of view of stakeholders, the tough decisions that employees and agents might face. With this approach in mind, consider including the items described below. Examples of how some enterprises addressed certain issues are also included.[54] Using RBE Worksheet 7, provided at the end of this chapter,

FIGURE 5.1
Format Used by HCA Inc. in Issuing Policy and Procedures

Department:	Policy Description:
PAGE: x of y	Replaces Policy Dated:
Approved:	Retired:
Effective Date:	Reference Number:

Scope:

Purpose:

Policy:

Procedures:

References:

will help ensure that all necessary standards, procedures, and expectations are considered.

INTRODUCTORY MATERIALS

What materials should be included? And why? Introductory materials are highly dependent on the situation, needs, and culture of the enterprise. They should begin with a declaration of the enterprise's core beliefs, examples of which were described earlier.

An advisable provision to include is a disclaimer. For example, Motorola Corporation avoids creating unrealistic expectations—and unintended liabilities—by placing a disclaimer at the beginning of its code (see Box 5.12).[55] Disclaimers are recommended because some courts have treated similar documents as promises on which stakeholders may justifiably rely.[56]

B O X   5 . 1 2

DISCLAIMER TO A CODE OF BUSINESS CONDUCT

Basic Principle

This Code is neither a contract nor a comprehensive manual that covers every situation Motorolans throughout the world might encounter. It is a guide that highlights key issues and identifies policies and resources to help Motorolans reach decisions that will make Motorola proud.

Motorola Corporation
"Code of Business Conduct"

OWNERS

What relationships and responsibilities to its owners should the enterprise assume? And why? Consider the following:

- Maximizing shareholder value
- Minimizing business risk
- Using business resources prudently
- Engaging in legal and ethical behavior
- Preventing insider trading
- Being responsible to community and environment

CUSTOMERS OR CONSUMERS

What relationship and responsibilities to its customers should the enterprise assume? And why? Here are some examples:

- Providing quality, safe goods and services
- Representing products or services
- Communicating clearly so that there is no misunderstanding
- Protecting confidential information
- Preventing bribes and kickbacks
- Regulating gifts and entertainment
- Including government customer provisions
- Including foreign government customer provisions
- Ensuring accurate billing procedures
- Safeguarding property of others

- Preventing the disparagement of competitors
- Ensuring fair competition
- Acquiring marketing data properly and legally

EMPLOYEES AND THE ENTERPRISE

What relationships and responsibilities to its employees should an enterprise assume? What do the employees owe the enterprise? And why? Issues include these:

- Promoting respect for one another
- Promoting equal opportunity and anti-harassment
- Creating a hassle-free environment
- Respecting right to privacy
- Promoting workplace health and safety
- Maintaining skills and qualifications
- Preventing substance abuse
- Preventing workplace violence
- Regulating use of company funds
- Regulating company e-mail and computer use
- Preventing conflicts of interest
- Regulating outside business activities
- Regulating gifts and entertainment
- Regulating collective bargaining
- Promoting human rights
- Excluding child labor
- Promoting business with the company
- Regulating employment outside the company
- Encouraging self-development and lifelong learning
- Regulating the hire of closely related people
- Ensuring accurate books and records
- Retaining records

PARTNERS, SUPPLIERS, AND SERVICE PROVIDERS

What relationship and responsibilities to its partners, suppliers, and service providers should the enterprise assume? And why? Consider these issues:

PRACTICE NOTE

Anticorruption

3. In its relations with governmental agencies, customers and suppliers, the Company will not, directly or indirectly, engage in bribery, kick-backs, payoffs, or other corrupt business practices. The use, directly or indirectly, of Company funds for political contributions to any organization or to any candidate for public office is strictly prohibited, where such contributions are forbidden by applicable law. Where such contributions are lawful, they must be made in a fair and prudent way and must be approved by the most senior Alcatel officer in the country.

**Alcatel Group
"Statement on Business Practices"**

- Treating all suppliers fairly
- Regulating the acceptance or offer of gifts and gratuities
- Respecting intellectual property of others
- Protecting proprietary data of others
- Using software for its intended purposes
- Requiring consultants and suppliers to act legally and ethically

COMPETITORS

What do we owe our competitors? And why? Issues include:

- Dealing fairly with competitors
- Winning on product and service merits
- Discouraging comparisons with and disparagement of competitors
- Prohibiting inducement of others to break binding contracts with competitors
- Discouraging the discussion of pricing, costing, marketing, or product plans with competition
- Prohibiting illegal or unethical methods to gather competitive information
- Preventing unfair competition (antitrust)
- Promoting adherence to principles of free competition

Business Integrity

Our commitment to business integrity is clear and unequivocal. We do not bribe, nor do we accept bribes. We do not sanction illegal payments of any kind. We investigate all suspicious circumstances. Any employee found to have breached our firm "no bribes" policy is dismissed. We will also prosecute where possible.

Royal Dutch/Shell
"Our Approach to Business Integrity"

COMMUNITY, GOVERNMENT, AND THE ENVIRONMENT

What relationship and responsibilities to its communities, governments, and the environment should the enterprise assume? And why?

- Obeying both the letter and the spirit of law
- Promoting good competitor relations
- Complying with local laws and customs
- Promoting anticorruption practices
- Excluding foreign corrupt practices
- Regulating political contributions
- Regulating political activity
- Including indigenous peoples
- Promoting sustainable development
- Complying with anti–money laundering measures
- Complying with antiboycott laws
- Complying with import–export laws
- Voluntarily disclosing violations
- Cooperating with authorities
- Promoting charitable contributions
- Encouraging employee volunteer work
- Protecting the environment

BUSINESS ETHICS PROGRAM

A business ethic program should cover these issues:

- Ethics and compliance structure and systems
- Responsibility of managers and supervisors
- Need to avoid even the appearance of impropriety
- Monitoring and auditing practices
- Employees' duty to report violations
- Failure to comply
- Failure to detect misconduct
- Methods to seek advice and report misconduct
- Policy concerning false reports
- Enterprise response to reports
- Policy for customer, supplier, and contact agents
- Confidentiality and anonymity policy
- Nonretaliation policy
- Policy for employee misconduct
- Policy for rewarding ethical behavior
- Records retention
- Media contact
- Individual accountability
- Obligation to sign acknowledgment

BUSINESS ETHICS PROGRAM RESOURCES

Resources may include these:

- Ethical decision-making model
- Case studies and examples
- Telephone contact numbers

DESIGN, REVIEW, AND APPROVAL PROCESS

The design, review, and approval process for a code of conduct follows the process described in Chapter 4. The code and supporting policies will not be finally approved until all standards, procedures, and expectations as well as implementing policies and infrastructure have been designed and approved.

SUMMARY

Owners and managers establish standards, procedures, and expectations to answer the fundamental question, "What norms, values, and standards should we set to guide our members and foster reasonable stakeholder expectations?" An effective business ethics program contains standards, procedures, and expectations that establish the following:

- Who has authority to do what within the enterprise
- Who is responsible for which decisions and activities
- How people will be held accountable for their individual choices and actions
- What stakeholders can reasonably expect from the enterprise

Standards, procedures, and expectations are set for all levels of the enterprise—from the owners to the independent agents. Core beliefs and reasonable stakeholder expectations set the fundamental aspirations of the enterprise. Standards, procedures, and expectations are liberating devices as well as control mechanisms. They set boundaries for employees and agents that limit what they can do in pursuit of the enterprise purpose. Provided employees and agents choose and act in pursuit of the enterprise's purpose in good faith—and do not exceed these limits—they are free to use their good judgment in making decisions and acting.

RESPONSIBLE BUSINESS ENTERPRISE
Checklist

1. **What is the core purpose of our enterprise beyond profit?**

2. **What are our core values—those three to five values that we never violate?**

3. **What is our envisioned future of this enterprise? What are our goals and objectives over the next 30 to 50 years?**

4. **What management situations, activities, or decisions would be unacceptable to us even if they worked? Even if the ends are being achieved, what risks, ethical violations, and proprieties do we want to put off limits?[57]**

6 **Sample Outline for a Code of Conduct**

RBE Worksheet 6 provides a sample outline of a code of conduct. Discussion points are written to assist a working group tasked with drafting a code of conduct. The worksheet may be photocopied for use within your organization.

Topic	Discussion Points
Title page	Use a title page that captures the nature of the document and sets a theme to run throughout the document. Examples include "Living Our Values" (World Bank Group); "Leading with Integrity" (United Parcel Service); and "The Way We Do Business" (PricewaterhouseCoopers).
Table of Contents	A good code is accessible. For even a relatively simple code, it is wise to include a detailed outline of the contents and page numbers to aid use.
Introductory materials • Letter from owner or chief executive • Statement of code purpose • Statement of core beliefs • Statement of guiding principles • Background or explanatory materials	A letter from the owner or chief executive demonstrates top management's commitment to the ethics and compliance program and develops the theme of the title. A brief but clear statement of the purpose of the code—what it is intended to achieve—is important. A one-page restatement of the core beliefs of the enterprise—core purpose and values, as well as the envisioned future—sets the essential foundation. Use this as another opportunity to reinforce the importance of core beliefs. If the enterprise has developed a set of guiding principles, these may be included as a separate page for emphasis. Background or explanatory materials may address a crisis that spurred code development, what responsible business conduct is all about in general, or the process by which the code was developed. Include anything that readers need to know to understand the importance of the code itself and its place in the broader ethics and compliance program.
Specific guidance provisions organized by relationship or responsibilities to stakeholders • Customers • Shareholders and Investors • Suppliers and service providers • Employees • Enterprise itself • Community • Government • Environment	There are many ways to arrange specific code provisions, but arranging by relationship or responsibilities to stakeholders provides a logical way of organizing guidance and reinforces the sense of responsibility to stakeholders. A reason to refer to these provisions as describing the relationship to stakeholders is to avoid any private legal claims of obligation. Specific issues will necessarily touch on human resource issues: fairness in promotion, termination, sexual harassment, and diversity. A temptation is to treat these issues as separate from ethics issues. They must be included in the ethics and compliance program for it to be effective, because to the employee, ethics often means fairness.

Topic	Discussion Points
Description of the ethics, compliance, and responsibility program • Responsible executive • Responsible staff • Communications • Monitoring and auditing • How to seek advice and report misconduct • Investigations • Dispute-resolution process • Tracking, measuring, and reporting • Program evaluation and modification process	The code should specifically address ethics and compliance training and education. It should lay the essential foundation for all forms of communication regarding program issues. The code should also encourage employees and agents to seek advice and report misconduct. Because they may turn to the code to make decisions, the code should fully describe the process, including the circumstances under which they can call anonymously or confidentially. Also important is setting broad guidelines for tracking, measuring, and reporting enterprise performance, especially reporting to interested stakeholders.
Supporting and related policies and procedures • Business ethics officer's duties and responsibilities • Due diligence positions • Monitoring and auditing policy • Investigating policy and procedures • Confidentiality policy • Nonretaliation policy • Confidentiality agreements • Education and training policies • Problem reporting and nonretaliation policies and procedures • Help-line policy and procedures • Response, follow-up, and resolution policy	To be usable, a code of conduct needs to address only those matters of general interest or applicability to its stakeholders. Matters relating to specific duties or responsibilities, or more detailed policies or procedures, should be established in separate policies. However, it may be important to note in the code that there are more specific policies and procedures and how to access them. An excellent guide to applicable policy statements, though its emphasis is on health care compliance policies in the United States, is Richard P. Kusserow and Andrew H. Joseph, *Corporate Compliance Policies and Procedures: A Guide to Assessment and Development* (Marblehead, Mass.: Opus Communications, 2000).
Supporting Resources • Guides to ethical decision-making • Contact names and phone numbers • Case studies • Ethics games • On-line resource links • Quick reference guide • Index	This portion of the code provides ready access to important supporting resources and quick reference materials. If a code of conduct is very large or complex because of the needs and culture of the enterprise, consider providing an index.

7 RBE Standards and Expectations Worksheet

RBE Worksheet 7, which may be photocopied for use with your organization, provides a tool for ensuring that all necessary standards, procedures, and expectations are considered. Owners, managers, and staff members should engage their stakeholders to address each element of their standards, procedures, and expectations, along the vertical axis, to ensure that they are consistent with the enterprise's core beliefs and four levels of ethical identity, along the horizontal axis.

	Core Beliefs	Compliance	Risk Management	Reputation Enhancement	Value Added
Introductory materials					
Owners					
Customers or Consumers					
Employees and the enterprise					
Partners, suppliers, and service providers					

	Core Beliefs	Compliance	Risk Management	Reputation Enhancement	Value Added
Competitors					
Community					
Government					
Environment					
Business Ethics program					
Special ethics, compliance, and social responsibility topics					

Business Ethics Infrastructure

6

*T*his chapter examines an essential element of a business ethics program: business ethics infrastructure—the structures and systems that help enterprise owners and managers address issues of responsible business conduct.

Designing Business Ethics Infrastructure

One of the most important questions owners and managers of a responsible business enterprise (RBE) must ask themselves is "What style, structure, and systems of authority and responsibility at all levels should we exercise?"[1]

This manual details the best practices that have been developed, particularly over the past two decades, by large, complex enterprises (LCEs). These practices will be valuable for similarly situated enterprises in emerging market economies, which may look to formal structures and systems to help speed the evolution to a free market by improving their own business performance.

Although developed by LCEs, these best practices are also valuable as models for small to medium-sized enterprises (SMEs). By considering the best practices that LCEs, international institutions, and nongovernmental organizations (NGOs) have generated over countless hours of reflection, dialogue, and negotiation, SMEs can design business ethics infrastructure that meets world-class standards but is tailored to the requirements of an SME.

IMPORTANCE OF BUSINESS ETHICS INFRASTRUCTURE

When designing business ethics infrastructure, owners and managers will consider the nature of the enterprise—its size, its complexity, and the resources available to it. As stressed in Chapter 3, an enterprise uses infrastructure and formal alignment practices to emphasize enterprise strengths and to compensate for and reform enterprise weaknesses.

Over the past few decades, various offices and committees—for example, the business ethics officer and business ethics council—have developed to serve a number of necessary functions. These offices and committees meet the needs of LCEs, and it is valuable to describe them for those designing and implementing a business ethics program of any size.

An example of how complicated these offices and committees can be is the program of HCA Inc., a large, very complex health care provider. Reflecting its complex organization, the program is overseen by a senior vice president for ethics, compliance, and corporate responsibility, who supervises over 20 individuals in a corporate ethics and compliance department, works with over 20 executives, and provides direction and oversight to over 200 ethics and compliance officers.[2]

At the other extreme, many enterprises have neither dedicated business ethics personnel nor a separate business ethics program.[3] In such cases, companies make business ethics a general management function. They provide no dedicated mechanism for employees and agents to seek advice or report concerns without fear of retribution, especially in cases where management is unable or unwilling to help or is part of the problem.

There is no right way to design and implement a business ethics program. However, *formally* addressing each of the seven levels of responsibility that this manual discusses below will serve an enterprise and its stakeholders well, especially in an emerging market economy.

The reader should also remember that, in describing offices and committees, this manual is really addressing functions. It is important that these functions be performed, not that any particular office or committee be established. If owners and managers adequately address the functions, they can design and implement an effective business ethics program that is relevant to their organizational culture and stakeholder expectations. Failure to address any of these functions will often lead to a significant lack of perspective or capacity to respond to issues and problems related to ethics, compliance, and social responsibility. RBE Worksheet 8, at the end of this chapter, will help owners and managers ensure that all necessary levels of responsibility are considered.

RESPONSIBILITY FUNCTIONS

Leading enterprises, government agencies, and NGOs have found that an effective business ethics program addresses functions at seven levels of responsibility:

1. Overseeing the program at a high level (the responsible officer)
2. Performing or coordinating the specific functions of the business ethics program (the business ethics officer)
3. Advising the responsible officer and business ethics officer and representing the enterprise as a whole (the business ethics council)
4. Advising the responsible officer, business ethics officer, and employees and agents about specific professional ethics, compliance, and social responsibility issues, such as biomedical, engineering, or community issues (the professional ethics council)
5. Linking various levels of the enterprise with a central ethics office (business conduct representatives)
6. Performing related executive and department functions (the chief financial officer; legal counsel; human resources; internal audit; environment, health, and safety; government procurement; and investor relations)
7. Abiding by standards and procedures and striving to meet reasonable stakeholder expectations (every employee and other agent of the enterprise)

Although these functions are discussed separately, the nature of the enterprise and its size, complexity, and resources may argue for combining any number of them. Informal channels and reporting relationships can also be integral parts of the design of a business ethics program.

BUSINESS ETHICS INFRASTRUCTURE FOR THE SME

The average SME may not have enough staff members to dedicate an employee or employees to each of the seven responsibility functions. For example, if an enterprise is large and complex, such as HCA Inc., an RBE may need a central coordinator and many high-level responsible individuals at dispersed facilities or regions. For an SME that has only one location, the function can be served by a high-level individual who has enough time to perform the duties—and is sufficiently detached from the issues raised—that he or she can be an effective channel for employees and agents seeking advice or reporting concerns. Often, for these reasons, owners and managers of SMEs will turn to trusted independent advisers, as Box 6.1, "Ten Ways Small Business Owners Can Prevent and Detect Fraud," suggests.[4]

Table 6.1 describes how a typical SME might staff the seven responsibility functions.

Ten Ways Small Business Owners Can Prevent and Detect Fraud

1. Hire a CPA to examine the books.
2. Have a written code of ethics.
3. Set a good example.
4. Have reasonable expectations.
5. Treat employees well.

6. Restrict bank account access.
7. Perform regular bank reconciliations.
8. Adequately secure inventory and supplies.
9. Adequately prescreen employee applicants.
10. Give employees a way to report fraud.

Joseph T. Wells
"Protecting Small Business"

Determining Systems of Authority, Responsibility, and Accountability

Support for a business ethics program must start at the top of an enterprise. The following general elements of leadership are typically found in successful programs:

- The owners or owner representatives ensure that the program provides them with adequate information regarding enterprise performance.
- The owners and managers set a tone of support for responsible business conduct.
- A high-level person is responsible for the business ethics program.
- The supervisors are responsible for how things are actually done in the enterprise.[5]

Infrastructure for Owner Representatives

A business ethics program provides an information and reporting system for both the owners and the managers. An emerging corporate governance standard is that owner representatives are responsible for ensuring that they receive the information they need to prevent and detect wrongdoing. They may be held individually liable for losses caused by noncompliance with applicable legal standards.[6]

While delegating authority to the chief executive officer (CEO) to conduct day-to-day operations, an RBE's board of directors must provide for systematic and rigorous monitoring of enterprise performance through an information and reporting system. Boards often delegate the authority to

TABLE 6.1 Business Ethics Infrastructure: SME Conversion	
Function	Typical SME Staffing
Overseeing the program at a high level (the responsible officer)	Often an owner performs this function, but another highly respected employee who has substantial authority in the enterprise is preferable.
Performing or coordinating the specific functions of the business ethics program (the business ethics officer)	Typically, a respected staff member performs or coordinates the functions of the business ethics officer. An SME can form or join a business association to develop training materials and provide a forum to discuss issues, problems, and solutions related to ethics, compliance, and social responsibility. The SME can employ an independent answering service to provide a mechanism for employees and agents to seek advice or report concerns anonymously. The SME can use an outside service to conduct a periodic evaluation of its business ethics program.
Advising the responsible officer and business ethics officer and representing the enterprise as a whole (the business ethics council)	An SME can conduct regular meetings of all or representative employees for perhaps 30–60 minutes, once a month, to discuss enterprise core beliefs; standards, procedures, and expectations; and current issues of ethics, compliance, and social responsibility. A medium-sized enterprise—especially one with multiple locations—can appoint members to a council that meets regularly by telephone. An SME can form or join a business association to provide a forum to discuss current issues, problems, and solutions related to ethics, compliance, and social responsibility. A college, university, or business development council might host a forum for SMEs. A large enterprise can—and often should—host a forum for its suppliers and service providers.
Advising the responsible officer, business ethics officer, and employees and agents about specific professional ethics, compliance, and social responsibility issues (the professional ethics council)	An SME can conduct regular meetings of all or representative professionals, for perhaps 30–60 minutes, once a month, to discuss core beliefs; standards, procedures, and expectations; and current issues of professional ethics, compliance, and social responsibility. A medium-sized enterprise—especially one with multiple locations—can appoint members to a council that meets regularly by telephone. An SME can form or join a business association to develop training materials and provide a forum to discuss current issues, problems, and solutions related to professional ethics, compliance, and social responsibility. A college, university, or business development council can host a forum for SMEs. A large enterprise can host or sponsor a forum for its suppliers and service providers.
Linking various levels of the enterprise with a central ethics office (business conduct representatives)	For the SME, these representatives may be respected, knowledgeable staff members at various levels or locations who have the right to communicate directly with the owner, owner representatives, responsible officer, or business ethics officer on issues of ethics, compliance, and social responsibility. These business conduct representatives can also conduct training and education and assist in program evaluation at local levels.
Performing related executive and department functions (the chief financial officer; legal counsel; human resources; internal audit; environment, health, and safety; government procurement; and investor relations)	SMEs often use trusted, independent professionals to perform many of these functions. If so, they should participate in the training programs for the enterprise's responsible business conduct and, where practicable, its discussions of current issues of ethics, compliance, and social responsibility. These independent professionals can form their own independent forums to discuss current issues of ethics, compliance, and social responsibility. They may also be engaged to advise SME owners and managers on how to design and implement a business ethics program using this guide and other resources.
Abiding by standards and procedures and striving to meet reasonable stakeholder expectations (every employee and agent of the enterprise)	Individual responsibility of employees and agents applies in all enterprises, regardless of their size. In SMEs, it may be difficult for employees to seek advice or report concerns confidentially and anonymously. Owners and managers of SMEs must work to develop an organizational culture in which employees and agents are able to speak up confidently and safely.

monitor enterprise performance to a committee, sometimes called an audit committee, less often a responsible business conduct committee.[7] Delegation of authority, however, does not relieve the board as a whole of its responsibility.[8] It is important that the audit committee have unrestricted access to necessary records and personnel. A policy that authorizes direct but limited access to the audit committee is set forth in Box 6.2.[9]

An audit committee is usually responsible for arranging for competent independent auditing. In this regard, it should be alert to any conflicts of interest that potential auditors might have, including conflicts stemming from their role as consultants.

Where managers sit on a board, an emerging best practice is for the audit committee to be composed wholly or predominantly of independent directors.[10] If committee members are managers, or are closely allied with managers, the board may be unable to represent the owners without bias in favor of management. This situation is an inherent conflict of interest. Moreover, the confidence of employees and agents to seek advice and report concerns may be compromised for fear of retribution.

HIGH-LEVEL RESPONSIBILITY

A first step toward an effective business ethics program is to assign responsibility for its operation to a specific individual or group of people, which this guide calls a *responsible officer*. A responsible officer may be an individual, a committee, or an individual supported by a committee. An RBE should

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BOARD–MANAGEMENT LINKAGE POLICY

Direct, but limited, access to the board by the Responsible Officer, Business Ethics Officer, or Chair of the Business Ethics Council (individually or collectively referred to as "Senior Ethics Personnel") are exceptions to the exclusive role of the CEO in connecting governance and management.

1. If, after having brought to the CEO's attention any impropriety discovered in the course of his or her work, Senior Ethics Personnel deem that the CEO has failed to address the impropriety (or if the CEO is materially involved therein) he or she must report that impropriety to the Audit Committee [Business Ethics Committee]. *Impropriety*, in this context, means a violation of law; material violation of board policies prohibiting the treatment of stakeholders in an unsafe, undignified, or unnecessarily intrusive manner or causing or allowing conditions that are unsafe, unfair, or undignified to employees; and failure to address recommendations of any external evaluation of the Business Ethics program itself.

2. Senior Ethics Personnel, in all other respects, are subject to the CEO's managerial authority over all staff and have no direct access to the board or board committee.

PRACTICE NOTE

Translating the Vision

It is the job of every single employee to translate the Vision, the Charter, and the Policies into action. However, a particular responsibility for keeping the company's actions attuned to stakeholders' demands lies with the Board of Directors, Executive Management, and cross-organisational committees.

Three committees, each chaired by a member of Executive Management, have specific responsibilities for sustainable development:

- The Environment and Bioethics Committee
- The Social and Industrial Relations Committee
- The Health Policy Committee

These committees' tasks are to identify issues, establish and revise policies, and devise strategies, targets, and action plans within their specific areas. Triple Bottom Line issues are reviewed twice a year at the Board of Directors' meetings.

Novo Nordisk
"Translating the Vision"

avoid creating a situation in which no one is responsible because everyone is responsible. In the pressures of day-to-day operations, it is easy for employees and agents to focus on immediate tasks and goals. A single person needs to be tasked with ensuring that responsible business conduct becomes the norm at the enterprise.

For the business ethics program to be effective, the responsible officer, whether an individual or a group, should have a number of basic characteristics:

- Be at a high level of responsibility in the organization
- Have unrestricted access to the CEO and the board, or a designated board committee
- Have a high degree of trust and respect from senior management
- Have access to the resources necessary to ensure that the organization has an effective program
- Be given incentives and rewarded for proactively carrying out the roles and responsibilities of the office
- Have the skills to operate effectively with the media, public forums, government agencies, and the legal process[11]

Ethics and Business Conduct

The Ethics and Business Conduct Committee is responsible for oversight of the ethics program. The committee is appointed by the Boeing Board of Directors and its members include the company chairman and chief executive officer, president and chief operating officer, presidents of the operating groups, and senior vice presidents. The vice president of Ethics and Business Conduct administers the ethics and business conduct program.

Boeing Company
Boeing Ethics and Compliance Program

It is important that the person or group assigned responsibility for the business ethics program be at a high enough level to demonstrate the owners' and managers' commitment to the program. That person or group should be heard when business strategy and other important enterprise decisions are discussed, because an integral part of management's general responsibility is to ensure that enterprise resources are applied to achieve its goals and objectives. This requires that the person or group have substantial control over the enterprise or a substantial role in making policy.[12]

The responsible officer has three major objectives:

1. Ensuring that the enterprise establishes adequate standards and procedures to guide employees and agents and to create reasonable stakeholder expectations

2. Ensuring that these standards and expectations are institutionalized and enforced within the enterprise

3. Evaluating and reporting on the enterprise's performance against these standards, procedures, and expectations[13]

The reporting relationships of the responsible officer are critical. One key way in which owners and managers demonstrate support for a business ethics program is to demand regular reports on performance. Access of the responsible officer to the board and CEO serves a number of functions: it provides greater opportunity for responsible business conduct to be given

Responsible Executives for Particular Areas of Risk

Individuals within the corporate office have been identified as the subject matter experts in particular areas of compliance risk and named Responsible Executive for those areas of risk. As such, they are responsible for identifying compliance risks; overseeing development of policies and procedures and training programs; performing monitoring; responding to auditing efforts; assisting with response to concerns that are raised; and providing support regarding their areas of expertise.

**HCA Inc.
"Responsible Executives"**

due attention; it reinforces the authority and credibility of the responsible officer; and it provides resources to high-level decision-makers for guidance and support in dealing with difficult issues.

The responsible officer function may be served from any number of positions: an executive, a committee, an individual in charge of a business unit or major function, or someone with a substantial ownership interest.[14] The position may be full-time or part-time, depending on the enterprise.

High-level responsibility may also be assigned for specific areas of ethics, compliance, and social responsibility. For example, in enterprises such as hospitals, one person may be responsible for the organizational ethics program and a medical professional may be assigned responsibility for the biomedical ethics program. In an enterprise that does a lot of government contracting, a high-level person may be assigned to monitor that specific function.

In a highly regulated enterprise, legal demands may be such that a compliance officer should be appointed to deal only with compliance issues, in coordination with the ethics and social responsibility functions. This may be the case, for example, in an economy where the enterprise must be especially diligent against corruption. In another enterprise, issues of responsibility to external stakeholders may be so demanding that a social responsibility officer should be appointed to deal with those issues, in close coordination

with the responsible business conduct functions. This may be the case, for example, in an economy where environmental issues or relations with indigenous tribes are common.

BUSINESS ETHICS OFFICER

Independent of high-level responsibility for the business ethics program, a number of specific business ethics staff functions must be accomplished for the program to be effective. It is critical that a specific individual or individuals be assigned responsibility for these functions. Responsibilities for reporting to the owners (or their representatives) are typically retained by the responsible officer. However, a best practice is for both the responsible officer and the business ethics officer to have access to the CEO and board.

Roles and Responsibility of the Business Ethics Officer

The business ethics officer is the staff officer responsible for the day-to-day operations of the business ethics program. Two practitioners have identified the following 12 functions of a business ethics officer:

1. Coordinate development and implementation of the business ethics program.
2. Establish and chair a business ethics council representing all levels of the enterprise.
3. Develop and maintain standards of conduct and procedures, as well as related policies, which will guide employees and agents and will foster reasonable stakeholder expectations.
4. Establish internal reporting channels, including, but not limited to, a help line that employees and agents may use to seek advice and report concerns without fear of retribution.
5. Establish or coordinate monitoring controls and measures to ensure that correct processes are established and followed.
6. Implement or coordinate enterprise-wide communication and training programs to ensure that all employees, agents, and other stakeholders are educated on the standards, procedures, and reasonable stakeholder expectations.
7. Coordinate or conduct inquiries and investigations to ensure proper follow-up on reports and resolution.
8. Delegate authority to conduct appropriate inquiries and investigations (for example, legal, human resources, internal audit) when necessary.
9. Monitor and evaluate the business ethics program for periodic modifications when needed.

10. Maintain a working knowledge of relevant issues, laws, regulations, and emerging standards of ethics, compliance, and responsibility through periodicals, seminars, training programs, and peer contact, including membership in professional associations.

11. Respond appropriately when a violation of these standards is uncovered, including making a direct report to the board or external agency if a violation of law or regulation is involved.

12. Report quarterly to the appropriate board committees on the status of the business ethics program, report to the CEO or appropriate board committees whenever necessary, and report to stakeholders annually.[15]

Location and Centralization of Business Ethics Offices

The functions of the business ethics officer may be performed by one ethics officer out of a central location or may be decentralized. For example, the business ethics officer may be located at headquarters, or each plant may have a business ethics officer. The significant differences relate to responsibility and reporting. In a decentralized program, the local business ethics officer will be personally responsible for the conduct of the program at the local level and be required—and entitled—to report to the CEO and board on issues of responsible business conduct. He or she may also have more responsibility for training and investigations.

The advantages of centralization include a more consistent message, economies of scale in production and distribution, more effective monitoring of the program, and more uniform and efficient enforcement. Advantages of a more decentralized approach include messages that are more tailored to local circumstances, more employee involvement, and more nuanced and inclusive decision-making.[16]

Business Ethics Officer Qualifications

Business ethics officers generally have extensive experience throughout the enterprise over a number of years. They have developed personal networks that allow them to understand and relate well to the enterprise as issues arise.[17] Owners and managers often bring in someone from the outside when there has been a pattern of serious misconduct or when they see the need for significant change in the organizational culture.

In terms of their operational experience, staff members from departments such as general business, finance, internal audit, and human resources tend to be tapped to be business ethics officers. Appointing a lawyer as business ethics officer, especially where legal compliance is a significant program element, often leads to responsible business conduct being treated as simply an extension of the legal function. However, as two lawyers write, "Compliance is not just another legal matter. It is a management responsibility demanding a full

range of management resources and skills, and the exercise of those in the day-to-day management of the business."[18]

BUSINESS ETHICS COUNCIL

The business ethics council serves principally as an adviser on setting policy, resolving issues, and monitoring the business ethics program. In larger enterprises, it often consists of representatives of executive management, including finance, general counsel, human resources, internal audit, quality, and public affairs. It is typically chaired by either the responsible officer or the business ethics officer. It is advisable that all levels of the enterprise be represented so that the council's advice fully reflects the enterprise as a whole. Wider participation may also contribute to greater employee acceptance of the program and its message.

A business ethics council should meet on a regular basis, perhaps monthly or quarterly. It raises issues of concern in the enterprise, reviews disposition of help-line requests for advice or reports of concerns, previews training materials, and recommends policy changes or program modifications. It meets on call when there are urgent matters to address, such as unforeseen conduct issues or a compliance violation that may require disclosure to government agencies.

If the business ethics officer is highly respected and has an extensive network of managers and specialists that he or she can turn to for advice, a business ethics council may not be especially valuable. The risk of not having such a council, however, is that the business ethics program lacks the formal acknowledgment that input from all levels of the enterprise is important to management. Also, the lack of a council tends to identify the business ethics program with one person, which may require restructuring the business ethics program when he or she leaves the post.

PRACTICE NOTE

Application to SMEs

An SME can benefit from having a business ethics council composed of representative members of the enterprise. It serves as a forum to allow members to raise their concerns and demonstrates the owners' commitment to responsible business conduct.

PROFESSIONAL ETHICS COUNCIL

The business ethics council is concerned with standards of conduct that affect the RBE as a whole. In many enterprises, well-developed bodies of professional ethics standards guide day-to-day operations. For example, biomedical ethics guide health care providers, especially physicians and nurses. Other examples include legal, engineering, accounting, and environmental ethics, but there are many others, including specific social responsibility issues.

In each of these areas, significant issues will arise that require the same sort of consultation and advice process that the business ethics council provides on more general issues. To address these more specific issues, an RBE might establish a professional ethics council. For example, biomedical ethics is such a significant part of hospital operations that hospitals often have a separate biomedical ethics council, which reports directly to senior management on biomedical issues.[19]

If an enterprise wants to contribute to the welfare of its community as a whole, beyond its essential function as a business, it might appoint a community relations committee. Such a committee might identify specific community needs not met by government or civil society, coordinate with NGOs, and organize voluntary employee work projects. It would usually coordinate closely with the public affairs function to further enhance the reputation of the enterprise.

BUSINESS CONDUCT REPRESENTATIVES

An RBE must also determine how best to engage its employees and agents in its business ethics program. If the enterprise is large or complex, local personnel can be appointed to serve as advisers to local managers, employees, and agents and as channels for communication back to a central business ethics office. An SME will generally not make formal appointments of business conduct representatives at individual units since the responsible officer and business ethics officer will generally be able to give each unit adequate attention.

Business conduct representatives generally report directly to both the senior manager at the location and the business ethics officer. They advise managers and other employees on standards, policies, procedures, and the business ethics program as a whole (see Box 6.3). They facilitate the functions of responsible business conduct at the local unit, such as training; monitoring, auditing, and investigating; providing employee incentives and discipline; and evaluating the program. They are responsible for coordinating with other functions at the local level such as legal; environment, health, and safety; quality management; and human resources.

BUSINESS CONDUCT REPRESENTATIVES

Business conduct representatives advise employees on standards, policies, procedures, and the business ethics program as a whole. The following question, from the Standards and Ethics Web page of Raytheon, is typical of the issues a business conduct representative deals with:

Q: I was just assigned as the company's in-country program manager for a major foreign government contract. I want to host a business lunch at a local restaurant for a senior official of the Ministry of Defense for the purpose of reviewing contract/program status. Is this permissible?

A: Maybe. You need to review the company's policy on offering business courtesies to customers. Company policy requires that the offer of any business courtesy (including meals) to a foreign government person meet a three element test. First, the proposed gratuity must be legal under the laws and regulations of the person's home country. Second, the gratuity must be a reasonable and bona fide expenditure incurred by or on behalf of the foreign official. Third, the gratuity must be directly related to the promotion, demonstration, or explanation of Raytheon's products or services or performance of a contract with a foreign government. In all cases, business meals being offered to any foreign government person must be approved in advance by your Legal Department Vice President.

Raytheon
"Standards and Ethics"

Business conduct representatives must be familiar with enterprise standards, procedures, and expectations and all communications channels. They must be able to give unbiased advice that will not interfere with the conduct of their primary duties. For this reason, they should not be appointed from the human resources, procurement, or legal units of the enterprise, which are often either the source of the issue or the unit responsible for resolving the issue.

RELATED EXECUTIVE AND DEPARTMENT FUNCTIONS

The business ethics officer is responsible for coordinating the enterprise's ethics, compliance, and social responsibility programs. This task requires that the business ethics program be integrated well with other enterprise functions.

The chief financial officer, for example, is responsible for maintaining the enterprise's financial integrity, including all of its financial practices, books, and records. He or she will also have significant influence in the allocation of resources for business ethics infrastructure, including training.

An enterprise's internal auditor is closely involved in the enterprise's internal controls and processes. (LCEs will often have an audit department.) The internal auditor will be able to provide significant support to the business ethics officer by providing advice on internal controls and processes and by conducting inquiries and investigations.

The business ethics officer will often turn to the chief legal officer for advice on legal requirements of a compliance program, due process requirements of inquiries and investigations, legal risk analysis, and possible program outcomes.

In the minds of many employees, when one speaks of ethics one speaks of "fairness."[20] Many ethics issues, therefore, involve human resources issues: assignments, compensation and benefits, discipline, employee assistance, and promotions. The business ethics officer will need to recognize human resources issues and work with human resources personnel to resolve them.

Other enterprise functions that the business ethics officer will work with closely are training, education, and development; environment, health, and safety; security; quality management; and operations and administration in general.

INDIVIDUAL RESPONSIBILITY

To be a truly responsible business, the enterprise must articulate the responsibilities of all of its employees and agents in a positive, constructive manner. For owners, managers, and supervisors, this effort may involve complete awareness of the business ethics program itself. Owners, managers, and supervisors must demonstrate commitment to the program in all that they say and do. They are responsible for maintaining an organizational climate in which pressures to violate standards are minimized and incentives to achieve enterprise goals and objectives, pursue the enterprise purpose, and meet reasonable

PRACTICE NOTE

Individual Responsibility Is Key

15. All officers, executives, and managers of Alcatel and its subsidiaries are responsible for the continuing enforcement of and compliance with this policy, including necessary distribution to ensure employee knowledge and compliance. Non-compliance with this policy will result in disciplinary measures.

16. Any employees meeting with difficulties in the application of this policy must consult with their management.

Alcatel Group
"Statement on Business Practices"

stakeholder expectations are high. Managers and supervisors may be required to certify regularly that they have no conflicts of interest and that they—and those they manage—are following the business ethics program.

For all employees and agents, their specific responsibilities under the business ethics program may require familiarizing themselves with the standards, certifying receipt of the code and compliance with code requirements, attending scheduled training, participating in feedback sessions and investigations, and seeking advice and reporting concerns.[21] They may also be charged with contributing to an organizational climate in which all employees can work together to achieve the enterprise's purposes.

SUMMARY

Responsible managers consider the strengths and practices of the enterprise when designing business ethics infrastructure. Owners and managers of an RBE design and implement business ethics infrastructure by answering this question: "What style, structure, and systems of authority and responsibility at all levels should we exercise?"

To support employees and agents in their day-to-day conduct of responsible operations, owners and managers establish certain functions and positions, such as high-level oversight of the program; a business ethics staff to administer the program; representative councils of the enterprise and professionals; legal, human resources, and internal audit linkages; and individual responsibilities of staff members. Such infrastructure may be particularly valuable for an enterprise as it participates in the evolution of an emerging market economy.

RESPONSIBLE BUSINESS ENTERPRISE
Checklist

1.   How should a board of directors organize itself to best represent the shareholders and provide proper guidance and oversight to management?

2.   What style, structure, and systems of authority, responsibility, and accountability should we employ at each level of responsibility in our enterprise?

3.   What do we need to do to develop adequate systems to support this infrastructure?

   a.   For communications and feedback mechanisms, see **Chapter 7**.

   b.   For management alignment systems and practices, see **Chapter 8**.

   c.   For program evaluation and organizational learning systems, see **Chapter 10**.

8   Business Ethics Infrastructure Worksheet

RBE Worksheet 8, which may be photocopied for use within your organization, provides a tool for ensuring that all necessary levels of responsibility are considered. Owners, managers, and staff members should engage stakeholders to address each element of their level of responsibility along the vertical axis to ensure that they are consistent with their enterprise standards: their core beliefs and the standards, procedures, and expectations developed in Chapter 5. From this dialogue, they will be able to identify any required elements of the business ethics infrastructure.

Function	Enterprise Standards	Required Infrastructure
Owner representative governance		
Overseeing the program at a high level (the responsible officer)		
Performing or coordinating the specific functions of the business ethics program (the business ethics officer)		
Advising the responsible officer and business ethics officer and representing the enterprise as a whole (the business ethics council)		
Advising the responsible officer, business ethics officer, and employees and agents about specific professional ethics, compliance, and social responsibility issues (the professional ethics council)		
Linking individuals at various levels of the enterprise with a central ethics office (business conduct representatives)		
Performing related executive and department functions (the chief financial officer; legal counsel; human resources; internal audit; environment, health, and safety; government procurement; and investor relations)		
Abiding by standards and procedures and striving to meet reasonable stakeholder expectations (every employee and other agent of the enterprise)		

Business Ethics Communications and Feedback

*T*his chapter examines two essential elements of a business ethics program: (a) communicating standards, procedures, and expectations and (b) learning what is going on in the enterprise. Communication in the responsible business enterprise (RBE) is mutual—that is, owners and managers strive to make sure employees and agents understand their standards, procedures, and expectations, and owners, managers, supervisors, workers, and agents alike have the information they need when they need it. An RBE also engages its external stakeholders in order to foster reasonable expectations and determine stakeholder satisfaction.

Communicating and Providing Feedback

For an enterprise to be responsible, all stakeholders must have a complete understanding of their roles and responsibilities in the workings of its business ethics infrastructure. Moreover, managers must know whether the enterprise's standards, procedures, and expectations are adequate to meet the reasonable expectations of its stakeholders.[1]
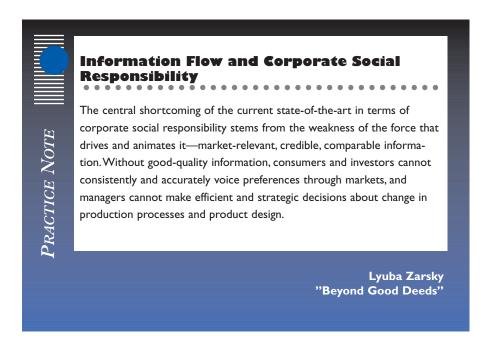
This chapter describes the infrastructure and best practices used by an RBE to communicate its standards, procedures, and expectations and to ensure that they are being followed and met. Owners and managers ask themselves two fundamental questions:

1. How can we most effectively communicate our standards and procedures and foster reasonable expectations among our stakeholders?

2. How can we know that our members follow our standards and that reasonable stakeholder expectations are met?[2]

Communicating Standards and Fostering Reasonable Expectations

A primary cultural characteristic of an enterprise is the extent to which knowledge is shared.[3] Communication within an RBE is not top-down but instead flows in all directions. How the elements of a business ethics program are communicated is an integral part of the program itself. The manner in which owners and managers communicate the value they place in the

PRACTICE NOTE

Information Flow and Corporate Social Responsibility

The central shortcoming of the current state-of-the-art in terms of corporate social responsibility stems from the weakness of the force that drives and animates it—market-relevant, credible, comparable information. Without good-quality information, consumers and investors cannot consistently and accurately voice preferences through markets, and managers cannot make efficient and strategic decisions about change in production processes and product design.

Lyuba Zarsky
"Beyond Good Deeds"

program through the choices they make, the things they say, and what they do or fail to do will define the program for most other stakeholders.

DEVELOPING A COMMUNICATIONS PROGRAM

For owners and managers to communicate about responsible business conduct, they must be working from a communications program that delivers a

clear and consistent message of what it means for the enterprise to be responsible. It must include all enterprise employees and agents and reach beyond them to include all other stakeholders, as appropriate.

Formal communications are the most obvious aspect: program announcements, company newsletters, new employee orientation, training programs, posters, annual and social responsibility reports, speeches, and meetings. Informal communications may include managers explaining how they arrived at a decision, experienced workers telling the newly hired "how things really work around here," and all forms of rumor and gossip. Owners and managers must be alert to both forms of communication. If formal communications tell one story while informal communications tell another, stakeholders often become frustrated and cynical.

In planning the communications program, owners and managers need to identify their stakeholders and prioritize communication efforts among them. They must consider how best to reach particular stakeholders. As with every other aspect of a business ethics program, the communications program must reflect an accurate understanding of the relevant context and organizational culture.

The communications program also needs to address how to solicit and respond to feedback from employees and other stakeholders. Feedback helps the enterprise track whether its standards and procedures are known and followed—and whether reasonable stakeholder expectations are being met.

Know the Audience

For the RBE, the target audience includes all stakeholders. Stakeholders and their interests are identified through the processes of scanning the relevant context and organizational culture described in Chapter 4. Through these processes, owners and managers gain a firm understanding of what is required of the enterprise for its business ethics program to be effective.

Stakeholders, whether internal or external, often have widely differing perspectives on enterprise standards, procedures, and expectations. Communications to stakeholders must be tailored to guide their behavior or foster reasonable expectations accordingly.

Internal stakeholders can be categorized in terms of their interest in ethics:

- Some employees are *ethical enthusiasts*. These employees hold views on corporate responsibility that are strong enough to influence their choice of employer.[4]
- Others are *ethically committed*. These employees have adopted enterprise standards, procedures, and expectations in principle but still require support. They need to be assured that their choices and actions will meet the

enterprise's expectations. They also need to know that if they follow enterprise standards and procedures they can still succeed. For example, most employees will be relieved to know that bribery and other corrupt practices are prohibited by the enterprise, but they will be distressed if owners and managers look the other way when fellow employees continue to bribe purchasing agents to meet quotas or gain bonuses.

- Other employees are *ethically unaware*. These employees are not aware of—or have not yet embraced—these standards, procedures, and expectations and need to be educated about them, employees' individual roles and responsibilities, and the business ethics infrastructure built to ensure that standards, procedures, and expectations are honored.

- Still other employees are *ethically challenged*. They have quietly rejected enterprise standards and procedures because they make lucrative "business as usual" more difficult. These people need to be advised that (a) the enterprise is dedicated to its standards, procedures, and expectations and (b) deviation from them will not be tolerated. Often, these people will self-select themselves out of the enterprise when they come to appreciate that owners and managers are genuinely committed. If not, owners and managers need to lay the foundation to remove or isolate them, as discussed in Chapter 8.

Much the same categorization can be made of external stakeholders. The enterprise message needs to resonate with certain external stakeholders, who can be thought of as potential allies. Some stakeholder advocacy groups, for example, will work cooperatively with an RBE to help it better understand the impact of its activities on others, provided they are convinced that the enterprise is interested in finding mutually satisfactory solutions.[5]

Other stakeholders are well intentioned but hostile to an enterprise because they do not understand its purpose or the challenges facing it. An example is an incident between the advocacy organization Greenpeace and a unit of Royal Dutch/Shell, involving the disposal of a spent deep-sea oil-drilling rig, known as Brent Spar. The conflict revolved around which method of disposal would cause the least environmental damage. Greenpeace was unwilling to consider any method other than land decommissioning. Royal Dutch/Shell had to make the scientific case for its method of disposal and consider "social, ethical, aesthetic, legal and economic factors … in addition to the scientific evidence."[6] In the end, Brent Spar was recycled into a ferry terminal,[7] but all participants in the dispute lost financially and had their reputations damaged: Royal Dutch/Shell, Greenpeace, and the government of the United Kingdom, which had approved deep-sea disposal of the oil-drilling rig.

Finally, some external stakeholders are hostile to capitalism in general. Others object to specific business practices of a particular enterprise. In

Islamic countries, for example, producing pork products or alcohol is unacceptable. Some stakeholder groups remain suspicious of Nestlé (the Swiss food and beverage firm) for marketing infant formula in impoverished countries that did not have the hygiene capabilities and literacy to use the product properly. Other stakeholder groups will never accept tobacco manufacturers or defense contractors as responsible businesses. For an enterprise to engage such stakeholders, an effective communications program must address their concerns as directly as possible, without sacrificing core beliefs. For example, the British American Tobacco social responsibility report describes its social and environmental practices, while acknowledging that some people will never see a tobacco company as inherently responsible.[8]

Assess the Needs

Before designing a communications program, owners and managers must conduct a needs analysis to find out what stakeholders need to know. In general, a need to communicate enterprise standards, procedures, and expectations to employees and agents is clear. It is not likely that most employees or many stakeholders will read the various business ethics program documents cover to cover. And even if some stakeholders do, owners and managers will want to emphasize regularly their commitment to abiding by the program.

Owners and managers need to know much more than the target audiences to design an effective communications program. As depicted in RBE Worksheet 9, at the end of this chapter, management should use a number of standard assessment tools such as interviews, focus groups, surveys, document review, and direct observation to ask the following questions:[9]

- What kinds of responsible business conduct issues do employees and other stakeholders face or are they concerned about?
- What do employees and other stakeholders need to know to be able to fulfill their roles and responsibilities and have reasonable expectations of the enterprise?
- How do employees and other stakeholders learn what is expected of them and what they can expect?
- What communications methods are available to the enterprise to reach specific stakeholders?
- What are the criteria by which successful communications will be evaluated?

Using RBE Worksheet 9 in conjunction with other worksheets, such as RBE Worksheet 2 and RBE Worksheet 4 (see Chapter 4), will help management determine *what* needs to be communicated to *whom* and *how*. With

the information obtained, a working group can develop a plan to design a comprehensive communications program.

Typically, the most important stakeholders to reach will be customers, employees, and agents. Next in priority may be financial stakeholders, such as owners and investors, and then, specific stakeholder advocacy groups. Management needs to conduct this analysis carefully to ensure that its message about standards, procedures, and expectations is communicated as effectively and efficiently as possible. Perhaps most important for long-term program success is consideration of the criteria that will be used to determine whether the program is successful. At a minimum, it should be clear to management that the communications program contributes to achieving the expected outcomes of the overall program.[10]

The product of this needs analysis should be a summary report describing the program situation, target audiences, objectives, program resources and constraints, and expected outcomes. The next step is to design a communications program by using the summary report.

COMMUNICATING STANDARDS, PROCEDURES, AND EXPECTATIONS

Standards, procedures, and expectations of responsible business conduct should be communicated through as many means as are likely to be well received by the target audience. Some means are dictated by law, such as annual reports to shareholders or environmental impact assessments to government agencies. Others are dictated by custom or practice, such as an enterprise newsletter or Web site. Some are emerging best practices, such as the Global Reporting Initiative and AA1000S, a framework for accounting for organizational performance.[11]

An important part of any communications program is training, education, and development. For the RBE, training must be comprehensive. For an enterprise to be responsible as a whole, each of its employees and agents must have the skills, knowledge, understanding, and attitudes necessary to work together to achieve enterprise goals and objectives.

Promoting the Program through Management Speeches

There is no doubt that when owners and managers speak employees and other stakeholders listen—at least to some degree. Employees and other stakeholders are also alert to what is *not* said, as much (or more) than what is said. Owners and managers need to be particularly alert to the risk of mentioning enterprise core beliefs or the business ethics program only on special occasions. Employees and agents will note that the enterprise's purpose, values, and standards are rarely discussed. For example, one chief executive officer (CEO) was famous for referring to the business ethics program only once a year. It

escaped few employees that, while he lauded the program on the day set aside to honor it, he never referred to, or inquired after, it at any other time.

Especially when introducing a business ethics program, managers need to accept that their message may be greeted skeptically. That is a reason Chapter 3 urges that the business ethics program be treated with all the seriousness of a strategy.

Distributing Statements, Codes, Standards, Procedures, and Expectations

As stressed in Chapter 5, the documents that establish responsible business conduct standards, procedures, and expectations are only the start of a business ethics program. To the extent employees and other stakeholders were formally involved in writing the basic documents setting forth guidance and establishing expectations, the communications process has begun. Indeed, the mere act of appointing workers as project consultants, described in Chapter 3, begins communicating how seriously management takes its business ethics program.

Distributing copies of the responsible business conduct standards, procedures, and expectations to each employee and agent, and requiring them to acknowledge receipt, is a major step. For the newly hired in an enterprise, the documents establishing standards, procedures, and expectations for responsible business conduct should be among the first matters addressed during orientation. Some enterprises discuss their core beliefs as early as the recruiting process. One enterprise, Guardsmark, includes a copy of its code as a part of the employment contract. In the European Union, where employee contracts are used to set forth employment terms and conditions, employees often must stipulate compliance with a code for it to be applicable.[12]

Some companies distribute wallet-size cards with enterprise core beliefs and business ethics contact information to all employees. Others put such information on the back of employee identification cards.

Posting Summaries or Lists of Principles

A cost-effective means of reinforcing the message of responsible business conduct is to post enterprise core beliefs in lobbies, meeting rooms, and work spaces, as well as on bulletin boards. When one enterprise was responding to a responsible business conduct crisis, a manager began each meeting by reciting the enterprise business principles or core values. Other enterprises have required that all meetings begin with specific safety briefings, including designated escape routes, to reinforce the core values of employee health and safety.

Posting is a means of communicating, but owners, managers, and supervisors need to make sure the message is actually understood. For

example, one worker, when asked what "quality" meant, replied, "I don't know, but my supervisor told me that if anyone asked, I should point to the poster on the wall."

Posting on a Web Site

Increasingly, standards, procedures, and expectations for responsible business conduct are posted on the enterprise Web site or intranet. This information usually includes the enterprise core beliefs, statement of business principles, and annual report. Increasingly, Web sites include the entire code of conduct, contact information for key figures in the business ethics program, and information about how to seek advice and report concerns. A few organizations now post a social responsibility report, which will be discussed in more detail in Chapter 10.

Publishing Articles and Newsletters

Articles or columns about responsible business conduct can be placed regularly in enterprise publications. In larger enterprises, the business ethics program may have its own newsletter. Whatever the medium, articles may address issues of particular concern to management. These issues include areas of serious risk, patterns of behavior that cause concern, or opportunities for enhancing enterprise reputation or adding value that managers want to be sure employees do not miss.

A particularly sensitive question is how to address incidents that have led to the disciplining of an employee. There is no better way to demonstrate management's commitment to responsible business conduct standards, procedures, and expectations than to disclose publicly how managers dealt with a difficult situation—particularly when the matter involved a senior executive.

While recognizing the value in addressing real-life issues and describing real-life responses, managers must consider the privacy rights of the employee before publishing details of the incident. It is often possible to describe the situation and management's response, including disciplinary action, without including identifying information. If the enterprise is small enough, or the event notorious enough, however, the employee's identity may be clear to all employees. The same may also be true when an employee is rewarded for some ethically exemplary decision or action. In many organizational cultures, individual rewards or rewards for reporting concerns about another member of the group would degrade the harmony of the group itself.

Making Ethics Brochures Readily Available

Where there are matters of particular concern to management, employees and agents may be given brochures to address them. Among many others, topics may include dealing with conflicts of interest, accepting or declining gifts and gratuities, meeting stakeholder expectations, and seeking advice

and reporting concerns. Such brochures should be placed in racks located in places where employees congregate. They may stimulate dialogue. The numbers that are taken from racks are also a rough indicator of issues employees want to know more about.

CREATING A TRAINING PROGRAM

Making speeches and distributing written materials are necessary elements of getting the message out, but they are not enough. All employees—from senior managers to workers—need time on the job to review responsible business standards, procedures, and expectations; to explore issues of responsible business conduct; to learn how the program structures and systems work; to understand their roles and responsibilities; and to develop the necessary ethical reasoning and dialogue skills.

Designing a training program requires the same attention to objectives and outcomes as does the design of the business ethics program as a whole. It requires attention to the situation, resources available, activities and participants, target audiences, outputs, and expected outcomes. Without this attention to detail, neither the business ethics program nor the communications program or training program has any criteria for evaluation. In short, it is not clear to all what success looks like.

Demonstrating Management Commitment

Few decisions symbolize management's commitment to its business ethics program more than devoting time, on a regular basis, to training in responsible business conduct. Beyond the skills, knowledge, and understanding developed through such training, the mere fact that management dedicates valuable employee time to such training goes a long way toward demonstrating that it is serious about its standards, procedures, and expectations becoming part of the organizational culture—instead of just a collection of policies sitting on a shelf.

Rescheduling busy day-to-day operations to accommodate regular employee training also conveys an important message from managers and supervisors to their workers. Where training is treated as an integral part of the enterprise, employees tend to value it more than where training is treated as an irritant or necessary evil.

Reinforcing Core Beliefs and Organizational Culture

Training should be designed as an essential link between the enterprise's core beliefs, the business ethics program, and the expected program outcomes. As such, training in responsible business conduct is one of the key activities to list in the program logic model developed in Chapter 4 (RBE Worksheet 1).

The training program should reflect the organizational culture of the enterprise. The enterprise needs to project the expected behavior through the training program. Training should also contribute to the expected outcomes of the business ethics program. If an expected program outcome, for example, is that employees come to recognize issues of responsible business conduct more readily and talk about them in terms of enterprise core beliefs, standards, and procedures, then training composed primarily of lectures will not succeed. Where employees are not used to being asked how they would address important issues, let alone raise them, training will need to demonstrate how it is done—and engage the employees as their comfort level increases.

Designing the Program

Training program objectives depend on relevant context, organizational culture, goals and objectives, and expected outcomes for the business ethics program as a whole. Designing the training program begins with the summary report of the communications needs assessment (RBE Worksheet 9). The training program should be based on enterprise core beliefs. It must reflect the pressures of the enterprise's context and its organizational culture. Its primary objective is to make a positive contribution toward achieving expected program outcomes.

At a minimum, training sessions should require employees to become familiar with applicable laws and regulations, as well as with the enterprise's procedures for reporting and investigating concerns about responsible business conduct. The training should enhance the ethical awareness of employees and should uncover ethical issues and concerns that relate to their needs as well as those of the enterprise. It should include an examination of the criteria for ethical decision-making. See Appendix A for an example of an outcomes-based decision-making model.

A training program may cover a number of topics for each expected program outcome. Using RBE Worksheet 10, found at the back of this chapter, program designers can ensure that training objectives contribute to achieving expected outcomes of the business ethics program. Put together a training program team composed of representative members of the enterprise and representatives of external stakeholders such as customers.

All participants should leave the training program confident that they know what the enterprise expects of them and what they can expect from the enterprise in turn. They should be able to recognize issues of responsible business conduct and have the confidence—and courage—to make the right decision, explain that decision to the appropriate people, and act accordingly. They should understand how the business ethics program relates to strategic issues for the RBE as a whole.

For a training program to contribute to expected outcomes, it requires a heavy emphasis on dialogue and decision-making about issues of responsible business conduct. Beyond developing listening and feedback skills and good judgment in enterprise members, the training program must convey management's sincere desire to know whether its standards and procedures are being followed and whether its stakeholder expectations are being met. The program must also convey management's commitment to support employees and other stakeholders who seek advice and report concerns. This task requires not only encouraging individuals who are inclined to come forward but also explaining to those who do not why their silence is detrimental to enterprise performance.

A typical expected outcome is that employees and agents will use good judgment in addressing issues of responsible business conduct. For the RBE, ethical decision-making is a form of action learning.[13] It is a tool that employees and agents use to learn how to pursue the purpose of the enterprise and meet the reasonable expectations of stakeholders. At a minimum, management might provide a decision-making process that, in a specific incident, enables its employees and agents

- To define the issues of ethics, compliance, and responsibility
- To demonstrate a grasp of all relevant and material facts, including the stakeholders involved and their interests
- To point to the applicable standards, procedures, and expectations, including decrees, laws, and regulations
- To describe the range of options available
- To explain why, based on these considerations, they made a particular choice or acted in a particular manner

Many ethics and policy decision-making models are available on the Internet. They range from simple, five-step models to multiphase frameworks that include decision criteria.[14] The better models are based on well-developed skills in critical thinking. Trainers can introduce the process through lecture and then break the participants into small groups to apply it in a case study. See Appendix A for an approach to ethical decision-making that reflects the approach recommended by this manual.

A long-term expected program outcome should be an organizational culture in which owners and managers have the information they need to make intelligent decisions for the enterprise. To achieve this, employees must leave training believing that they will not be punished for bringing bad news to management.

Participants must also leave training firmly convinced that, should they make a mistake, they will not be punished if they can demonstrate that they

followed the enterprise decision-making process. Employees or agents should not be punished for making a mistake if they can demonstrate that they

- Recognized the issue
- Had a reasonable grasp of the relevant facts
- Considered enterprise standards, procedures, and expectations
- Explored the range of options available
- Could justify the choice they made or action they took

DELIVERING THE TRAINING PROGRAM

A number of principles characterize effective training programs on responsible business conduct. First, a program should project the core beliefs of the enterprise—not just teach them. Second, owners and managers should be involved in the training in significant, visible ways. Third, the program should recognize the personal values of individual stakeholders but not rely on them. Fourth, the program should be comprehensive, not limited to specific training in responsible business conduct. Finally, it should include action planning and follow-up to reinforce the lessons learned.

Reflecting Core Beliefs

Where expected program objectives include issue recognition, dialogue, and ethical decision-making, the training program should develop those skills and provide the knowledge necessary to apply them. For adults, who tend to learn best while doing, the best training method is often a balance

PRACTICE NOTE

Projecting Core Beliefs by Telling Stories

The business ethics officer of one large, complex enterprise tells the story at training about how a regional manager let a large shipment sit on a pier for weeks rather than pay a bribe—with the full support of the enterprise.

Another business ethics officer describes how managers must travel to corporate headquarters when an accident occurs and an employee is seriously hurt. The manager must be able to describe what happened, why it happened, and what he or she did to make sure it will not happen again.

of lectures—to introduce or review standards, procedures, and expectations—and facilitated case studies.

In developing those skills and passing on this knowledge, the program needs to project the core beliefs of the enterprise and the expected program outcomes. Abstract standards, procedures, and expectations take on meaning for employees when relayed in terms of the enterprise's core beliefs. It is one thing to discuss rules governing bribery and corruption because they are in the code of conduct. It is another thing to tell stories about how those rules are applied in practice.

Involving Owners and Managers

Because all training must reflect the relevant context and organizational culture of the enterprise, the precise way to involve owners and managers cannot be specified. A key requirement is that stakeholders, especially employees, believe that management fully supports the training.

Management involvement takes many forms. Some enterprises use cascade training, in which the CEO trains his or her direct subordinates. They, in turn, train those who report to them and so on down the chain of management until supervisors train their workers. This method has the advantage of actively involving managers, which tends to demonstrate commitment. A disadvantage may be that the presence of managers may stifle active involvement of the employees when candid discussion of issues is in order or when the culture of the enterprise is to remain silent on important issues.

Another option is a video of the CEO introducing the training by declaring his or her personal commitment to the training program. Owners and managers may also visit the training, observe it, or be available to answer questions as they arise during the course of the program. In any event, employees are unlikely to value training that management does not appear to support.

Recognizing Personal Values

One of the controversies surrounding training in responsible business conduct is whether one can—or should—teach ethics to adults. It is unlikely that ethics training will change the outlook of most employees. Personal values are usually set in youth—families, schools, churches, and peers subtly guide children as they grow to adulthood. But the purpose of business ethics training is not so much to change adults as it is to support them, admonish them, or reinforce their understanding of management's commitment to enforcing its standards, procedures, and expectations.

Trainers can be confident that what adults bring with them to the enterprise does not include knowledge of enterprise standards, procedures, and

expectations. Moreover, it is unlikely that most employees—including owners and managers—are skilled at making the best choice among options where the problem involves complex pressures arising from the relevant context. For some employees and agents, no amount of training is going to change them. Such cases are less a matter of training than of having the right people performing the right tasks, which is addressed in Chapter 8.

For the training to be effective, it must appeal to what motivates the participants. The ideal situation permits an appeal to a participant's sense of community. Where participants feel that they share a purpose, values, and a vision of a desired future, trainers may stress responsibilities to stakeholders. But more often, participants respond to a sense of urgency. This sense can be created by recounting stories about what happened when employees and agents violated standards—and the impact on both the enterprise and the individuals involved.

One cost-effective way of creating a sense of urgency is to develop a "parade of horribles" by collecting headlines of powerful enterprises and individuals who have been prosecuted or held liable for misconduct. "The Bigger They Are, the Harder They Fall," said the headline of one recent working paper, which estimated that "the loss of confidence following the collapse of Enron and WorldCom will cost the U.S. economy $37 billion to $42 billion" in reduced gross domestic product.[15] Since these two enterprises, Enron and WorldCom, were accused of major accounting fraud, their stock values have dropped to a fraction of their former values, and senior executives have been indicted. Few responsible business conduct trainers now miss an opportunity to refer to Enron to demonstrate what can happen if managers act irresponsibly—what has come to be known as the "Enron Effect."

Making Training Comprehensive

Training should take place at all levels of the enterprise. From senior managers and owners to workers on the shop floor, every employee and agent should receive training in responsible business conduct specific to his or her level of responsibility. All employees and agents should review enterprise core beliefs, standards, procedures, and expectations, including policies relating to their individual responsibilities.

Managers and supervisors need additional training to reflect their roles and responsibilities as integral parts of the business ethics program. They may need to gain understanding of the issues that affect their performance such as conflicts of interest, anticorruption measures, or emerging global standards. In particular, they must understand that enterprise standards, procedures, and expectations are never to be violated to meet individual and enterprise performance objectives. They must fully appreciate their roles

and responsibilities in nurturing an organizational culture in which employ-ees and agents can seek advice and report concerns so that management has the information it needs to guide the enterprise. Finally, they must learn not to fear evaluation of their units' performance, if the enterprise is to learn from experience.

Agents, including consultants, sales agents, brokers, partners, franchisees, and closely allied suppliers and service providers, should be exposed to the enterprise core beliefs; applicable standards, procedures, and expectations; and specific policies relating to their roles and responsibilities.

Training should address pursuing the enterprise's purpose and meeting stakeholder expectations. A training program begins with basic employee recruiting materials and procedures, and never truly ends. Though the emphasis of a business ethics program is on issues of ethics, compliance, and social responsibility, this focus is primarily on reinforcing an enterprise-wide sense of responsibility to the enterprise and its stakeholders in pursuit of the enterprise's purpose.

For example, concerns such as customer service, quality management, fair dealing with suppliers and service providers, environmental protection, proper relationships with government officials, and individual responsibility for developing a healthy workplace require attention to issues far beyond business ethics. Nevertheless, such issues have substantial elements of responsible business conduct. Although basic training in workplace skills is not specifically training in responsible business conduct, ensuring that employees and agents have the requisite skills, knowledge, understanding, and attitudes to pursue the enterprise's purpose and meet reasonable stake-holder expectations *is* responsible business conduct. Preaching a core value of customer service when employees know they do not have the ability to provide it will build, at best, frustration and cynicism.

In short, the training program should ensure that training in responsi-ble business conduct begins with the earliest opportunity to orient the newly hired or retained and continues to transfer to the workplace as long as the employee remains a stakeholder.

Incorporating Action Planning and Action Learning

One way to make training meaningful is to have participants, individually or as members of a team, develop an action plan for the next three to six months based on what they learned. For senior employees, this action plan may reflect an assessment that some aspects of an enterprise's business ethics program require more support in practice. An example might be recognition that more training is required during the ensuing months on the issue of gifts and gratuities. Another might be a need to develop a division policy on wastewater disposal.

Copies of these action plans should be retained by the business ethics officer or another appropriate officer. Follow-up questionnaires requesting progress reports should be sent regularly. Tracking progress on action plans can give indirect feedback or function as a performance evaluation item. It also has the effect of reinforcing perceptions of management's commitment. An important way to demonstrate management commitment is to include participation in the training and action planning as express elements of performance evaluation.

USING THE MODES OF TRAINING

The training program should use all modes appropriate to the organizational culture and stakeholder needs. In general, training should be as interactive, realistic, and relevant to day-to-day jobs as possible. In a recent study, one researcher found that European "training objectives typically include illumination of the company's and individual's values while in the United States the emphasis is on increasing knowledge of company standards and/or the law."[16] The level of difficulty should challenge but not overwhelm participants.

Some modes of training that enterprises may consider include:

- **Lectures and presentations.** The classic method that adults are familiar with from their school days, lectures are the most effective way to reach a number of people with fairly straightforward information. In the initial rollout of a code, for example, lectures may be the most effective mode of explaining where the code fits into business performance. This mode is also an effective way to describe other resources and ways to access them. If an objective of the training program is to develop dialogue and decision-making skills, it is doubtful that lectures will be effective. Indeed, this mode may be counterproductive if it reinforces an organizational culture in which employees do what they are told and avoid the risks of making decisions.

- **Case studies and scenarios.** After participants understand the purpose of the training and the resources available, issues of responsible business conduct can be effectively introduced through the study and analysis of cases that have actually occurred to the enterprise or to other similarly situated enterprises. Trainers might also develop their own scenarios to raise a number of issues. Case studies and scenarios help develop dialogue and decision-making skills. Case studies take more time to pass on information than do lectures. But analyzing a situation to isolate an issue, to develop the realistic options available, and to justify a decision to others in a relatively risk-free environment is invaluable. This mode

PRACTICE NOTE

Sample Case Study

Ned's manager, Will, has asked him to bill the general project he is working on to an indirect work account. Ned questions if this goes against the company's charging policy, but Will assures him that he has the authority to approve this approach. Ned does as he is told, but he remains concerned.

Your challenge is to select three building blocks [company values] that will help Ned resolve his concerns with Will.

Lockheed Martin Corporation
"The Twelve Building Blocks of Trust"

also develops the important skills and attitudes of listening and of giving and receiving feedback.

- **Ethics games.** Many larger enterprises, including Citigroup, Lockheed Martin, and Boeing, have developed games to raise awareness of issues of ethics, compliance, and social responsibility; to develop good reasoning skills and judgment; to stimulate dialogue; and to demonstrate management commitment.[17] In general, the games involve dividing employees into small teams and placing before them a situation that raises a discrete issue of ethics, compliance, or social responsibility. The teams are given a few minutes to reach a consensus choice among the four or five alternative responses available to them. Teams are then asked to justify their choice. These games usually stimulate heated discussion. Each answer has a predetermined value in points. A particularly valuable element is that members of senior management sit as an "appeals board" in the event a team disputes the correctness of the answers or their predetermined point values. Participants are then able to observe how senior managers make and justify their decisions.

- **Other modes.** Many companies are now offering quite sophisticated Web-based training.[18] This mode may be relatively cost-effective. Videos and self-paced studies may be purchased off the shelf and may expose participants to the basics. These products, while useful, lack the familiarity that customized materials would offer. Yet, such materials do tend to reinforce the notion that the enterprise is engaging in an emerging global effort, and thus they might add some sense of importance to the training.

Training Idea

An enterprise might develop a case study around a particularly challenging business ethics issue, such as accurate recordkeeping or acceptance of gifts and gratuities, and train supervisors to conduct short weekly meetings to discuss the case.

A supervisor could capture the dialogue and report it to the business ethics office, which could then compile summaries of what the enterprise believes about the topic and report them back to the staff members.

UPDATING AND MODIFYING THE TRAINING PROGRAM

The training program should be modified over time to ensure that its content contributes to pursuit of the enterprise's purpose and helps meet reasonable stakeholder expectations. Also, it should be reviewed to ensure that the delivery methods are the most effective available. As the relevant context of an enterprise, its organizational culture, and its stakeholders' expectations change over time, the training program must adapt as well. This effort requires considering feedback from the training program.

Training provides useful feedback to managers on the ways in which the business ethics program is being received. It helps uncover sensitive areas such as insufficient guidance for employees or unreasonable stakeholder expectations, legal issues, unfair treatment of employees, and difficult working conditions. Feedback might reveal that trainers focus on issues that do not reflect the real-life concerns of the participants. It might also show that the sessions need more trainer–trainee interaction or that the materials are dull and do not encourage interaction. If feedback shows that participants need a better understanding of complicated issues, such as conflicts of interest, there may be specific real examples or case studies from the enterprise's experience that could address these concerns.

There are several methods for collecting feedback from training programs. Traditionally, training administrators ask trainees to fill out an evaluation form asking whether they found the training useful and what, if anything, they learned. At the end of the training, administrators should ask participants questions such as:

- How would you rate the overall effectiveness of the training?
- Were the materials helpful and relevant?
- Were the right issues discussed?
- What other topics would you like to discuss in the next training session?

Training administrators might also ask participants to take quizzes before, during, and after the training to determine what they learned.

The action-planning process described earlier is probably the most valuable, though time-consuming, process of collecting feedback because it tracks whether training actually transferred to the workplace.

MANAGING TRAINING ADMINISTRATION

Owners and managers demonstrate their commitment to the business ethics program by managing the training program well. Good management requires that adequate time be allocated to training, that training records be well maintained, and that training participation be an element of performance evaluation.

Generally, three to four hours of training per employee, at a minimum, is required to roll out a new business ethics program. Thereafter, annual training of from one to three hours is the norm. In the United States, it is common for all employees and agents to be required to attend the training. In Europe, training tends to be more targeted and to take place at higher management levels.[19] Whatever the target audience, no training exceptions can be granted without bringing management's commitment into question. Additional training should be provided for people in sensitive positions, such as government contracting, sales and marketing, and human resources.

Good records management requires that training administrators record participation in training; participant feedback; action planning follow-through; and issues of ethics, compliance, and responsibility identified during the training.

Ensuring Members Follow Standards and Meet Expectations

IMPORTANCE OF FEEDBACK

Few stakeholders of an enterprise would disagree with the proposition that owners and managers have legitimate needs for information about compliance with its standards, procedures, and expectations. They need this information to guide employees and agents and to foster reasonable stakeholder expectations.

The abiding issue for a business ethics program is how to garner this information through processes that are consistent with the enterprise's core beliefs. The ideal form is free-flowing communication between owners and managers, employees and agents, and other stakeholders about all the matters needed for the enterprise to meet the reasonable expectations of its stakeholders effectively and efficiently. Often, however, either mechanisms to accommodate free-flowing communication are not readily available or there is not enough trust between stakeholders for such communication to take place. Under such circumstances, owners and managers must design and implement other control mechanisms. This section describes the issues, policies, and processes of maintaining internal control and engaging external stakeholders.

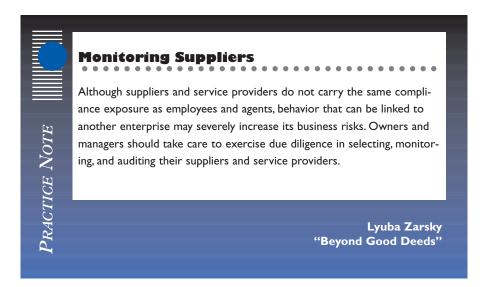In general, owners and managers use five methods to track what is going on in the enterprise:

1. Monitoring ongoing operations
2. Auditing books, records, and process documentation
3. Responding to employees and agents seeking advice and reporting concerns
4. Investigating incidents and reports
5. Engaging stakeholders

All these methods require infrastructure. Management needs to design a monitoring, auditing, and investigation framework that is consistent with the management alignment processes described in Chapter 8. Engaging external stakeholders is not as well defined as the other methods, but enterprises have found a few techniques, such as stakeholder surveys, to be valuable. RBE Worksheet 11, at the end of this chapter, is also a useful tool for ensuring an effective infrastructure is in place.

MONITORING

Monitoring enterprise performance is an essential management task. An RBE plans its work by assigning individual and group responsibility. It sets performance expectations for individuals and groups to guide their efforts toward achieving the enterprise's goals and objectives. Employees and agents are held accountable as individuals and groups for achieving assigned objectives while following the enterprise's standards, procedures, and expectations. Whether set for individuals or for groups, performance expectations must be specific, measurable, achievable, relevant, and time-specific.

In an RBE, processes and projects may be monitored continually. Good monitoring requires consistently measuring performance and providing ongoing feedback to employees and agents as to how well their performance

PRACTICE NOTE

Monitoring Suppliers

Although suppliers and service providers do not carry the same compliance exposure as employees and agents, behavior that can be linked to another enterprise may severely increase its business risks. Owners and managers should take care to exercise due diligence in selecting, monitoring, and auditing their suppliers and service providers.

Lyuba Zarsky
"Beyond Good Deeds"

complies with enterprise standards and procedures and meets stakeholder expectations. Continual monitoring enables unacceptable performance to be identified before it fails to meet stakeholder expectations.
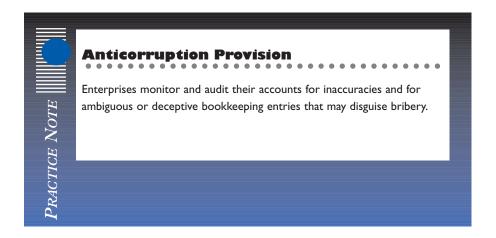
The best operational example is the total quality management process, whereby individuals and teams set performance standards, continually collect data, and use quality tools to measure performance and analyze the data to resolve problems and improve processes.

Issues of responsible business conduct may be approached in a similar manner. Where risks have been identified, such as conflicts of interest, fraudulent consumer transactions, inaccurate books and records or expense accounting, or bribes and corruption, an RBE establishes structures and systems to monitor performance on a regular basis. It does not wait for reports of misconduct. It requires regular reports, examines accounts and records, and tracks patterns and trends as good management practice. Other forms of monitoring are performance evaluations and exit interviews.

AUDITING

Whereas monitoring is an aspect of good management practice for all managers and supervisors, auditing is a more formal process. It is a review of employee or agent performance by an independent agent. This independent agent may be either internal or external to the enterprise, but it is not a part of the enterprise's operational management.

Internal audit serves as the primary means by which owners and managers review and evaluate the enterprise's internal control structure.

Anticorruption Provision

PRACTICE NOTE

Enterprises monitor and audit their accounts for inaccuracies and for ambiguous or deceptive bookkeeping entries that may disguise bribery.

Although this charter is very broad, in practice the traditional focus had been on financial data. External auditors perform formal audits of financial statements to meet the needs of external stakeholders: investors, creditors, and regulators.

More recently, the traditional focus has expanded to include reviewing the systems established to ensure compliance with an enterprise's standards, procedures, and expectations. Operational audits are often performed by internal auditors, to determine whether the enterprise complies with its standards and procedures. They may be done on a regular basis or in response to specific reports or concerns.

EMPLOYEES SEEKING ADVICE AND REPORTING CONCERNS

Among the surest sources of information about what is going on in an enterprise—especially behavior that violates enterprise core beliefs, standards, procedures, and expectations—are employees and agents. Most employees and agents recognize management's legitimate need for such information, if the enterprise is to meet the reasonable expectations of its stakeholders. Nonetheless, standards, procedures, and expectations that encourage employees and agents to seek advice and report concerns can raise issues of conflicting loyalties to the enterprise and to peers, and, in many emerging market economies, may raise historical memories of betrayal.

Reporting concerns about the business conduct of co-workers is hard for most employees. Indeed, research suggests that substantial numbers of employees, even in developed economies, are extremely reluctant to report their concerns.[20] Many put loyalty to friends and colleagues above loyalty to the enterprise. Many do not trust that managers—or their peers—will not retaliate against them if they report their concerns.

As two authors have observed:

> Both the law and popular opinion have always been ambivalent about whistleblowers, whether in the elementary school yard, universities, the military or other government agency, or in private life. Are they malcontents, troublemakers, and snitches? Or are they brave, ethical individuals who, unlike their fellow beings, coworkers, or superiors, want their company to act legally and ethically as well?[21]

A business ethics program helps employees and agents understand why it is important that they communicate their concerns to management, how they should report their concerns, and why it is safe to do so.
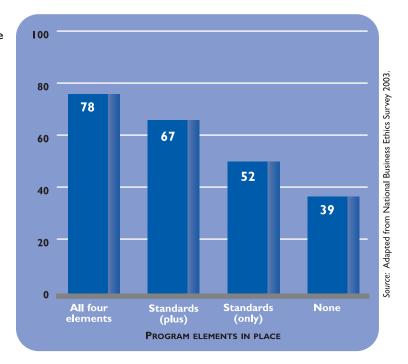
Under a business ethics program, employees and agents are more sensitive to the types of behavior that constitute misconduct or illegality. They are more likely to view reporting misconduct as one of their obligations to the enterprise, their fellow employees, and enterprise stakeholders. As recent research displayed in Figure 7.1 demonstrates, if enterprises have in place at least four elements of a business ethics program, 78 percent of employees are willing to report misconduct. Only 52 percent are willing to do so where only written standards are in place, and only 39 percent where none of the four elements were present.[22] (The four elements were written standards of business conduct, training on standards of conduct, an ethics office or telephone advice line, and a means to report misconduct anonymously.)

In an organizational culture that encourages dialogue, questions, and delivery of bad news, employees find it easier to confront issues of responsible business conduct, to seek advice and report concerns, and to make ethical decisions. In many enterprises, however, employees are uncomfortable with coming forward, especially to report their concerns involving other employees. Owners and managers need to make the case for coming forward in terms that resonate with their employees. For example, a manager in a Far Eastern cultural context explained why employees should report their concerns about business conduct by analogy, pointing to how employees would take action to protect their families if there was broken glass in their homes.[23]

Reporting Violations

Ideally, owners, managers, and supervisors maintain an open-door policy for employees and agents who have concerns that involve responsible business conduct. Often, however, employees and agents are reluctant to bring "bad news" to managers and supervisors. To encourage them to come forward, an enterprise should establish discreet procedures for employees to seek advice and report concerns.

FIGURE 7.1
Variations in Employee
Willingness to Report
Misconduct

Source: Adapted from National Business Ethics Survey 2003.

Suggestion boxes, help-lines, and whistle-blowing protection all facilitate reporting of questionable conduct. Reports may also be received from individuals who come to the business ethics office and register a concern. The identity of reporters should be kept confidential (to the extent that the law provides), and sources should not be held liable, discriminated against, or harassed for reporting their concerns.

Once the business ethics officer receives a report, it is important that the enterprise follow through. The officer should

- Record the reported concern
- Evaluate the concern and develop an action plan for dealing with it
- Initiate or coordinate an investigation or inquiry, if appropriate
- Take appropriate action on findings and conclusions
- Track reported concerns for patterns and trends
- Make recommendations based on lessons learned

Critical to the success of the business ethics program is feedback to the reporting source of the steps taken to investigate the matter, what was found, and what corrective steps—if any—were or will be taken. In many surveys of employee attitudes, when reasons are given for why an employee observing

misconduct did not report it, second only to fear of retaliation is the sense that management would not do anything with the information anyway.[24]

Protecting Employees and Agents from Retribution

All reporting procedures should be designed to leave reporters free from fear of retribution. Managers, supervisors, and other employees should understand that direct or indirect retribution for voicing a concern or complaint is not to be tolerated. Retribution by either managers or peers discourages others from reporting their concerns. An RBE, therefore, should have a strict policy that discipline will be imposed for any instance of retribution.

Occasionally, an employee or other agent reporting concerns may make a mistake or abuse the reporting process and cause an investigation that does not lead to further action. Behavior that abuses the reporting process will often violate enterprise core beliefs; however, managers should counsel, but not punish, such a reporter. Maintaining absolute certainty among employees and agents that they can report concerns without fear of retribution is so important that managers should not risk losing that confidence by punishing anyone who used a reporting process. If the enterprise reserves the right to punish those who abuse the process, the published standards, procedures, and expectations will have to leave that possibility open. Where trust in management is not the norm, reporting sources may be uncertain about just how safely they can make reports.

Moreover, it is difficult, at best, to prove that a reported concern was an abuse of the process. Even if a case can be made, it may raise significant questions in the minds of potential sources about just how safe the process is. In Box 7.1, the last sentence may be seized on by employees as a reason not to report their concerns unless they are certain of all the facts. In short, for all the satisfaction owners and managers may retain in being able to punish someone who abuses the process, the cost in terms of employee confidence in the reporting process is too high to pay.

Although the individual should not be punished to preserve confidence in the business ethics program, other steps can be taken to limit harm to other individuals or to the enterprise. The abusing person or the victim may be reassigned, for example.

Using a Help-Line

A help-line is a dedicated telephone line that gives employees and agents direct access to the business ethics officer. It should be free of charge to the caller. The number should be widely distributed; everyone should have access to the number. If the enterprise uses an answering machine for the number after normal business hours, the machine should be placed in a private, secure location.

REPORTING CONCERNS

Taking action to prevent problems is part of the Motorola culture. If you observe possible unethical or illegal conduct, you are encouraged to report your concerns.

Retaliation against any employee who honestly reports a concern to Motorola about illegal or unethical conduct will not be tolerated. It is unacceptable to file a report knowing it to be false.

Motorola Corporation
"Code of Business Conduct"

A help-line may be operated by a commercial service with instructions from the enterprise. Typically, under such a service, a source may call anonymously to report concerns. If the source is willing to be contacted for more information but wishes to maintain his or her anonymity, he or she will be given an identification number and will be told to call back at a particular time.

Maintaining Confidentiality and Security

It is difficult for an employee or agent to choose fidelity to enterprise standards, procedures, and expectations over loyalty to his or her friends or colleagues. When an employee or agent decides to report concerns, he or she must believe that it is the right thing to do. Managers owe reporting employees and agents as much security as possible when they report their concerns.[25]

An emerging best practice is to establish a policy authorizing certain business ethics personnel to promise reporting employees and agents that their identities and information will remain confidential. Whether they can make a promise of confidentiality that courts of law will respect, known as a *privileged communication*, depends on the laws of the jurisdiction. Managers must consider that if they promise confidentiality to a reporting source but are then required to disclose the source's identity, others may not come forward to report their concerns.[26]

Distinguishing between Ethics and Personnel Issues

Experience with help-lines demonstrates that more than half of all calls will be about personnel matters. Owners and managers will be tempted to require that such callers be directed to call human resources. They should resist this temptation for two reasons. First, in the minds of employees, when managers speak of ethics, they are talking about fairness, so employees see personnel matters as ethics issues. Second, when management rejects a call to the help-line for whatever reason it risks the reputation of the help-line as

an effective and safe way for employees and agents to seek advice or report concerns. Other employees will only hear that a fellow employee made a call to the help-line and was rejected, but not learn management's reasons why, however valid.

In establishing reporting guidelines, however, management must distinguish between matters of responsible business conduct and grievances of union-represented employees. A grievance issue arises when there is a difference in interpretation or implementation of a collective bargaining agreement or an individual labor contract. A department other than the business ethics officer will typically address grievances.

THE ORGANIZATIONAL OMBUDSMAN

In a number of large, complex enterprises (LCEs), a specific office, called the *ombudsman*, has been established to advise employees and agents of their rights and duties regarding responsible conduct. In the business enterprise context, the ombudsman is a separate means by which employees and agents can seek advice and report their concerns.[27]

The ombudsman was originally a Scandinavian office created to investigate citizen complaints against governments or otherwise trusted to look after the affairs of others. Today, the position of an organizational ombudsman in a business ethics program has evolved to be an independent, neutral, and alternative office where employees and agents can go to seek advice and report concerns. *Independent* means the ombudsman is not a part of day-to-day staff or operations management. *Neutral* means it does not function as an advocate for the enterprise or individual. *Alternative* means the ombudsman does not duplicate any other enterprise function, such as investigations. With few exceptions, the ombudsman is authorized to refer reports of misconduct for investigation only with the express consent of the reporting source.

In some jurisdictions, enterprises can claim that the ombudsman can make an enforceable promise of confidentiality. The enterprise will not be deemed to have notice of the concern until the source registers his or her concerns with the enterprise or authorizes the ombudsman to do so. However, as managers review standards, procedures, and expectations, an ombudsman may contribute what he or she has learned about employee concerns, provided that he or she does not compromise the anonymity and confidentiality of the sources.

POLICIES AND PROCEDURES FOR INVESTIGATIONS

It is critical to the success of a business ethics program that reported concerns be investigated. Managers may learn of concerns suggesting that a

violation of standards, procedures, and expectations has occurred from a variety of sources, including the help-line. Once on notice, an RBE must take all reasonable steps to determine what happened and how the problem might be avoided in the future.

In developing an investigative plan, managers need to consider the laws of the jurisdiction in which they operate. These laws will affect who conducts the investigation and what rights are afforded to the subjects of the investigation. Investigations should always be conducted with a view to possible government prosecution or civil litigation.

Investigations will typically involve document review and witness interviews. Employees should be instructed to cooperate fully with the investigation, including preserving all relevant documents and materials. The investigator must be alert to avoiding the appearance of influencing witnesses or appearing to speak for the enterprise or another witness. A typical procedure is shown in Box 7.2.

EXTERNAL STAKEHOLDER ENGAGEMENT

Increasingly, nongovernmental organizations (NGOs) hold enterprises accountable for unethical behavior and demand best practices. International institutions are developing policies requiring greater transparency and

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BOX 7.2

INVESTIGATIVE PROCEDURES

A typical investigative procedure works as follows:

- A call is made to the business ethics officer to report misconduct.

- The business ethics officer registers the report.

- The business ethics officer creates a plan for resolving the matter.

- The plan includes analyzing facts, developing assignments, conducting interviews, and disclosing information to select individuals.

- If the business ethics officer requires additional help from special departments, he or she coordinates other resources, such as legal, internal audit, human resources, or security.

- The business ethics officer devises a written schedule for completing the investigation and standards for the disclosure of information.

- The business ethics officer remains in close contact with individuals involved in the investigation and periodically requests information and details on proceedings.

- At the conclusion of the investigation, the business ethics officer presents a summation of the findings to the enterprise's managers and the board of directors.

- Owners or senior managers decide what corrective action should be taken, including whether the matter should be voluntarily disclosed to a government agency or other stakeholders.

encouraging official investigations of misconduct. Local communities are less willing to host an enterprise known for corrupt or irresponsible practices.
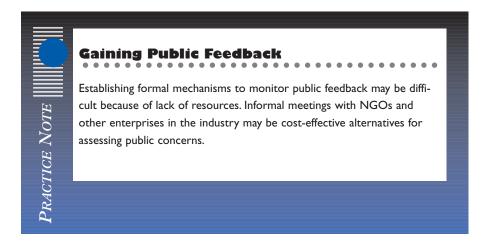
These trends provide owners and managers with the incentive and opportunity to secure feedback from external stakeholders. Feedback mechanisms include media reviews, stakeholder satisfaction surveys, conferences, and discussion groups. The focus of such efforts should be to ascertain how well the enterprise is fostering and meeting stakeholder expectations. Also important is public perception about how responsible the enterprise is or how consistent its business practices are with its core beliefs.

Anita Roddick, founder and CEO of The Body Shop, described an integrated process recently:

> So how can loyalty be built and maintained by British business and what, if any, is the role of government in assisting this process? I believe the key to loyalty is trust, and trust flows from a high level of commitment to transparency and a genuine desire to engage on a human level. In The Body Shop this means putting a lot of effort into assessing the quality of relationships with stakeholders, through systematic dialogue involving opinion surveys and focus groups. It also means active, audited disclosure of social and environmental performance so that everyone involved with the business can judge progress (or lack of it) for themselves. It means being open about our company values, campaigning on issues such as human rights and animal welfare—issues we know our customers and employees care about. Make no mistake, this is not done simply for the fun of it. It works for us because it is genuine, but it also helps us run a better and a more successful company, with very loyal employees and customers.[28]

Meetings with external stakeholders are an effective way to secure feedback. An RBE can sponsor such meetings to demonstrate its initiative and interest. An owner or senior manager should lead the meetings. Local community, government, and NGO representatives may be invited. Questions, comments, and suggestions should be encouraged.

Monitoring media coverage of business is an essential means of securing feedback from the public and making appropriate adjustments to the business ethics program. In recent years, the media have become better informed about how to measure whether leaders of an enterprise are committed to responsible business conduct. Through the media, a business can capture the perceptions of the public regarding its expectations of business and its role in the community.

Gaining Public Feedback
. . . .

Establishing formal mechanisms to monitor public feedback may be diffi-
cult because of lack of resources. Informal meetings with NGOs and
other enterprises in the industry may be cost-effective alternatives for
assessing public concerns.

Finally, as discussed in Chapter 10, an RBE engages its stakeholders by
monitoring, tracking, and reporting its performance in areas of concern to
its stakeholders, especially civil society. The reaction of civil society and the
media to the enterprise's social responsibility reports is valuable information
and invites further dialogue.

SUMMARY

It is vital to the welfare of the enterprise and its ability to meet the reason-
able expectations of its stakeholders that owners and managers know
whether enterprise standards and procedures are being followed and
whether reasonable stakeholder expectations are being met. The source of
this information, in all cases, is the stakeholders of the enterprise: employ-
ees, agents, customers, suppliers, and regulators, to name but a few.

Owners and managers of an RBE should develop a plan to communicate
with stakeholders the enterprise's standards, procedures, and expectations.
They can do so by answering two fundamental questions:

1. How can we most effectively communicate our standards and proce-
   dures and foster reasonable expectations among our stakeholders?
2. How can we know that our members follow our standards and reason-
   able stakeholder expectations are met?

To communicate enterprise standards, procedures, and expectations, own-
ers and managers use all manner of vehicles: formal and informal communica-
tions; training, education, and development; and stakeholder engagement.

To ensure that management knows what is going on in the enterprise, owners and managers establish various mechanisms, as appropriate to the relevant context and organizational culture: monitoring, auditing, reporting, and stakeholder surveys.

RESPONSIBLE BUSINESS ENTERPRISE
Checklist

1   Who in our enterprise has responsibility for ensuring that the core beliefs of the enterprise are documented and disseminated to employees, agents, and other stakeholders?

2.   How do our owners and managers communicate enterprise standards, procedures, and expectations to our employees, agents, and other stakeholders?

3.   Can owners and managers reasonably expect employees and agents to report observed misconduct? If not, why not? If not, what other mechanisms are in place, or should be in place, so that owners and managers know what is going on in the organization?

9 Communications Needs Assessment Worksheet

RBE Worksheet 9, which can be photocopied for use with your organization, assists owners and managers in conducting a needs analysis to find out what stakeholders need to know. Use the standard assessment tools (interviews, focus groups, surveys, document review, and direct observation) to answer the questions listed.

	Interviews	Focus Groups	Surveys	Document Review	Direct Observation
What kinds of responsible business conduct issues do employees and other stakeholders face or are they concerned about?					
What do employees and other stakeholders need to know to be able to fulfill their roles and responsibilities and have reasonable expectations of the enterprise?					
How do employees and other stakeholders learn what is expected of them and what they can expect?					
What communications methods are available to the enterprise to reach specific stakeholders?					
What are the criteria by which successful communications will be evaluated?					

10 Training Program Outcomes Worksheet

Using RBE Worksheet 10, training program designers can work from expected outcomes of the business ethics program through general and specific training topics to formulate specific training program objectives. In filling out RBE Worksheet 10, which may be photocopied for use within your organization, treat each cell opposite a program outcome separately.

Performance Measures	General Training Topics	Specific Topics	Training Objectives
Amount of observed violation of enterprise standards, including legal requirements	• Enterprise core beliefs • Risks to the enterprise when standards are violated • Personal and organizational responsibility and accountability • Difference between personal morality and enterprise standards • Policy on rewarding responsible behavior and punishing irresponsible behavior		
Awareness of issues of responsible business conduct at work	• Enterprise expectations for employee behavior • Stakeholder expectations • Enterprise standards and policies • Recognition of ethics, compliance, and responsibility issues		
How often employees and agents speak in terms of core beliefs and standards	• Ethics and policy theory • Dimensions of culture • Value of diversity • Listening and giving feedback		
How often employees and agents make decisions in terms of core beliefs and standards	• Ethics, compliance, and responsible decision-making • Strategic planning based on core beliefs		
How willing employees and agents are to seek advice on standards	• Individual responsibility to seek advice • Communication channels		

Performance Measures	General Training Topics	Specific Topics	Training Objectives
How willing employees and agents are to report observed or suspected violations	• Individual responsibility to report concerns • Communication channels • Policy on confidentiality • Policy against retaliation		
How satisfied those who reported observed or suspected violations are with management's response	• Manager or supervisor training on advising employees • Policies on confidentiality and nonretaliation • Help-line protocols		
How committed employees are to the enterprise	• Core beliefs about stakeholder expectations • Individual and enterprise roles and responsibilities to stakeholders • Opportunities to enhance enterprise reputation • Opportunities to add value to the community • Individual or team skills, knowledge, understanding, and attitude development		
How satisfied stakeholders are that the enterprise meets their expectations	• Core beliefs about stakeholder expectations • Individual and enterprise roles and responsibilities to stakeholders • Opportunities to enhance enterprise reputation • Opportunities to add value to the community • Individual or team skills, knowledge, understanding, and attitude development		

11 Communications Infrastructure Worksheet

RBE Worksheet 11, which may be photocopied for use within your enterprise, provides a tool for ensuring consideration of all necessary infrastructure to communicate and solicit feedback about enterprise standards, procedures, and expectations. Owners, managers, and staff members should discuss with their stakeholders each issue along the vertical axis to ensure that they are consistent with their core beliefs and the reference standards and best practices developed in this chapter. From this dialogue, they will be able to identify any required business ethics infrastructure.

	Enterprise Core Beliefs	Reference Standards or Best Practices	Current Structure and Practice	Required Infrastructure
Means of communicating standards and procedures and establishing expectations				
Monitoring and auditing procedures and dialogue mechanisms				