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4

CODES OF ETHICS AND CODES OF CONDUCT

What would you do?

Code Violation

After graduation, you obtain a supervisory position at a bank. Mary, one of your 12 tellers, is your best employee. She has worked at the bank for 10 years and is trusted and admired by both coworkers and customers. Her annual performance reviews are excellent. She shows up on time and works hard. Mary is conscientious and a good team player, and she has a wonderful personality.

Every day, each teller is required to accurately count his or her cash drawer, report any cash variances, and sign a balance sheet. The Cash Balancing Department is responsible for checking the tellers’ work to make sure they balance their cash correctly and report any irregularities. Another department reviews the tellers’ work (deposit slips, checks, payment tickets, etc.) for transaction processing errors. Together, these two departments verify whether any variance is a cash shortage or a transaction processing error, which is more often the case. Slight cash variances occasionally happen. Not reporting a cash variance and falsifying a balance sheet are grounds for immediate termination.

Under your management, Mary receives the “Teller of the Year” award for two

consecutive years. So you are shocked one morning when the Cash Balancing Department informs you that Mary’s balanced cash drawer was short $100 and she apparently falsified a $100 transaction to make the drawer appear balanced.

You meet with Mary as soon as she arrives at work and audit the cash drawer in her presence prior to any transactions. The drawer is $100 short.

“I have no idea how the mistake happened,” Mary nervously says. “I’ve been up all night trying to figure out how the error occurred. This has never happened to me before.

I can only guess that I must have given a customer $100 too much cash, but I can’t believe a customer wouldn’t return the money, particularly since it could cost me my job. I was hoping the customer would come back today and return the money. If that didn’t happen, I was going to put $100 of my own money in the drawer at the end of the day. See, I have the money right here.” Mary shows you five $20 bills. “I know this violates our Code of Ethics about always being honest, and our Code of Conduct about reporting shortages. But I just freaked out and didn’t report the shortage right away.”

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Mary’s record has been spotless up to this point. Your gut feeling is that she wasn’t trying to steal money. Mary simply, and unwisely, responded to the $100 shortage by falsifying the balance sheets. She is now a nervous wreck and you’re sure she would never do this again. You can allow Mary

to put $100 in the drawer and declare everything legitimate.

According to bank policy, however, you must begin the termination process by informing the bank manager. Despite Mary’s previous stellar performance, you know the

Chapter Objectives

After reading this chapter, you will be able to:

• Understand the difference between a Code of Ethics and a Code of Conduct

• Explain the importance of code awareness and expectations

• Describe the content found in most Codes of Ethics and Codes of Conduct

bank manager will abide by c

 (Collins 105-106)

current bank policy and not make any exception to the rule. You would lose your best teller and ruin Mary’s career in the banking industry.

What would you do? Would you

1) Tell the bank manager and pursue termination?

2) Let Mary replace the missing $100 with her own money and put Mary on notice that the next time this happens she will be terminated?

Why?

Create and implement an effective Code of Ethics communication strategy Conduct an annual employee assessment of the Code of Ethics

 (Collins 106)

The perfect job candidate has been hired—the person is experienced, energetic, and intelligent and has high integrity. People of high integrity, however, do not necessarily share the same ethical viewpoints. Each person develops a unique ethical viewpoint, a perspective shaped by parents, siblings, friends, teachers, religious leaders, political leaders, other moral role models, and culture.

Ethical dilemmas arise because situations are ambiguous. What bothers one person’s conscience may not bother another person’s conscience. A rule one high- integrity person considers essential another high-integrity person might consider too rigid. Two managers of high integrity, for instance, may disagree on the appro- priate discipline for a subordinate’s misbehavior, such as an excellent bank teller who violated a bank’s policy.

An organization’s Code of Ethics and Code of Conduct minimize ethical am- biguities by communicating clear ethical guidelines for employees to apply when making decisions. These codes serve as the organization’s conscience. This chapter explains the differences between a Code of Ethics and a Code of Conduct, summa- rizes the purpose and content of codes, and describes how to use a Code of Ethics as an assessment tool for improving ethical performance.

 (Collins 106)

CHAPTER 4 Codes of Ethics and Codes of Conduct 107 Difference between a Code of Ethics

and a Code of Conduct

The terms “Code of Ethics” and “Code of Conduct” are often mistakenly used interchangeably. They are two unique documents. A Code of Ethics briefly describes broad ethical aspirations. A Code of Conduct more exten- sively describes acceptable behaviors for specific situations that are likely to arise.

A Code of Ethics, sometimes referred to as a Values Statement, is simi- lar to the Ten Commandments, a few general principles to guide behavior that could fit on a business card. The general principles embodied in a Code of Ethics—such as respecting all owners, customers, employees, suppliers, community members, and the natural environment—represent aspirations. These principles describe the kind of people we want to be—someone who treats others as he or she wants to be treated. When faced with an ethical dilemma or ambiguous situation, principles articulated in the Code of Ethics can help guide the decision maker.

A Code of Conduct, often developed by an employee with legal exper- tise, provides substance to the Code of Ethics and is usually several pages long. A Code of Conduct applies the Code of Ethics to a host of relevant situations. Whereas one principle in the Code of Ethics might state that all employees will obey the law, a Code of Conduct might list several specific laws relevant to different areas of organizational operations that employees will obey.

The Code of Ethics of the National Association of Social Workers (NASW), for example, lists six ethical principles to guide behavior: ser- vice, social justice, dignity and worth of the person, importance of human relationships, integrity, and competence.1 The more detailed NASW Code of Conduct provides specific examples, such as stating that social workers will obtain informed consent from clients regarding the purpose of services provided, relevant costs, and treatment alternatives. The NASW Code of Conduct also addresses situations involving conflicts of interest, confiden- tiality, records access, sexual relationships, sexual harassment, derogatory language, and termination of services.

Purpose and Importance of Codes

A Code of Ethics is usually the first step in formalizing an ethics program. The extent of an organization’s ethics program is often related to its size.2 In small organizations, the ethics code is embodied within the owner, who serves as a very observable role model. A formal ethics code is unnecessary because employees typically interact with one another on a regular basis. Begin drafting a Code of Ethics when the number of employees reaches about 10, a point when employees may not interact with one another or the owner as much. Ethical hazards and risks increase as organizations grow in complexity. Assign responsibility for managing organizational

 (Collins 107)

ethics to a specific individual at the 50-employee level and begin developing some ethics training sessions. Exhibit 4.1 provides guidelines for expanding ethics pro- gramming based on employee growth.

 (Collins 108)

In the 1960s, only 15 percent of surveyed companies had a Code of Ethics. Now, nearly all Fortune 1000 companies have a Code of Ethics, as do many other organizations.3 A 2008 survey of the International Association of Administrative Professionals reported that 85 percent of respondent organizations had an official written ethics policy, although only 56 percent believed all employees knew the pol- icy existed.4

Why should an organization develop a Code of Ethics and a Code of Conduct? These codes fulfill multiple purposes including the following:

• Demonstrate managerial concern for ethics • Convey a particular set of values and obligations • Meet legal requirements and industry trends • Positively impact employee behaviors

Demonstrate Managerial Concern for Ethics

First impressions matter a great deal. Discuss the organization’s Codes of Ethics and Conduct with new employees to establish ethical expectations. Begin the meeting by demonstrating awareness of job-related ethical issues and public perceptions about business ethics. An array of job-related ethical issues appears in Chapters 1 and 2 and can be found on industry websites. The Gallup Poll regularly conducts surveys on public perceptions of honesty and ethical standards for a wide range of profes- sions and industries. The results for 2009 appear in Exhibit 4.2.5

 (Collins 108)

New employees play a pivotal role in helping an organization achieve the high- est standards for honesty and ethical behaviors. By discussing the organization’s Code of Ethics and Conduct, managers demonstrate concern that ethical issues will be appropriately addressed, establish an expectation that new employees will behave ethically, and highlight the importance of discussing ethical issues when they arise with supervisory personnel.

Convey a Particular Set of Values and Obligations

Codes convey a set of values and obligations that clarify appropriate behaviors and provide employees with clear and consistent moral guidance. For instance, assume five potential suppliers are competing for a $75,000 contract. One potential supplier offers the organization’s key decision maker two all-expenses-paid vouchers for a Hawaiian vacation. Should the employee accept the gracious offer?

Factors that might influence an employee’s decision include whether such be- havior is typical within the employee’s culture or industry, the employee’s current economic situation, and the supplier’s likelihood of being chosen. An employee might be unaware that accepting the offer creates an appearance that the contract decision is being influenced by a factor not associated with performance quality, service, or price. A clearly articulated Code of Ethics highlighting the importance of respecting

 (Collins 109)

all suppliers, and a Code of Conduct stating that an employee should not accept gifts from potential suppliers, eliminates any doubt as to the appropriate response to this situation.

Codes of Ethics articulate and reinforce a moral consensus, rather than just one person’s opinion, and legitimize dialogue about ethical issues when challenging situations arise. Codes are typically welcomed and embraced by employees with strong moral identities and convictions. The organization becomes a place where an employee’s moral identity and job identity can exist in harmony. There are not two sets of ethics, one set of ethical principles to be applied outside work and a different set at work. Instead, morality is integrated throughout the daily work experience. Codes also signal that employees will be held personally accountable for their ethical choices, and they provide an additional safeguard against pressures from managers, peers, or external constituents to behave unethically.

Employees need a reliable source of information to guide them when ethical is- sues arise. From a practical perspective, a manager might not be available when an ethical issue arises among subordinates. The previously mentioned Hawaiian vaca- tion offer from a supplier to the organization’s buyer is likely to happen away from the office. In addition, a peer responding immediately that a sexist comment violated the Code of Ethics sends a much stronger message than delaying a response until the issue reaches managerial awareness.

Meet Legal Requirements and Industry Trends

Codes are sometimes required by law. In 2002, Congress quickly passed the Sarbanes-Oxley Act following high-profile corporate accounting scandals involving Enron, WorldCom, Arthur Andersen, and other businesses. The legislation required all publicly traded companies to disclose whether they had a Code of Ethics for senior fi- nancial officers. The New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) went one step further. To gain renewed investor confidence in the stock market, NYSE and NASDAQ required that all listed firms must have a Code of Ethics for directors, officers, and employees.6 Banks, health care firms, and organizations doing business with municipal, state, and federal governments are also required to have an ethics code.

As discussed in Chapter 2, the 1991 Federal Sentencing Guidelines provide fi- nancial benefits to organizations that have Codes of Ethics. Organizations are held accountable for employees breaking the law. Judges can reduce fines if an organiza- tion has implemented a Code of Ethics.

Many industry associations and professional organizations develop codes as a self- regulating strategy that deflects government regulation. Professional codes buffer their members from organizational, managerial, and work unit pressures to behave unethi- cally. Lawyers, accountants, teachers, and social workers who violate their profession- al code can lose their license. This provides an additional safeguard for professionals not to accept an unethical directive from a company executive.

Many professional codes are available on the Internet. The Society for Human Resource Management Code of Ethics addresses six core areas, such as professional responsibility and development.7 The National Association of Legal Professionals lists four general principles followed by 10 canons.8 The Chartered Property Casu- alty Underwriters (CPCU) society provides a list of specific unethical practices that

 (Collins 110)

would result in disciplinary action.9 The Pew Research Center’s Project for Excel- lence in Journalism offers a collection of ethics guidelines developed by news organi- zations.10 Similarly, the Online Ethics Center for Engineering and Research provides ethics codes for a host of engineering associations.11

Positive Impact on Employee Behaviors

Lastly, organizations implement Codes of Ethics and review them on an annual basis because of the many positive impacts they have on employee behaviors. Researchers report that organizations with Codes of Ethics have higher levels of employee com- mitment and greater tolerance for diversity.12 Employees are proud to be associated with ethical organizations and desire to work for honest and trustworthy managers. The relationship is reciprocal. Whereas trustworthy managers attract trustworthy employees, trustworthy employees are recruited by trustworthy managers. Within an organization culture of trust, employees are more likely to trust managerial deci- sions, and managers are more likely to trust employee decisions.13 This cycle of trust contributes to higher levels of employee morale and job satisfaction.14

Code of Ethics Content

A Code of Ethics expresses the principles that define an organization’s ideal moral essence. Keep the language simple and avoid legalese or professional jargon. The best codes are easy to understand and inspirational; they unite employees regardless of their particular religion, ethnicity, gender, or geographical location.

The tone of an ethics code is very important. Providing employees with a list of prohibitions—things they should not do—can feel oppressive rather than inspiration- al. Make the Code of Ethics an affirmative statement of how employees should act, not how they should not act. Declaring that employees will not lie is restrictive lan- guage, whereas declaring that employees will always tell the truth appeals to people’s more positive essence. The difference can have a profound effect on organizational culture. It’s similar to the difference between a coach telling an athlete not to play badly versus a coach telling an athlete she is playing well and can do even better.

What values are stated in ethics codes? An extensive scholarly review of corpo- rate Codes of Ethics, global Codes of Ethics, and the business ethics literature found the following six values continually expressed:15

1. Trustworthiness 2. Respect 3. Responsibility 4. Fairness

5. Caring 6. Citizenship

Many other values can be added to this list. For instance, in addition to honesty and respect, Microsoft’s values statement includes the following:16

• Passion for customers, partners, and technology • Willingness to take on big challenges and see them through

 (Collins 111)

• Self-critical,questioning,andcommittedtopersonalexcellenceandself-improvments

• Accountable for commitments, results, and quality to customers, shareholders, partners, and employees

Exhibit 4.3 provides an example of a Fortune 100 corporate Code of Ethics that highlights four guiding principles using short and concise statements.17

International Codes

We live in a highly integrated global society. Should a multinational business apply one set of ethics in the United States and another in Italy, Russia, El Salvador, or Egypt, nations whose cultures and laws vary significantly from those of the United States?

In the 1970s, the integrity of capitalism was called into question when a U.S. Senate investigation found that more than 400 companies based in the United States secured business by bribing foreign government officials. Lockheed, a leading aero- space corporation, was among the most prominent.18 For more than 20 years, Lock- heed corporate executives approved the payment of bribes to guarantee military aircraft contracts, including $22 million for just one international deal. In 1977, Congress responded to these anticompetitive practices by passing the Foreign Cor- rupt Practices Act (FCPA), making it illegal for U.S. businesses to directly pay bribes in other nations or through intermediaries, such as joint venture partners or agents.19 In addition, under the FCPA, foreign corporations whose securities are listed in the United States must maintain accounting ledgers that reflect these transactions.

Exhibit 4.3 Fortune 100 Code of Ethics

OUR VALUES

Communication

We have an obligation to communicate. Here, we take the time to talk with one another . . . and to listen. We believe that information is meant to move and that information moves people.

Respect

We treat others as we would like to be treated ourselves. We do not tolerate abu- sive or disrespectful treatment. Ruthlessness, callousness and arrogance don’t belong here.

Integrity

We work with customers and prospects openly, honestly, and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won’t do it.

Excellence

We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

 (Collins 112)

The FCPA differentiates bribery from facilitating payments. A bribe is typically defined as providing someone with a monetary incentive or object of value to do something contrary to his or her job description. Facilitating payments, which are legal, expedite performance of “routine governmental action,” such as obtaining permits, processing governmental papers, loading and unloading cargo, and scheduling in- spections to transit goods across borders. Facilitating payments do not include being awarded new business or continuing business with a particular government official.

Some businesses headquartered in the United States argued that the FCPA puts them at a competitive disadvantage because businesses headquartered in other na- tions continue to pay bribes as a cost of doing business. As a result, the U.S. govern- ment pressured other nations to adopt similar anti-bribery legislation. In 1999, the Organization for Economic Co-operation and Development (OECD), representing 30 developed nations, ratified the Anti-Bribery Convention, which requires mem- ber nations to enact legislation criminalizing the payment of bribes in developing nations. These guidelines were modified in 2009 to ensure that member nations adopted the best practices for making companies liable for foreign bribes.20 A grow- ing number of non-OECD members have signed this agreement, including Brazil, Estonia, Israel, and South Africa.

Some business executives maintain that it is inappropriate and arrogant for the United States to impose its moral values on other nations. “When in Rome, do as the Romans” is their preferred guideline. This philosophy fosters adopting the lower ethical business standards found in many undeveloped nations, which solidifies cor- ruption and political oppression in the host nation.

But that is not how U.S. law operates. American businesses are obligated to obey both U.S. laws and host nation laws, with the higher ethical standard taking pre- cedence. If those in “Rome” pay bribes to obtain business or regulatory approval, American managers conducting business as those in Rome do will likely end up in a U.S. jail.

Attempts have been made to create a level moral playing field worldwide through an International Code of Ethics, in which principles such as integrity and honesty are adopted by all organizations conducting business, independent of locale. The Caux Round Table, an international network of business leaders from a variety of nations and cultures, spearheaded a collaborative effort to develop the Caux Principles for Responsible Business for conducting business worldwide. The result of their collab- orative efforts appears in Exhibit 4.4.21

Exhibit 4.4 Caux Principles for Responsible Business

Principle 1: Respect Stakeholders Beyond Shareholders

• A responsible business acknowledges it

 (Collins 113)

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The Caux Principles advocate for socially responsible free market capitalism. The seven principles are grounded in two ethical ideals: human dignity (the sacred- ness of each person) and living and working together for the common good (mutual prosperity and fair competition). In supplemental material, the Caux Round Table provides specific standards for interactions with customers, employees, owners/ investors, suppliers, communities, and competitors. Businesses are encouraged to be positive forces for justice in all nations that respect the interests of all stakeholders.

Creating a Code of Ethics

Many small businesses do not have a Code of Ethics. That is to their detriment based on all the preceding reasons. An ethics code serves as a constant reminder, particu- larly when the owner is not present, and sends a positive message to customers and suppliers, as well as employees.

It is relatively easy to copy another organization’s Code of Ethics. After all, how many different ways can one say treat all stakeholders with utmost respect and in- tegrity? But this would be a missed opportunity to enhance employee ownership of the Code of Ethics. Instead, have employees construct the code.

The Ethics Resource Center offers a “Code of Ethics Toolkit” that guides or- ganizations and industry associations in developing a Code of Ethics.22 The toolkit includes an ethics glossary, definition of values, recommended format, common pro- visions, and writing tips. The Society for Human Resource Managers modified the toolkit for its membership chapters, and it is available on the Internet.23 The toolkit is particularly helpful in creating a Code of Ethics for specific business and work units that is aligned with the organization-wide ethics code.

Following are 13 steps for creating a Code of Ethics as a team-building exercise:

Step 1 – Obtain approval. Introduce the idea of writing a code to the executive team and board of directors. Organizational leaders maintain the right to accept, re- ject, or modify the code developed by employees.

Step 2 – Create a code-writing team. If the work unit is less than 20 employees, in- clude all employees in this process. If more than 20 employees, it may be neces- sary to select a group of well-respected employees to represent everyone in the work unit.

Step 3 – Gather list of ethical issues from relevant stakeholders. Obtain general information on the types of ethical issues relevant to the work unit. Hold sepa- rate interviews or focus group sessions with key constituents, such as custom- ers, suppliers, and owners, about their interactions with the work unit. Some stakeholders, particularly suppliers who do not want to lose business, may be hesitant to share their concerns. Gather additional information about ethical issues from the industry association or through an Internet search.

Step 4 – Define a “Code of Ethics.” Differentiate the nature and purpose of a Code of Ethics (one or two sentences that express broad ethical aspirations for guiding employee behavior) from that of a mission statement (organization’s purpose), vision statement (organization’s future aspiration), and Code of Conduct (ac- ceptable behaviors for specific situations).

 (Collins 115)

Step 5 – Gather a list of ethical behaviors from participants. Have each participant

independently write answers to the following four prompts: 1. Describe a situation when you observed someone in the organization behave

very ethically toward a customer.

2. Describe a situation when you behaved very ethically toward a customer.

3. Describe a situation when you observed someone in the organization behave very ethically toward an employee.

4. Describe a situation when you behaved very ethically toward an employee.

Having employees independently respond generates more examples and engages more people. Writing down examples focuses participants on one memorable situation. The four prompts focus on admirable behaviors employ- ees observed or did. This way the organization honors and reinforces already existing ethical behaviors.

Step 6 – Determine common themes. Form small teams of three or four employees to determine the essential elements of ethical behaviors related to customers and employees by doing the following two activities:

1. In a round robin format, each group member shares a story about the ob- served ethical behavior toward a customer. Next, each group member shares a story about how she or he has behaved ethically toward a customer. Deter- mine the common themes embedded in these stories about the ethical treat- ment of customers (e.g., “The common themes in these stories are x and y.”).

2. Continuing with the round robin format, each group member shares a story about the observed ethical behavior toward an employee. Next, each group member shares a story about how he or she has behaved ethically toward another employee. Determine the common themes embedded in these sto- ries about the ethical treatment of employees (e.g., “The common themes in these stories are x and y.”).

Step 7 – Draft a Code of Ethics. Create a code that emphasizes the common themes discussed during the previous step. The code may be one or two sentences, or several key words, each of which is described so others will understand what the word means. Keep the language clear and simple.

Step 8 – Compare to other codes and modify. Distribute codes from other organiza- tions, including competitors and industry associations. Do this after, not before, each group drafts a code. The goal is to adopt a code employees created. If these codes are distributed first, a group might be tempted to just copy a preexisting code. Modify the previous draft as desired.

Step 9 – Compare to other groups. Each group presents its ethics code to the other groups. Groups compare their finished products and reach consensus on one par- ticular code. Modify as desired.

Step 10 – Code alignment. Compare the agreed upon ethics code to that of the larger organization or to the relevant industry or association. Modify as desired.

Step 11 – Code review. Present the code to legal counsel, executives, and the board of directors for their approval. Modify as desired.

Step 12 – Code communication strategy. Create a strategy for communicating the code to all employees and key constituents.

 (Collins 116)

Step 13 – Code revision. Annually assess code awareness, discuss code relevance with employee groups, and revise as needed.

 (Collins 117)

Connecting Code of Ethics to Strategic Planning

The Code of Ethics can be a key aspect of an organization’s strategic plan. Strategic planning integrates an organization’s mission with its vision and provides clear direc- tion on how the organization will progress from its current situation to a highly desired future situation. Connecting the code to an organization’s mission and vision, rather than keeping it separate, establishes credibility and visibility for the Code of Ethics.

Mission statements, vision statements, and Codes of Ethics serve unique pur- poses. Combined, these documents define the organization to internal and external constituents.

An organization’s mission statement describes what an organization does and for whom.24 For instance: “Studio67 is a medium-sized restaurant focus- ing on organic foods and an intriguing atmosphere, in a prime neighborhood of Portland.”25

A vision statement describes what an organization aspires to become in the fu- ture. General Motors’ vision statement reads: “GM’s vision is to be the world leader in transportation products and related services. We will earn our customers’ enthu- siasm through continuous improvement driven by the integrity, teamwork, and in- novation of GM people.”26

The word “integrity” in the General Motors’ vision statement provides a link to elaborate and advertise the company’s ethics code. The shared values embodied in a Code of Ethics provide relationship consistency between the orga- nization and its stakeholders in the present and future. General Motors’ mission and vision may fluctuate, but the way the company treats stakeholders will be consistent.

Strategic plans are communication devices. Ideally, an organization’s mission statement, vision statement, and Code of Ethics communicate a “cause” that em- ployees and other stakeholders can rally around, and potential customers want to be a part of. Jim Armstrong, who creates socially responsible messages for a wide range of organizations, provides a 10-step process for developing a cause-based commu- nication strategy.27 The “Questions to Address” in Exhibit 4.5 pushes those crafting the strategic message to delve into the core truth behind the organization’s products or services to frame its communication strategy.

 (Collins 118)

William George, the former chairman and CEO of Medtronic, outlines the chain of events connecting an organization’s mission and values to increased profits and share- holder value (see Exhibit 4.6).28 An organization’s cause-based mission and vision, supported by its Code of Ethics, attract talented and ethical employees. These highly motivated employees provide product innovations and superior customer service. The ensuing increased customer satisfaction drives revenue, profits, and shareholder value.

 (Collins 119)

Code of Conduct Content

A Code of Conduct expands on the moral principles embodied in a Code of Ethics. A Code of Ethics principle such as “We will treat everyone fairly,” for example, can be clarified in a Code of Conduct as “All information about an employee is consid- ered confidential and is to be released only to authorized personnel.”

Creating a Code of Conduct requires input from top-level executives, corporate lawyers, and human resource personnel. A Code of Conduct addresses the wide range of legal expectations and ethical risks unique to an organization or job title. The New York Stock Exchange recommends that a Code of Conduct address the following seven topics:29

1. Conflicts of Interest: Avoid conflict or potential conflict between an individual’s personal interests and those of the organization.

2. Corporate Opportunities: Do not use corporate information or assets for per- sonal gain.

3. Confidentiality: Do not disclose nonpublic information that could benefit com- petitors or harm the organization.

4. Fair Dealing: Abstain from any unfair treatment of customers, suppliers, competitors, and employees, such as concealment, abuse of privileged infor- mation, and misrepresentation of material facts.

5. Protection and Proper Use of Assets: Use assets efficiently and avoid theft, care- lessness, and waste.

6. Compliance with Laws, Rules, and Regulations: Proactively promote compliance. 7. Encouraging the Reporting of Any Illegal or Unethical Behavior: Proactively pro-

mote ethical behavior and do not allow retaliation for reports made in good faith.

Sample Codes of Conduct are available on the Internet.30 The Code of Conduct for Facebook users is a long list of prohibitions in three areas: Third Party Content, Inappropriate Content, and Useful or Harmful Content or Conduct.31 The Mu- nicipal Research and Services Center of Washington offers sample codes for local governments.32 The Center for the Study of Ethics in the Professions has compiled a list of Codes of Conduct for businesses and professional organizations.33

Develop different Codes of Conduct for different business units, work functions, or stakeholders as an organization grows in complexity. Professor Kevin Wooten conducted an extensive review of human resource management issues and found five ethical issues—misrepresentation and collusion, misuse of data, manipulation and coercion, value and goal conflict, and technical ineptness—that are uniquely expe- rienced in each of the eight human resources (HR) functions—staffing and selec- tion, employee and career development, labor relations, compensation and benefits, safety and health, organization development, HR planning, and performance man- agement.34 A large human resource management department could design a Code of Conduct statement that addresses each issue.

Revise the Code of Conduct when new issues arise. After an investigation found that Volkswagen and BMW executives accepted supplier bribes for con- tracts, the automakers revised their anticorruption guidelines to prohibit accept- ing gifts beyond a minimal financial threshold and required supervisor approval to accept invitations to sports and cultural events.36

 (Collins 120)

Codes of Conduct are based on shifting moral expectations and legal obli- gations. New technologies create new ethical dilemmas requiring new ethical guidelines. Facebook is a social networking Internet system on which users invite “friends” into their web of cyberspace relationships. Is it ethical for a judge and a lawyer to be “friends” on Facebook? A Judicial Ethics Advisory Committee in Florida determined the answer to be “no.”37 Such a relationship creates a con- flict of interest whereby clients could reasonably conclude that certain lawyers may receive favorable treatment from a judge. As highlighted in Exhibit 4.7, the same Facebook friend conflict of interest problem may exist between teachers and students.

Exhibit 4.7 Facebook Friendships between Students and Teachers

A Judicial Ethics Advisory Committee in Florida ruled that judges and lawyers linked as “friends” on Facebook creates an appearance of impropriety. Is it ethical for a student and a college professor to be friends on Facebook while the student is enrolled in the professor’s (a) class or (b) school? Why?

Code of Conduct Relevancy

Use Codes of Conduct to highlight specific issues of major importance. Two problem areas many organizations have in common are the giving and receiving of gratuities38 and email use.39 The former pertains primarily to relationships with external stake- holders and the latter with internal stakeholders.

 (Collins 121)

Business Gratuities

A business gratuity is a

present, gift, hospitality, or favor for which fair market value is not paid by the recipient, . . . including such items as gifts, meals, drinks, entertainment (including tickets and passes), recreation (including golf course and tennis court fees), door prizes, honoraria, transportation, discounts, [or] promo- tional items.40

A fine line exists between a business gratuity/courtesy and a bribe. Did the buyer purchase the product because of its quality or had the buyer changed his or her mind after receiving an expensive gift?

Gratuities can be problematic when received from suppliers or given to custom- ers. Instructing buyers not to accept gratuities from suppliers, and then encourag- ing salespeople to offer gratuities to customers, sends mixed messages that damage managerial credibility and create moral confusion. Organizations need consistent policies to avoid the negative impacts of employees claiming hypocrisy.

The general guideline for when a gratuity evolves into a bribe is when the object of value unduly influences buying decisions. But general guidelines are insufficient. Assume that a salesperson finds out that a potential customer is an avid golfer and wants to provide a gratuity to solidify the sales relationship. Which of the following intended gratuities might be considered a bribe: a $15 book about golf putting, a dozen golf balls costing $50, golf clothing valued at $150, a round of golf for two people at an exclusive golf club for $280, or two tickets and traveling expenses for the upcoming Masters golf tournament valued at $2,500?

Even if not a bribe, a business gratuity can cause problems for an organization if it creates an appearance of impropriety or could embarrass the organization if the transaction became public knowledge.

Create a Code of Conduct on business gratuities that describes clear examples of when salespeople can offer gratuities to potential and existing customers and purchasers can accept gratuities from suppliers.41 The “Best Practice in Use” ex- hibit provides key portions of the Gap’s Code of Conduct policy for gratuities.42 The Gap’s policy extends to family members; states specific monetary amounts; and clarifies exceptions to the rule, such as business meals and noncash holiday gifts.

An employee might accept a gratuity that is later determined to violate the Code of Conduct. In this situation, first attempt to return the gratuity. If that is too awk- ward, then donate the gratuity to charity.

Email

Electronic mail (email) is one of the most prominent forms of communication within and outside organizations. Many organizations have policies for email use. A 2009 sur- vey reported that approximately half of all organizations monitor email use.43 A 2007 survey conducted by the American Management Association found that 28 percent of the organizations had terminated an employee for inappropriate email use.

Typically, email use during work hours is limited to company business only. Organizations are concerned that employees will use email for non-work-related purposes, thus creating a drain on workplace productivity, and confidential informa- tion might be sent to unintended recipients.

 (Collins 122)

Some employees mistakenly assume that they have a “reasonable expectation of privacy” to the content of their workplace email communications.44 Judges continually rule in favor of employers who own and maintain the computer and network systems. A humorous sexual or racist comment contained in an email communication between two colleagues at work can be grounds for dismissal.

Managers are responsible for protecting organizational assets, resources, and investments. Clearly note in the Code of Conduct that the employer’s right to monitor email communications on company-owned computers and network systems supersedes employee privacy rights. The Association of Consulting En- gineers Australia (ACEA) recommends a Code of Conduct policy for email use that prohibits recreational use of email during work hours, allows personal use during nonwork hours, and establishes disciplinary procedures for violations. Eight key provisions of the model ACEA Code of Conduct policy appear in Exhibit 4.8.

 (Collins 123)

Implementing an Effective Code Communication Strategy

The benefits of having a meaningful Code of Ethics are innumerable. Yet, researchers report that many companies do not effectively communicate their Codes of Ethics and Conduct to employees.46 Codes cannot be effective if employees are unaware they exist or if rumors spread that the code was created merely to appease legal or regulatory authorities.47

The Code of Ethics in Exhibit 4.3 highlights how words are meaningless unless they correspond with actions. The code was developed by Enron, a decade prior to the company’s financial collapse.48 Enron also had a 60-page Code of Conduct, a list of prohibitions ignored by some traders and high level executives.

Ethical hypocrisy, the gap between an organization’s formal ethical proclamations and its actual behavior, damages employee morale. Moral confusion arises when the Code of Ethics declares employees must be honest while a supervisor expects an

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employee to lie to a customer about a missed delivery deadline. Researchers report that people working for a supervisor who encouraged employees to lie about de- livery information to clients, in violation of the organization’s ethics code, had less job and organizational satisfaction, less organizational commitment, greater role conflict, and greater intention to quit.49

As highlighted earlier in Step 12 for Creating a Code of Ethics, develop a strat- egy for communicating the Codes of Ethics and Conduct to all employees and key constituents. Assign the responsibility to a particular person who can champion the cause. Elements of the communication strategy include the following:

• Connect the code to the organization’s strategy

• Mention the Code of Ethics in job announcements

• Introduce the codes during employee orientation

• Annually distribute the Code of Ethics with a letter signed by a high-level execu- tive emphasizing the importance of applying the code on a daily basis

• Display the Code of Ethics in newsletters, highly traveled areas, and on stationary and websites

• Discuss the codes during ethics training workshops • Mention the Code of Ethics in correspondences with suppliers and customers • Evaluate employees on code adherence in performance appraisals • Link code adherence to promotions and merit raises • Annually assess how well the organization embodies the code

Social pressure can be a major obstacle to code effectiveness. Employees are hesitant to report code violations committed by their friends, peers, or manager. Unethical employees accuse peers who enforce the code of being “tattletales” to discourage them from reporting violations. Employees are more likely to report a code violation if others in the organization disapprove of the violation, they do not fear retribu- tion for reporting, or the person committing the violation has been given a previous warning.50

Codes are particularly essential during periods of market and organizational turbulence. Turbulence creates uncertainty and employees can shift into a survival of the fittest mindset. Saving one’s job and organization rises to the top of the agenda and a “do whatever it takes” mentality can be invoked to justify behaviors that, un- der normal circumstances, would not be pursued. Managers who have a relativistic ethical orientation may behave in ways that, after the turmoil subsides, could cause the organization harm if reported in the media.51

Annual Code of Ethics Assessment

The last phase of implementation is probably the most important—use the code as an organizational assessment tool. Make the Code of Ethics a living document by annually assessing how well the organization and its employees live up to it. Then use the employee feedback as the basis for continuous improvement changes in or- ganizational policies and practices.

Exhibit 4.9 provides a 10-step process for assessing an organization’s ethical performance based on its Code of Ethics. The employee activity can be accomplished within 60 to 90 minutes.

 (Collins 124-125)

SUMMARY

Employees arrive at the organization possessing a wide variety of ethical perspectives. They need a common ethical reference point. Aligning per- sonal values with those expressed in an ethics code creates a unique bonding experience that crosses hierarchal levels and minimizes organi- zational politics.

This chapter described the importance of a Code of Ethics consisting of several general moral principles and a more detailed Code of Conduct applied to specific situations. These codes serve as the organization’s conscience. They demon- strate managerial concern about ethics and posi- tively impact employee behaviors.

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Make these codes meaningful and effective by us- ing them as assessment tools. Have employees an- nually evaluate how well organizational members live up to these codes. In the spirit of continuous improvement, gather employee suggestions for addressing weak areas and then make appropriate changes in organizational policies and practices to improve ethical performance.

KEY WORDS

Code of Ethics; Code of Conduct; bribe; facilitat- ing payments; Caux Principles for Responsible Business; strategic planning; mission statement; vision statement; business gratuity; ethical hypocrisy.