Ethical Management

A Guide for Sustainable Entrepreneurs

SUSTAINABLE ENTREPRENEURSHIP PROJECT

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Ethical Management:
A Guide for Sustainable Entrepreneurs

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Ethical Management

§1 Introduction

Kelly et al. reported on surveys have shown an alarmingly high rate of lying, cheating, stealing and intimidation of others among high school students in the US, a situation that causes concerns about the impact on ethical conduct in the workplace in the future given that experts believe that high school attitudes and behaviors and actions are strong predictor of adult behavior across a number of situations.[1] As Kelly et al. put it: cheaters in high school are far more likely as adults to lie to their spouses, customers, bosses, and employers and to cheat on expense reports, taxes, and insurance claims. It is therefore imperative for businesses to take ethics seriously and establish and enforce ethical standards for current and future workers.

Defining "ethics" and identifying "ethical behavior" are not easy tasks. It is has been said that, in general, ethics can be defined as a set of beliefs about right and wrong, good and bad, and business ethics is the application of right and wrong, good and bad in a business setting.[2] Daft and Marcic defined ethics as "the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong" and explained that ethics can be seen as setting the standards for what is good or bad in conduct and decision making when the conduct or decision may harm or benefit others.[3] The Institute of Business Ethics has defined "business ethics" as the application of ethical values to business behavior.

The concept of "ethics management" has been described as a managerial function to regulate the conduct or behavior of the employees from top to bottom through written code or unwritten code and as a managerial tool to enforce integrity of employees where codified rules and regulations are absent yet it is necessary for employees and the company to follow reasonable ethical standards or well-founded standards of right and wrong that prescribe what humans ought to do.[4] Managerial ethics include principal-based ethics that include what is considered fair and ethical in the scope of the workplace (e.g., department boundaries and the use of company equipment), policy-based ethics that cover responses to various situations that arise in the course of day-to-day workplace activities such as conflicts of interest and responding to gifts from vendors and other

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[1] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 55 (citing the 2010 Report Card on the Ethics of American Youth released by the Josephson Institute Center for Youth Ethics that was based on a survey of 43,000 US high school students across the country and found, among other things, that 59% admitted that they cheated on a test at school within the past 12 months; 39% believed that a person has to lie or cheat sometime in order to succeed, even though 84% agreed that it's not worth it to lie or cheat because it hurts your character.; and 72% agreed that it's sometimes OK to hit or threaten a person who made them very angry)..

[2] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 53-54.

[3] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 120.

[4] J. Thangasamy, Meaning of Ethics Management, http://www.academia.edu/4152189/Meaning_of_Ethics_Management [accessed September 1, 2016]

business partners and strategic-based ethics which includes decisions made with regard to the plans that the company intends to pursue to achieve its financial goals and objectives (e.g., deciding whether to outsource manufacturing activities to reduce costs even though it would mean laying off works in the community in which the company is headquartered).[5]

Ethics and ethical behavior has always been a concern for managers; however, ethical issues have become even more important over the years beginning in the early 2000s when news of corporate scandals based on fraud, financial dishonesty and personal greed of senior executives emerged from major US corporations such as Enron, Arthur Andersen, Adelphia, WorldCom and Tyco, In the aftermath of the distressing events at these companies and many others, surveys showed that large numbers of Americans believed that questionable business practices were widespread and that the honesty of CEOs should be questioned. A significant percentage of survey respondents reported that they had personally observed their managers making false or misleading promises to customers, discriminating in hiring or promotions and violating employees' rights.[6] In addition, while most persons would never condone cheating, stealing or lying, the reality is that individuals and companies engage in unethical behavior on a daily basis, often with the knowledge, and outright endorsement, of management.

Another factor that has made business ethics even more complex and challenging is the accelerating globalization of business activities that has pushed executives, managers and employees to interact with counterparts in foreign countries where the answers to questions about what constitutes ethical behavior may be quite different. For example, numerous surveys have shown that a number of countries continue to consider bribery an acceptable, even necessary, practice in order to conduct business.

Two principles that have been recognized under economic theory are relevant to assessing the ethics of a particular situation or decision. Consequential principles focus on the consequences of a specific action or decision and the ethics or "rightness" of the action or decision is determined by calculating the ratio of good to evil that will be produced by the action or decision. Nonconsequential principles are concerned with the concept of "duty" and hold that a person will have acted ethically if he or she has been faithful to a duty in acting or making a decision regardless of the consequences that flow from taking the action or making the decision. While hopefully a particular "duty" will incorporate ethical standards and conduct, the consequences of an action or decision should be the primary consideration for ethical behaviors and should be taken into account before an action is taken or a decision is made.[7]

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[5] A. Burke, What Are Managerial Ethics, http://smallbusiness.chron.com/managerial-ethics-36425.html [accessed September 1, 2016]

[6] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 120.

[7] Notes on "Chapter 9: Management Ethics and Social Responsibility", http://www2.ivcc.edu/aleksy/Fall14/Fall14Mgmt/Plunkett10Ch09.pdf [accessed July 25, 2016]

Kelly et al. observed that clues about the ethical standards that are recognized among any particular group of people can be derived from the legal system governing that group since one of the main purposes of laws and regulations is to establish and enforce ethical norms among members of the group.[8] Laws and regulations provide basic standards of behavior; however, they Kelly et al. cautioned that they are not perfect and there is not always strict alignment between what is "legal" and what is "ethical". For example, it can probably be agreed that producing high quality products, rewarding integrity, treating employees fairly, contributing to the community and respecting the environment are all actions that are both legal and ethical. At the same time, few would argue that embezzling money, encouraging fraudulent accounting or colluding with competitors to raise prices for consumers is both illegal and unethical. However, the law becomes a dubious proxy for ethical standards when the activity is lawfully promoting R-rated movies to young teens. Similarly, providing favorable pricing only to distributors in underserved areas with the expectation that consumers in those areas would be the beneficiaries of low prices that would make the products affordable for them would likely run afoul of antitrust laws even though the ethical value of the practice is clear.

The discussion above is intended to illustrate that laws and regulations are often, at best, the minimum standards for ethical behavior and may even legitimize behavior that is unethical or restrict individuals or companies from taking ethical actions. Kelly et al. pointed out that another issue with respect to behaving in an ethical manner is that many people develop individual standards that will vary depending on the context. They noted that, for example, while most people understand that it is both illegal and unethical to shoplift items from an office supply store, it is commonplace for workers to "borrow" paper clips, pens, pencils and paper from their workplace and rationalize these actions by explaining that the company won't miss the items and he or she is underpaid anyhow. Calling in sick on days when the employee has personal business is also a normal activity and while the employee acknowledges this is lying he or she does not want to lose one of his or her limited vacation days. Managers often rationalize awarding contracts to friends and family owners on the grounds that "they need the work" even though it means that other qualified and equally needy vendors don't get a shot at the assignment.[9]

Daft and Marcic suggested that ethics and ethical standards can be understood by reference to a continuum of human behavior that crosses three categories or domains.[10] At one extreme is the domain of "codified law", which includes the legal standards for conduct formally set out in statutes, regulations and court decisions. In the business context, these standards include requirements such as obtaining licenses to engage in certain business activities, paying corporate taxes, refraining from anti-competitive activities prescribed under antitrust laws and fully and truthfully disclosing all material facts about a company's business and financial condition. At the opposite end of the continuum is a second domain, referred to as "free choice", which includes behavior that

[8] The illustrations in this paragraph are adapted from M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 53.
[9] Id. at 54.
[10] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 120-121.

is not covered by any legal standard as to which individuals and companies have complete freedom, at least in the eyes of the law, and are only accountable to themselves. In the middle of the continuum, between law and free choice, is the domain of ethics. No specific laws apply in this domain; however, individuals and companies are not free to act only in their own interest, ignoring the interests of others, but are instead expected to engage in conduct and make decisions based on shared principles and values about moral conduct that guide an individual or company and take into account the interests of the larger community.

Developing an ethical corporate culture reinforced by codes of ethical conduct is a way for companies to intelligently bridge the gap between the domains of codified law and free choice. Compliance with the rule of law is necessary for companies to avoid fines and other sanctions that can cripple their businesses, and sometimes put them out of business altogether. However, it is a mistake to assume that if a law does not apply then companies have a free choice to act as they wish. Ethically-focused companies recognize the middle domain and the role that ethics plays in contributing to the greater social good. A well-written code of ethics supported by a strong ethical corporate culture eliminates the need for writing more formal laws and reduces the dangers associated with allowing executives, managers and employees to make choices based solely on their personal interests.[11] That said, while laws stipulate what is right or wrong—legal or illegal—a code of ethics cannot fully resolve an ethical dilemma on its own and at best provides individuals and companies with tools to identify and understand the dilemma and guidelines for coming to ethical decisions.

When companies encounter financial difficulties, either because of problems in their own operations or due to a general downturn in the economy, there is a sometimes a temptation to act in an expedient manner that may not be the most appropriate from an ethical perspective; however, tough times are the most important times for managers to remain focused on acting with honesty, integrity and transparency and making sure that they deal with their employees in a humane fashion.

§2 Universal standards for ethical behavior

Given the fallibility of laws and regulations as ethical standards and the tendency of people to vary their perceptions of ethical conduct based on the situation, there is a real need for universal ethical standards that everyone can understand and apply in all of the personal and business activities and dealings they encounter. It is certainly fair to question whether such universal standards can be identified for diverse social groups, such as the citizens of a country like the United States; however, Kelly et al. suggested that a good starting point came out of the efforts of educators, community leaders and ethicists working under the auspice of the nonprofit, nonpartisan organization Character

[11] Id. at121.

Counts. The working group identified the following six core values that they believed transcended political, religious, ethnic or class differences[12]:

- Trustworthiness: Be honest; don't deceive, cheat, or steal; do what you say you'll do.
- Respect: Treat others how you'd like to be treated; be considerate; be tolerant of differences.
- Responsibility: Persevere; be self-controlled and self-disciplined; be accountable for your choices.
- Fairness Provide equal opportunity; be open-minded; don't take advantage of others.
- Caring: Be kind and compassionate; express gratitude.
- Citizenship: Contribute to the community; protect the environment; cooperate whenever feasible.

§3 Ethical dilemmas

Elsewhere in this Guide, "business ethics" has been described as the application of right and wrong, good and bad, in a business setting. While this description appears to imply that there are right and wrong answers to all of the ethical issues that businesses, managers and employees must face, the reality is that decisions must often be made when conflicting values are in play and whatever decision is made will have some sort of negative consequences. In other words, all the available options will be "bad", at least to some degree.[13] While companies have promulgated codes of ethics, the reality is that there is no way to create a comprehensive set of ethical standards and there will inevitably be times when there is honest disagreement regarding the most ethically appropriate approach to a situation or decision. At these times, the person responsible for making the decision is confronted with an "ethical dilemma", which Daft and Marcic described as a situation concerning right and wrong when values are in conflict and right and wrong cannot be clearly identified.[14]

For example, a company establishes a reputation as a socially responsible enterprise by engaging in charitable and philanthropic activities including donating goods and services to needy community members and providing employees with paid leave to allow them to participate in charities of their own choosing. While these actions obviously cost money the investment was felt to be worthwhile as long as the company's overall financial performance was improving. However, the company encountered difficulties in the marketplace, fanned by unrest in the overall economy, and reported financial losses for the first time in years and had to lay off employees and outsource activities to overseas vendors in an effort to cut costs. The situation forced top management to consider whether the company's focus on charitable and philanthropic activities, ethical as they were, was harming other key stakeholders of the company (i.e., public shareholders,

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[12] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 54 (citing "Universal Ethical Standards" from the Josephson Institute's Report Card on the Ethics of American Youth Summary (2009)).

[13] Id. at 54.

[14] R. Daft and D. Marcic, Understanding Management (5^{th} Edition) (Mason, OH: South-Western Publishing Co., 2006), 122.

employees who were laid off and the local communities where the outsourced activities previously took place).[15]

Here are other illustrations of ethical dilemmas that might arise in the workplace[16]:

- A valued employee asks for time off to undergo treatment for a serious health condition. The manager knows the employee needs the job and the associated health insurance benefits; however, the treatment will substantially increase the company's health insurance premiums at a time when money is tight. Moreover, the company will need to spend money on contract workers to take up some of the slack while the employee is out of the office. The manager is aware that government regulations permit companies to cap benefits for the treatment required by the employee. The manager needs to decide whether to pursue that possibility, knowing that the employee will likely not be able to pay for the rest of the treatment on his or her own.
- A company is struggling financially; however, a proposed new product can be manufactured at significant cost savings due to changes in environmental regulations that will allow the company to release higher levels of waste water into local waterways. An engineer is concerned about the health aspects of the project but her concerns fail to move managers of the company who argue that there only obligation is to comply with the law and if regulators are not doing enough to protect the environment that's not the company's problem.
- A sales representative for a pharmaceutical company is asked to promote a new drug that has been priced significantly higher than an existing comparable product yet has been shown to be no more than 1% more effective than the old product. Selling the new product means more commissions for the sales rep; however, can he or she in good conscience ask customers to pay so much more when the potential benefits are so small? On the other hand, lives are at stake when drug treatments are involved and even a 1% better result can have a real impact over a large group of customers.
- A company is making plans to build a new manufacturing plant in a foreign country where local labor costs are cheaper than in the US and building requirements are much more lax. The company could actually save a lot of money by not incorporating pollution control equipment into the new plant—equipment that would be required in the US but would not be mandated by local regulators. While this would save a lot of money for the company, it is very likely that once the plant is up and running it will, because of the lack of equipment, emit pollutants that will do significant damage to the local fishing industry. If the company does include the pollution control equipment in its plans the entire project may become too expensive, meaning that the company must continue with existing manufacturing methods that increase product costs to all consumers and that the new jobs that would have been created in the foreign country will be lost.

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[15] Adapted from a case study of Timberland appearing in R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 119.
[16] Adapted from R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 122-123, 150; and M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 55.

- Richard has done a great job on several projects and Janice, his supervisor, has praised him and told him that he should certainly qualify for a bonus. However, Janice finds out that bonuses will be suspended for all employees for at least six month and privately tells Richard that if he submits inflated expenses reports for the next couple of months she won't challenge them so that he can get some deserved extra compensation for his work on behalf of the company. Even though Richard and Janice both know that the plan violates company policies and basic ethical standards, the amount in question, although important to Richard, would be immaterial to the company and likely would not be missed in the grander scheme of things.
- Susan, a top-notch engineer, has told James, her supervisor, that she has received an excellent job offer from another company and needs to make a decision soon. Susan seeks advice from James as to whether or not she should take the position. She values his opinion because they have worked closely for several years and he has always been fair and open with her. At the time the situation arises, Susan and James are working on an important project that is crucial to the company generally and to James' career in particular. He needs to have Susan on board to finish the project; however, he's just been told that when the project is over the company will be letting go all of its internal engineers, including Susan. Does James advise Susan to stay, which means she will lose the current opportunity and her job with the company while James gets applause (and more) for completing the project, or does he tell her that she should leave now, which means that James will have violated the company's trust and that the project may fail and his career progress with the company will be endangered?

The list of ethical dilemmas is seemingly endless and includes commonplace requests to delay posting of expenses in violation of internal accounting rules to meet monthly or quarterly profit goals to deciding whether to report a colleague's apparent viewing of sexually explicit content on a company computer in violation of company policy when the computer was in the colleague's private office—away from public view—and there is no evidence that the viewing adversely impacted the colleague's productivity. Dilemmas involve uncertainty and stress, either as to whether or not a particular action or decision is "rights" or ethical or because all of the potential actions are likely to be judged unethical by some standard.[17]

Clearly, managers and employees need some framework and guidelines to help them make sense of and resolve the ethical dilemmas they encounter at the worksite and in meetings where important strategic decisions are being made. While each ethical dilemma is complex and carries its own unique set of facts and circumstances, there are patterns that can be observed. Daft and Marcic suggested that most ethical dilemmas involve a conflict between the needs of the part and the whole (i.e., the individual versus the organization or the organization versus society as a whole) or between two groups. For example, the decision about whether to impose mandatory drug testing requirements on employees pits individual rights of privacy against the organization's needs for greater safety and productivity in the work environment. Similarly, the dilemma described above

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[17] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 131.

about whether to voluntarily introduce pollution control equipment in a new foreign manufacturing plant even though not required by local regulations calls for resolving a trade-off between the financial position of the company and the health and safety of citizens in the foreign country. The same dilemma also illustrates how the interests of two groups may clash. Assuming that it is true that the only way the company can afford to build the new plant is to do without the pollution control equipment, a decision to move forward benefits those within the local community who are able to get one of the badly needed new jobs and provide for their families but also puts those persons, their families and others in the community at risk for the expected adverse effects of pollution from operation of the plant.

§4 Criteria for ethical decision making

Given the ethical dilemmas and decisions that managers and employees must confront continuously as the carry out the duties for their organizations, it would be useful if they could refer to guidelines or criteria for considering their alternative options and making the most appropriate choices. Daft and Marcic explained that ethical decisions and behavior are typically guided by a value system and described four value-based approaches used in normative ethics as criteria for ethical decision making[18]

- Utilitarian approach: The ethical concept that moral behaviors produce the greatest good for the greatest number.
- Individualism approach: The ethical concept that acts are moral when they promote the individual's best long-term interests, which ultimately leads to the greater good.
- Moral rights approach: The ethical concept that moral decisions are those that best maintain certain fundamental rights of those people affected by them.
- Justice approach: The ethical concept that moral decisions must be based on standards of equity, fairness, and impartiality.

The following sections described each of these approaches in more detail. In addition, while understanding each of these approaches is helpful in setting out general principles, managers still need help in applying them to real world situations and should also refer to guidelines and recommendations relating to decision making processes that have been suggested by ethics experts, some of which are listed in another section below.

§5 --Utilitarian approach

The utilitarian approach is based on the assumption that moral behaviors produce the greatest good for the greatest number and a person applying this approach to his or her decision making must consider the impact of each alternative on all parties directly affected by the decision and choose the alternative that optimizes the satisfaction for the greatest number of people. According to Daft and Marcic, the utilitarian approach is the rationale behind the decision of companies to police the personal habits of employees,

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[18] The discussion in this section and in the following sections regarding the four approaches to ethical decision making are adapted from R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 123-125.

such as alcohol consumption and smoking on the job and personal use of the Internet on company computers, in order to maintain the company's ethical climate and overall workplace productivity. While making the choice that will satisfy the greatest number of people makes sense on its face, there is a real risk that others outside of that group will be unfairly disadvantaged. For example, one state's decision to finance expansion of health care services to previously ineligible recipient by eliminating funding for high-cost, high-risk procedures that would benefit only a small number of people follows from application of the utilitarian approach; however, critics of the decision argued that it was unjust to deny treatment to persons who were unfortunate enough to be victims of life-threatening diseases. The concept of "justice" is integral to the justice approach to ethical decision making discussed below.

§6 --Individualism approach

According to the individualism approach acts are moral when they promote the individual's best long-term interests. Everyone is expected and permitted to pursue individual self-direction and limits should be placed on external forces, such as laws, that would restrict self-direction. When a decision has to be made an individual selects the option among many alternatives that provides the greatest ratio of good-to-bad for him or her. While this sounds self-serving, the theory is that everyone pursuing self-direction will ultimately lead to the greater good for all since people will learn to accommodate each other in their own long-term interest and will deal with one another with honesty and integrity since that it what they expect from others in return. The problem with the individualism approach is that it can be used to justify short-term self-interested choices that are actually made for immediate self-gain with no real intent to eventually create some greater good for others.

§7 --Moral rights approach

The moral rights approach is based on the ethical concept that moral decisions are those that best maintain certain fundamental rights of those people affected by them. Applying this approach requires consideration of the following six moral rights during the decision making process:

1. *The right of free consent*. Individuals are to be treated only as they knowingly and freely consent to be treated.
2. *The right to privacy*. Individuals can choose to do as they please away from work and have control of information about their private life.
3. *The right of freedom of conscience*. Individuals may refrain from carrying out any order that violates their moral or religious norms.
4. *The right of free speech*. Individuals may criticize truthfully the ethics or legality of actions of others.
5. *The right to due process*. Individuals have a right to an impartial hearing and fair treatment.
6. *The right to life and safety*. Individuals have a right to live without endangerment or violation of their health and safety.

When applying the moral rights approach to ethical decision making, managers place great importance on avoiding unreasonable interference with one or more of the above-mentioned individual rights of other persons involved. For example, protection of whistleblowers is consistent with the right of free speech and avoiding eavesdropping on the conversations of employees follows from their right to privacy. The right to due process is relevant to steps that managers take in investigating claims of misconduct made against employees.

§8 --Justice approaches

According to the justice approach, moral decisions must be based on standards of equity, fairness, and impartiality, and managers are expected to pay attention to three different types of justice:

- Distributive justice: Different treatment of people should not be based on arbitrary characteristics. Individuals who are similar in respects relevant to a decision should be treated similarly, which means that men and women performing the same job should be paid the same amount. However, when there are substantive differences between people, such as differences in their job skills or responsibilities, they should be treated differently in proportion to the differences among them provided that the differences have a clear relationship to organizational goals and tasks.
- Procedural justice: Rules should be clearly stated, administrated fairly and consistently and impartially enforced.
- Compensatory justice: Individuals should be compensated for the cost of their injuries by the responsible party and should not be held responsible for matters over which they have no control.

Daft and Marcic explained that the justice approach is the foundation of many of the principles of human resources management justifies efforts to correct past injustices, encourage fair play under the rules and insist that different levels of pay or promotion opportunities be based solely on job-relevant differences between persons.

§9 Ethical organizations

Each individual brings his or her own ethical profile to the workplace and is ultimately responsible for his or her actions or decisions from an ethical perspective; however, organizations can and do have an impact on the quality of the ethical decisions that are made by their executives, managers and employees and the ethical principles that they follow and refer to in making those decisions. Managers have a responsibility to create and sustain organizational conditions that maximize the likelihood that the members of the organization will behave in an ethical manner. Simply put, managers must work to support an "ethical organization" grounded in three fundamental pillars[19]:

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[19] R. Daft and D. Marcic, Understanding Management (5^{th} Edition) (Mason, OH: South-Western Publishing Co., 2006), 140 (citing L. Treviño, L. Hartman, and M. Brown, "Moral Person and Moral Manager", California Management Review, 42(4) (Summer 2000), 128).

- Ethical individuals: Managers who act with integrity and honesty, inspire trust, treat people right, play fairly and have high levels of personal moral development
- Ethical leadership: Leaders who are role models for ethical behavior and who uphold ethical values in the organization, communicate about ethics and values, publicly celebrate and reward ethical behavior and publicly practice swift discipline of unethical behavior
- Organizational structures and systems: Ethical behavior and decision making is encouraged, expected and supported by an ethical organizational culture, codes of ethics, appointment of a chief ethics officer and creation of an ethics committee, ethics training and whistleblower mechanisms and protections

In addition, the ethical values within the organization and the approaches taken to make ethical decisions are influenced by things such as the reward system, the extent to which the company cares for its people, the selection system, emphasis on legal and professional standards and leadership and decision processes.[20]

§10 --The ethical manager

What any particular individual believes to be ethical depends on his or her own unique personality; however, people will also be influenced by their families, their social group and the societal culture in which they live. Applicable laws and regulations are also relevant; however, laws and regulations generally set minimum ethical standards and do not provide all of the answers to ethical dilemmas. Daft and Marcic observed that each manager brings his or her own specific personality and behavioral traits to the job and that a manager's value system is shaped by his or her personal needs, family influence and religious background.[21] They argued that a manager's ability to make ethical decision depends heavily on certain personal characteristics including ego strength, self-confidence, a strong sense of independence, and the level of personal moral development. With respect to personal moral development, Daft and Marcic suggested that people could be placed within a model that had three levels[22]:

- Preconventional level: At this basic level individuals are concerned with external rewards and punishments and obey authority to avoid detrimental personal consequences. The leadership style associated with this level is autocratic or coercive and employees are primarily focused on dependable accomplishment of the specific tasks that have been assigned to them.
- Conventional level: At this next level people have learned to conform to the expectations of good behavior set by their colleagues, family, friends and society in

[20] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 131.
[21] Id. at 126.
[22] Id. at 126-127 (citing L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Developmental Approach," in T. Lickona (Ed.), Moral Development and Behavior: Theory, Research, and Social Issues (New York: Holt, Rinehart, and Winston, 1976), 31; and J. W. Graham, "Leadership, Moral Development and Citizenship Behavior," Business Ethics Quarterly, 5(1) (January 1995), 43).

general and place greater importance on meeting their social and interpersonal obligations. The preferred leadership style is guiding, encouraging and team-oriented and employees prefer work group collaboration to accomplish organizational goals.

- Postconventional level: The highest level, also referred to the principled level, finds individuals guided by an internal set of values and standards regarding justice and right and may disobey rules or laws that violate these principles and/or defy the expectations of others inside or outside the organization. At this level an individual acknowledges that people hold different values and seeks to creative solutions to ethical dilemmas that balance concern for the individual and concern for common good. Transforming or servant leadership is the preferred leadership style and employees are empowered and fully participating in decision making.

Managers should feel a duty and obligation to strive to achieve the highest level of personal moral development. Daft and Marcic opined that the great majority of managers operate at level two, a few have not advanced beyond level one and only about 20% of all adults in the United States reach the postconventional, or principled, level of personal moral development. An individual's aspirations to act in an ethical fashion will inevitably be challenged by basic fears and other emotions that can cloud their judgement at any particular moment. For example, the pressure to behave unethically can become intense when a person is concerned about losing his or her job, feeling pressure from time and management to produce results, pursuing his or her personal ambitions for attainment of career goals or acting out a revenge for a perceived wrong inflicted upon him or her by a person or the company itself.[23]

Moreover, not only must managers discipline themselves to act in an ethical manner—adhering to standards of fairness and acting properly and ethically in their dealings with others—they must also be prepared and able to encourage the moral development of other members of the organization and provide encouragement, guidance and support for the ethical behavior of all employees.[24] Companies have begun including ethical factors in the performance review criteria used for managers, such as gauging how well managers treat their employees and otherwise live up to the standards set out in the company's code of ethics.

§11 --Ethical organizational culture

While individual integrity and ethical values play a large role in any one person's behavior and decisions, executives, managers and employees are inevitably influenced by the values, attitudes, beliefs, expectations and behavior patterns of the organizational culture in which they operate.[25] This is particular true given that most people are at level two of personal moral development and thus feel a strong duty to fulfill the obligations and expectations of others including the persons in their specific social networks within

[23] Notes on "Chapter 9: Management Ethics and Social Responsibility", http://www2.ivcc.edu/aleksy/Fall14/Fall14Mgmt/Plunkett10Ch09.pdf [accessed July 25, 2016]
[24] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 141.
[25] Id. at 129-130.

their organization. A strong corporate culture can be an important tool in helping executives, managers and employees make ethical decisions in a continuously shifting business environment that brings changes on a daily basis and creates new problems for which solutions have yet to be developed. While hopefully the obligations and expectations embedded in the organizational culture are ethically sound, if a person works within a team, department or an entire organization where unethical behavior is tolerated or even encouraged it is more likely that he or she will be socialized into thinking that it is necessary to follow suit. In fact, a person working in that type of culture may became fearful about losing his or her job if she does not go along with the unethical behavior.

Common elements of organizational culture can be used to create and enhance an ethical mindset among executives, managers and employees. Daft and Marcic suggested that high ethical standards can be affirmed and communicated through public awards and ceremonies and that people can be recognized and celebrated as organizational heroes, and thus role models, based on their ethical decision making practices.[26] They recommended consideration of the following questions as a process for analyzing a company's cultural impact on ethics[27]:

- Identify the organization's heroes. What values to they represent? Given an ambiguous ethical dilemma, what decision would they make and why?
- What are some important organizational rituals? How do they encourage or discourage ethical behavior? Who gets the awards: people of integrity or individuals who use unethical methods to attain success?
- What are the ethical messages sent to new entrants into the organization—must they obey authority at all costs, or is questioning authority acceptable or even desirable?
- Does analysis of organizational stories and myths reveal individuals who stand up for what's right, or is conformity the valued characteristic? Do people get fired or promoted in these stories?
- Does language exists for discussing ethical concerns? Is this language routinely incorporated and encouraged in business decision making?
- What informal socialization processes exist, and what norms for ethical/unethical behavior do they promote?

Victor and Cullen created a series of questions and accompanying scoring system to help managers measure the strength of the ethical work climate at their companies.[28] The questionnaires called for respondents to provide answers to the following questions on a scale of "1-to-5", with "5" being strong agreement and "1" being strong disagreement:

1. What is the best for everyone in the company is the major consideration here.

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[26] Id. at 131.

[27] Id. at 132 (citing L. Trevino, "A Cultural Perspective on Changing and Developing Organizational Ethics", in R. Woodman and W. Pasmore (Eds.), Research in Organizational Change and Development (Greenwich, CN: JAI Press, 1990), 4).

[28] Id. at 130-131 (citing B. Victor and J. Cullen, "The Organizational Bases of Ethical Work Climates," Administrative Science Quarterly 33 (1988), 101).

2. Our major concern is always what is best for the other person.
3. People are expected to comply with the law and professional standards over and above other considerations.
4. In this company, the first consideration is whether a decision violates any law.
5. Following the company's rules and procedures is important here.
6. People in this company strictly obey the company policies.
7. In this company, people are mostly out for themselves.
8. People are expected to do anything to further the company's interests regardless of the consequences.
9. In this company, people are guided by their own personal ethics.
10. People in this company decide for themselves what is right and wrong.

The questions were designed to measure specific dimensions of an organization's ethical climate: caring for people (Questions 1 and 2); lawfulness (Questions 3 and 4); rules adherence (Questions 5 and 6); emphasis on financial and company performance (Questions 7 and 8) and individual independence (Questions 9 and 10). In order to get a total score, one began by subtracting each of the scores for questions 7 and 8 from the number 6 (e.g., if one answered "4" to each of those questions they would subtract "4" from "6" to get an adjusted score of "2"). Once that was done all of the adjusted scores for all the questions were added up to get a total score that indicated the following: above 40 indicated a positive ethical climate; 30 to 40 indicated an above-average ethical climate; 20 to 30 indicated a below-average ethical climate; below 20 indicated a poor ethical climate.

Kelly et al. reported on research carried out by the Ethics Resource Center that suggested that organizational culture has more influence than any other variable on the ethical conduct of individual employees and that, in fact, organizations with a strong ethical culture had significantly lower levels of observed misconduct.[29] Kelly et al. noted that the ERC found that the key elements of a strong organizational culture included displays of ethics-related actions at all levels of an organization and accountability at all levels for acting in a manner that conforms to company standards (i.e., the company proactively and consistently confronts misconduct and establishes and enforces a rigorous system of sanctions and remedial actions to reduce the likelihood of recurrences).

§12 --Ethical leadership

An ethics-based organizational culture is essential; however, surveys have repeatedly found that the "tone at the top", the actions and behaviors of organizational leaders, is possibly the greatest influencer of organizational ethics. Everyone throughout the organization, managers and employees, follow the actions of the chief executive officer ("CEO") and quickly hear of ethical lapses. As such, it is essential for the CEO and the

[29] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 57 (citing National Business Ethics Survey: How Employees View Ethics in Their Organizations, 1994–2005, Ethics Resource Center, October 12, 2005, http://www.ethics.org/research/2005-press-release.asp; and Ethics Resource Center, 2009 National Business Ethics Survey, http://www.ethics.org/nbes/files/nbes-final.pdf, (accessed May 14, 2010)).

other members of his or her executive team to make a public commitment to ethical behavior and decision making and proactively communicate with others in the organization on ways in which they can and should act to further the organization's ethical values and standards. Kelly et al. quoted a former CEO of Deere, a widely recognized as an ethical and highly performing enterprise, who said that the tone at the top needed to be reinforced by the actual behavior observed by suppliers, dealers, customers, and employees and that ethical words were not effective unless they were "backed up with documented practices, processes, and procedures, all understood around the globe".[30] In addition, organizational leaders should create and rigorously administer evaluation and reward systems that take into account ethical goals and standards when decisions are made regarding compensation and promotion. At the same time, codes of ethics should be vigorously enforced and it should be clear to everyone in the organization that failure to act in an ethical manner will lead to swift and severe disciplinary action.[31]

Setting the right tone means not only visible positive actions such as supporting local charities but also consciously avoiding actions and behaviors that send the wrong message such as ostentatious use of company airplanes, if there are any; expensive "retreats" for members of the executive team; gaudy refurbishing of the personal offices of executives; excessively large severance packages for executives; and spending lavish amounts of company funds on entertainment and recreation.[32] Some executives justify these types of actions by arguing that they are immaterial when balanced against the company's overall emphasis on socially responsible products and business practices; however, one misstep can undo years of effort to build a company's brand as an ethical organization. CEOs have also been known to engage in highly unethical behavior that did not necessarily generate immediate benefits for themselves but was calculated to create a competitive advantage for the company. One example is John Mackey, the co-CEO and co-founder of the well-known socially responsible branded company Whole Foods, who was found to have made literally thousands of anonymous posts on social media over several years promoting Whole Foods and disparaging a competitor to drive down that company's value to the point where Whole Foods could launch a takeover bid at advantageous pricing.[33]

While direct responsibility for the "tone at the top" lies with the CEOs and others on the front lines of the company's daily business operations, the board of directors also has a fiduciary and ethical duty to the shareholders and other stakeholders of the company to be mindful of actions and transactions that may be perceived as being ethically unsound. In fact, to the extent that one of the traditional, albeit arguably narrow, duties of the board is to protect and enhance shareholder value, knowingly countenancing acts and contractual relationships with officers that reflect poorly on the company's reputation may rightly be

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[30] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 57.

[31] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 141.

[32] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 56.

[33] Id. at 57.

construed as a fiduciary failure on the part of directors. For example, shareholders, employees and other stakeholders might reasonably look askance on directors who have approved gaudy severance packages for CEOs who oversaw extended periods of poor performance and who appear to sit idly by as the media releases embarrassing reports of CEO expenses and/or unethical practices in the company supply chain come to light.

§13 --Code of ethics

One of the elements of a strong ethically-focused organizational culture is formal documents that provide concrete guidelines for ethical behavior and making ethical decisions. Companies of all sizes have taken to creating formal ethics programs and the centerpiece of these programs is a written code of ethics that serves as a formal statement of the organization's values concerning ethics and social issues.[34] The code of ethics explicitly announces the company's intent to act in an ethical manner in furtherance of its core values and lays out overriding principals and specific rules and procedures that employees are expected to follow when confronted with an array of common situations that raise ethical dilemmas. The code of ethics should be supported by continuous communications to employees and appropriate training programs.

Codes can be presented using several different approaches and formats. For example, the code of ethics for some organizations are essentially a list of core principles intended to define fundamental values that organizational leaders hope to infuse into the organization's culture. Each core principle is accompanied by a brief description. Boeing's principles cover the following[35]:

- *Integrity*: We take the high road by practicing the highest ethical standards and honoring our commitments. We take personal responsibility for our own actions.
- *Quality*: We strive for first-time quality and continuous improvement in all that we do to meet or exceed the standards of excellence stakeholders expect of us.
- Safety: We value human life and health above all else and take action accordingly to maintain the safety of our workplaces, products and services. We are personally accountable for our own safety and collectively responsible for each other's safety. In meeting our goals for quality, cost and schedule, we do not compromise safety.
- *Diversity and Inclusion*: We value the skills, strengths and perspectives of our diverse team. We foster a collaborative workplace that engages all employees in finding solutions for our customers that advance our common business objectives.
- *Trust and Respect*: We act with integrity, consistency, and honesty in all that we do. We value a culture of openness and inclusion in which everyone is treated fairly and where everyone has an opportunity to contribute.
- *Corporate Citizenship*: We are a responsible partner, neighbor and citizen to the diverse communities and customers we serve. We promote the health and wellbeing of Boeing people, their families and our communities. We protect the environment. We volunteer and financially support education and other worthy causes.

[34] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 142.
[35] http://www.boeing.com/principles/vision.page [accessed July 27, 2016]

- *Stakeholder Success*: By operating profitably and with integrity, we provide customers with best-value innovation and a competitive edge in their own markets; enable employees to work in a safe, ethical environment, with a highly attractive and competitive mix of pay and benefits, and the ability to further share in the company's success; reward investors with increasing shareholder value; conduct business lawfully and ethically with our suppliers; and help to strengthen communities around the world.

Companies may recite certain core principals and commitments regarding their operations such as eliminating all forms of forced and compulsory labor; condemning work by children under the age of 15, except for training; eliminating all unlawful discrimination with respect to hiring and job performance; promoting individual success; ensuring a favorable working environment at all company sites; promoting local employment and respect local laws; taking initiatives in favor of more responsible environmental practices; fighting corruption in all forms; guaranteeing the security of the company's assets and those of its clients and customers; and ensuring the confidentiality of client and customer information and respecting data privacy laws.[36]

The well-known Johnson & Johnson "Credo" takes a different approach and covers the company's duties and responsibilities to four key groups of stakeholders[37]:

- The doctors, nurses and patients, mothers and fathers and all others who use the company's products and services: To this group the duties include providing high quality, reasonable prices, prompt and accurate service and an opportunity for suppliers and distributors to make a fair profit.
- Employees: All of the men and women who work for the company are entitled to respect for their dignity, recognition for their merit, a sense of security in their jobs, fair and adequate compensation and clean, orderly and safe working conditions.
- The communities in which the company lives and works and the world community: The company's obligation is to act as a good citizen, support goods works and charities, encourage civil improvements and better health and education, protect the environment and bear its fair share of taxes.
- Stockholders: Stockholders are entitled to a fair return on their investment and the company must be make a sound profit in order to sustain its operations and have the ability to experiment with new ideas, engage in research and innovative programs, purchase new equipment, provide new facilities, launch new products and fund reserves that can be relied upon in adverse times.

Other organizations implement codes of ethics or conduct that are based on setting out policies and procedures that members of the organization are expected to following in specific ethical situations. As is the case with the principle-based approach, the intent is that the code will serve as a foundation for the workplace culture and a guide for

[36] Adapted from Ethics Charter of Cegedim as in effect as of March 2011.
[37] http://www.jnj.com/about-jnj/jnj-credo/ [accessed July 26, 2016]

conducting business affairs in an ethical manner. For example, the code of ethics or conduct may require that employees:

- Not engage in any activity that might create a conflict of interest for the employee or the organization and inform his/her management of potential conflicts of interests that may give the impression of influence over his/her judgment and actions
- Not take advantage of their organizational position to seek personal gain through the inappropriate use of organizational or non-public information or abuse such position
- Follow all restrictions on use and disclosure of confidential information including following all requirements for protecting organizational information and ensuring that non-organizational proprietary information is used and disclosed only as authorized by the owner of the information or as otherwise permitted by law
- Ensure that gifts and invitations received or offered have a symbolic value in accordance with acceptable local practices, regulations and customs
- Apply organizational communication rules when communicating on behalf of the organization, particularly in relation to journalists and analysts, and make refrain from making public statements that contradict with the organization's stated objectives and operating philosophy.
- Observe fair dealing in all of my transactions and interactions
- Protect all organizational, customer and supplier assets and use them only for appropriate organization approved activities
- Without exception, comply with all applicable laws, rules and regulations
- Promptly report any illegal or unethical conduct to management or other appropriate authorities

Another approach in drafting a code of ethics or conduct is to include a framework that employees can use to evaluate and resolve an ethical issue. For example, one organization urged its employees to go through the following questions[38]:

- Is this action legal?
- Does it comply with company policies and/or good business conduct?
- Is it something I would not want my supervisors, fellow employees, subordinates or family to know about?
- Is it something I would not want the general public to know about?

In addition to these questions, employees were provided with specific policies and procedures covering conflicts of interest, unfair competition, relations with customers and suppliers, protection of confidential information and acceptance of gifts and favors.

While the specifics the code of ethics will vary substantially among organizations, it is possible to identify certain core characteristics and elements of an effective code that will actually be followed by everyone within the organization. Kelly et al. argued that

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[38] R. Daft and D. Marcic, Understanding Management (5^{th} Edition) (Mason, OH: South-Western Publishing Co., 2006), 143 (citing the code of ethics of Journal Communications, the parent company of *The Milwaukee Journal* newspaper).

organizations should take each of the following steps in order to ensure that their efforts to create a meaningful and impactful code of ethics are successful[39]:

"1. Get executive buy-in and commitment to follow-through. Top managers need to communicate—even over-communicate—about the importance of ethics. But talking works only when it's backed up by action: senior management must give priority to keeping promises and leading by example.
2. Establish expectations for ethical behavior at all levels of the organization, from the CEO to the nighttime cleaning crew. Be sure that outside parties such as suppliers, distributors, and customers understand the standards.
3. Integrate ethics into mandatory staff training. From new-employee orientation to ongoing training, ethics must play a role. Additional, more specialized training helps for employees who face more temptation (e.g., purchasing agents, overseas sales reps).
4. Ensure that your ethics code is both global and local in scope. Employees in every country should understand both the general principles and the specific applications. Be sure to translate it into as many languages as necessary.
5. Build and maintain a clear, trusted reporting structure for ethical concerns and violations. The structure should allow employees to seek anonymous guidance for ethical concerns and to report ethics violations anonymously.
6. Establish protection for whistleblowers, the people who report illegal or unethical behavior. Be sure that no retaliation occurs, in compliance with both ethics and the Sarbanes-Oxley Act. Some have even suggested that whistle-blowers should receive a portion of the penalties levied against firms that violate the law.
7. Enforce the code of ethics. When people violate ethical norms, companies must respond immediately and—whenever appropriate—publicly to retain employee trust. Without enforcement, the code of ethics becomes meaningless."

§14 --Compliance programs

Since laws can form the boundaries and a basis for human and corporate conduct, and laws and ethics together define acceptable behavior, companies should implement compliance programs as a fundamental aspect of their overall ethics initiatives.[40] Compliance programs build awareness among executives, managers and employees of the specific legal requirements that are applicable to the company's activities and which need to be considered when taking actions within the company (e.g., actions and decisions subject to laws and regulations relating to the employment relationship) and in dealings with customers, suppliers, regulators and other external stakeholders.

§15 --Organizational structures and systems

In addition to leadership, organizational culture, codes of ethics and compliance programs, organizations striving to improve their ethical profile create various

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[39] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 58.
[40] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 131.

organizational structures and systems to help put values into practice and shape and influence ethical behavior throughout the organization. One structural move is the creation of an ethics committee and the appointment of a chief ethics officer. The role of the ethics committee, which is composed of executives from different functional areas, is to oversee the company's ethics and this includes interpreting, clarifying and communicating the codes of ethics, resolving thorny ethical issues and, quite importantly for the signals sent to other managers and employees, disciplining wrongdoers. The activities, duties and responsibilities of the committee should be laid out in a charter that is vetted and approved by the board of directors and distributed to all executives, managers and employees. Such a charter might provide for the committee to[41]:

- Oversee the company's ethics initiatives;
- Oversee and help shape the definition of the company's value proposition;
- Oversee management's efforts to enhance and communicate the company's value proposition, evaluate management's progress and provide feedback on these efforts;
- Review and assess the company's organizational culture to determine if further enhancements are needed to foster ethical decision-making by employees;
- Oversee management's efforts to support ethical decision-making in the organization, evaluate management's progress and provide feedback on these efforts;
- Review and/or provide input to management on the implementation and effectiveness of the company's ethics initiatives, including training on ethical decision-making and the processes for the reporting and resolution of ethics issues;
- Review the company's code of ethics at least annually and make recommendations to management regarding changes to the codes;
- Assess whether the company's code of ethics and the company's other internal ethical policies and guidelines instill appropriate ethical behavior in the company's organizational culture, business practices and employees;
- Approve any waivers to the code of ethics;
- Review employee training materials regarding the code of ethics prior to distribution to company personnel;
- Advise management on the company's response to behavioral issues and its communications with employees on these issues; and
- Make recommendations to the personnel and compensation committees of the board of directors on possible employee compensation actions, such as "clawbacks" and other remedies, to reward ethical behavior and discourage unethical behavior.

The ethics committee is led by a chief ethics officer, who is an executive of the company with responsibility for overseeing all aspects of ethics including establishing and broadly communicating standards, ethics training, dealing with exceptions or problems, advising senior managers as they make ethical decisions, providing counseling for employees faced with ethical dilemmas and establishing and administering confidential hotlines that managers and employees can use to report behavior they believe to be unethical or otherwise questionable. In some cases the chief ethics officer is also the chief

[41] Adapted from the Citigroup Inc. "Ethics and Culture Committee Charter" as in effect as of January 29, 2016. See http://www.citigroup.com/citi/investor/data/ethicsculturecharter.pdf [accessed July 27, 2016].

compliance officer and thus responsible for legal compliance; however, it is common to separate these two positions given that law and ethics are really separate domains of human behavior. Chief ethics officer is a full-time position and companies generally budget for creation and staffing of an ethics office to support the activities described above, provide the ethics committee with reports and other relevant information and ensure that ethics becomes an accepted part of the operations of the company.[42] A job description should be prepared for the chief ethics officer and typically includes duties and activities such as the following:

- Lead and provide oversight of the company's ethics program to assure compliance with legal, regulatory, policy and ethical requirements impacting the company;
- Develop, revise as necessary and monitor implementation of the company's ethics plan, consistent with emerging best practices in the company's industry;
- Provide oversight of the company's ethics risk assessment process;
- Develop, revise as necessary and monitor implementation of the company's ethics program policies;
- Provide oversight of the company's ethics program training and education;
- Provide oversight of the company's ethics hotline and assure that questions and concerns raised through the hotline are promptly and appropriately addressed;
- Provide oversight of all ethics-related investigations, working with outside counsel as necessary;
- Chair the company's ethics committee;
- Provide ethics program updates at regular meetings of the board of directors and/or the committee of the board charged with oversight of ethics issues;
- Provide oversight for periodic, independent assessment of the effectiveness of the company's ethics program;
- Apprise the CEO, senior management and members of the board of directors about the company's ethics program; trends, issues, and best practices in ethics programs;
- Unless prohibited by law or in deference to an ongoing investigation by a law enforcement agency, apprise the board of directors and/or the committee of the board charged with oversight of ethics issuer in a timely manner of actual or alleged instances of material fraud by employees, actual or alleged criminal acts perpetrated by an executive, manager or employee of the company, matters required to be referred to or otherwise involving a governmental entity (e.g. a Federal, State or local oversight agency), other ethics and compliance related matters that pose a high probability of garnering significant negative publicity or media attention and other significant ethics and compliance related matters that in the judgment of the ethics officer warrant reporting;

Reporting channels for the chief ethics officer should be carefully considered. In general, the position reports to the CEO with a dotted-line reporting structure to the chair of the committee of the board of directors responsible for overseeing ethics issues, which may be the audit committee or a separate ethics committee that also has authority over related

[42] A number of support resources are available for persons serving as chief ethics officer including the Ethics and Compliance Officer Association.

areas such as compliance and/or corporate governance. If an ethics issue arises with respect to the CEO and/or other members of the executive team, the chief ethics officer should report the matter directly to the appropriate board member and seek guidance from the relevant board committee as to the steps that should be taken with respect to notifying the CEO.

Ethics training is one of the most important activities for the chief ethics officer and his or her staff and companies implement training programs as a means for assisting executives, managers and employees in identifying ethical issues and applying the principles of the code of ethics to their day-to-day activities. Larger companies typically require all employees to participate in ethics training at least annually and many firms, large and small, have training events more frequently (e.g., weekly or monthly meetings to discuss workplace ethics and role play the proper steps for assessing commonplace ethical dilemmas). Of course, a training program will only be effective if organizational leaders support and practice the principles that are covered in the program.

One area where the law has moved over the soft line between the legal and ethical domains is "whistleblowing", which is disclosure by managers or employees of illegal, immoral, illegitimate, dangerous or unethical practices by or on behalf of their employer. For a long time, whistleblowers had no practical internal path for reporting wrongdoing and often made their disclosures to outside parties such as regulators, legislators or reporters. This was often done because whistleblowers feared that internal reporting would not be taken seriously and/or would jeopardize their positions with the company. Recently, however, companies have begun to see that whistleblowing is a benefit to the company and have established procedures to make it easier for reports to be filed and, quite importantly, protect whistleblowers from retaliation. While these steps have been positive, and protection from retaliation is now mandated by federal and state laws, whistleblowing remains a risky proposition for employees and persons reporting issues are still often seen as being disgruntled troublemakers. Nonetheless, creating an atmosphere in which employees feel free to come forward with concerns is essential for an effective ethics program since there will always be mistakes and/or people who simply are not interested in following the ethical path.

Larger companies have established separate departments or offices of ethics staffed by professionals who provide support in all aspects of their company's ethics initiatives. Staffing for these units typically focuses on people with backgrounds in human resources management, law and accounting. Working under the supervision of the chief ethics officer, personnel concentrate their efforts on educating executives, managers and employees about the company's code of ethics and related procedures. Large companies also hire professionals to work on their corporate social responsibility ("CSR") and environmental initiatives. Members of the CSR group need to have good communications skills as they are typically expected to spend a good deal of time working with external groups such as environmental activists and establishing and maintaining dialogue with the communities in which the company is operating. CSR professionals may also be involved in auditing factories of supply chain partners in foreign countries to determine if they are being operated in compliance with the company's standards and local laws.

§16 Guidelines for ethical decision making

The practical foundation of an ethical organization is the individuals working within the organization, all of whom are confronted with ethical decisions and dilemmas on a regular basis as they go about their jobs. On the day that they begin working for the organization these individuals bring with them their own unique set of personal traits that will impact how they identify, perceive and resolve ethical issues: personal needs and personality traits, family background, cultural background and religious training. While some ethical decisions seem quite easy for a particular individual, many others are quite difficult. Recognizing the challenges that ethics can present, experts have worked to suggest frameworks for ethical decision making that can be used by individuals. While no single framework is universally accepted, Kelly et al. argued that the key principles that appear over and over again included the following[43]:

- Do you fully understand each dimension of the problem?
- Who would benefit? Who would suffer?
- Are the alternative solutions legal? Are they fair?
- Does your decision make you comfortable at a "gut feel" level?
- Could you defend your decision on the nightly TV news?
- Have you considered and reconsidered your responses to each question?

Kelly et al. cautioned that while the process of considering and answering a handful of questions seems simple, in fact coming to a decision is usually difficult and stressful. The questions will generally need to be considered while the person is feeling extreme pressure to do what is right for the organization and/or their own careers rather than what is the right thing to do from a purely ethical perspective. It is also important to remember that using the same set of questions does not guarantee the two different people will reach the same conclusion.

Daft and Marcic proposed similar guidelines for ethical decision making and considering the social and ethical consequences of individual behavior based on recommendations from several experts[44]:

1. Is the problem/dilemma what it appears to be? If you are not sure, find out.
2. Is the action you are considering legal? Ethical? If you are not sure, find out.

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[43] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 56.

[44] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 126 (citing A. Pagano and J.A. Verdin, The External Environment of Business (New York: Wiley, 1988): Chapter 5; J. Badaracco, Jr. and A. Webb, "Business Ethics: A View from the Trenches," California Management Review 37:2 (Winter 1995): 8; and S. Baker, "Ethical Judgment," Executive Excellence (March 1992): 7–8).

3. Do you understand the position of those who oppose the action you are considering? Is it reasonable?
4. Whom does the action benefit? Harm? How much? How long?
5. Would you be willing to allow everyone to do what you are considering doing?
6. Have you sought the opinion of others who are knowledgeable and objective regarding the subject?
7. Would your action be embarrassing to you if it were made known to your family, friends, coworkers, or superiors?
8. Even if you are sure the decision is reasonable and that you could defend it to others, does your gut instinct tell you it is the wrong thing to do?

References and Resources

The Sustainable Entrepreneurship Project's Library of Resources for Sustainable Entrepreneurs relating to Management is available at https://seproject.org/management/ and includes materials relating to the subject matters of this Guide including various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts. Changes to the Library are made on a continuous basis and notifications of changes, as well as new versions of this Guide, will be provided to readers that enter their names on the Project mailing list by following the procedures on the Project's website.

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