Managing Business Ethics

Tools and Techniques of Business Ethics Management
CHAPTER 5
Introduction

- Global corporations such as MC Donald’s, Nestle, Nike and others have realized to their cost the threat that perceived ethical violations can pose to their guarded reputation
- They are looking to develop systematic and comprehensive approach of managing business ethics

- Is it possible to control the ethical behaviour of employees so that they make the rights ethical decisions everytime?
- What kind of management programmes are necessary to produce the level of information and impact the various stakeholders demand?
Managing any area of business such as production, marketing, human resources, accounting constitutes a whole range of activities covering formal and informal means of planning, implementation and control.

**DEF:** Business Ethics Management is the direct attempt to formally or informally manage ethical issues and problems through specific policies, practices and programs.

They are numerous components of business ethics management:

- Mission or values statement
- Codes of ethics
- Reporting/advice channels
- Ethics managers, officers and committees
- Ethics consultant
- Ethics education and training
- Auditing, accounting and reporting
## Typical components

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<tr>
<th>a-Mission or values statements</th>
<th>b-Codes of ethics</th>
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<td>General statements of corporate aims, beliefs and values.</td>
<td>Explicit outlines of what type of conduct is desired and expected of employees from an ethical point of view.</td>
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<td>Frequently include social goals</td>
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<td>Eg: Mark and Spencer aims to be the most trusted retailer wherever we trade by demonstrating a clear sense of social responsibility</td>
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<td>c-Reporting / Advice channel</td>
<td>d-Ethics managers, officers and committees</td>
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<tr>
<td>Providing employees with appropriate channels for reporting or receiving advice regarding ethical dilemmas</td>
<td>In some org. Specific individuals or groups are appointed to co-ordinate and take responsibility for managing ethics</td>
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<td>Identifying potential problems and resolving them before they become public</td>
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<td>Notify management of business abuses</td>
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<td>Help and guidance a solution</td>
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<td>E.g.: ethics hotlines</td>
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**e-Auditing, accounting and reporting**

Closed related activities that are concerned with *measuring, evaluating and communicating* the org.’ impacts and performance on a range of ethical issues of interest to their stakeholders.
<table>
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<th>f-Ethics consultants</th>
<th>g-Ethics education and training</th>
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<td>Ethics consultants are <em>specialist of technical advices</em> in business ethics. Some companies prefer to use external consultant rather than ethics managers or officers.</td>
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| **Mission:**  
Offer social and ethical agenda matching the objectives, tactics and strategies of expansion of the org. |
| Corporate training specialists that interfere internally or externally in special centers |
| **Goals:** |
- Identifying the situation where ethical decision-mailing are involved |
- Understanding the culture and values of the org. |
- Evaluating the impact of ethical decisions on the org. |
B- EVOLUTION OF BUSINESS ETHICS MANAGEMENT

- Previously, business ethics management tended to focus primarily on managing employee behavior but there has been increasing attention to develop and implement tools and techniques associated with the management of broader social responsibility.
- These more externally focused components have typically involved the consideration of other stakeholder demands and considerations.
- Three main areas whereas the management of business ethics might be relevant:
  - Setting standards of ethical behavior
  - Managing Stakeholder relations
  - Assessing ethical performance
DEF: **Codes of ethics are of voluntary statements that commit organizations, industries or professions to specific beliefs, values and actions and/or set out appropriate ethical behavior for employees.**

There are four main types or corporate codes of ethics:
- Organizational or corporate codes of ethics
- Professional codes of ethics
- Industry codes of ethics
- Programme or group codes of ethics
1- Types of Codes of ethics

A) Organizational or corporate codes of ethics

Specific to a single organization

Sometimes called codes of conduct or codes of principles

Identify and encourage ethical behavior

B) Professional codes of ethics

Professionals groups with their own guidelines for appropriate conduct for their members

E.g. Professions such as medicine, law and accountability
1- Types of Codes of ethics

C) Industry codes of ethics

Specific professions, particular industries with their own codes of ethics

E.g. In many countries, the financial services industry will have a code of conduct for companies operating in this industry

D) Program or group codes of ethics

Certain programs, or other sub-groupings of org. also establish codes of ethics for those participating in the specific programs

E.g. Collaboration of various business leaders from Europe, USA and Japan resulted in the development of global codes of ethics
2- Content of codes of ethics

- a) Define principles or standards that the org., profession or industry believes in or wants to implement

- b) Set out guidelines for employee behavior, either generally in specific situations (such as accepting gifts, treating customers etc...)
3- Effectiveness of codes of ethics

- A code imposed on employees without clear communication about what it is trying to achieve and why, might simply raise resentment.

- So how to get the implementation right?
  - Maximize the *participation* of the organization
  - *Discipline* employees
  - *Follow through / up* the notifications of violations
4- Global codes of ethics

- Given the rise of multinational businesses, many org. have found that codes of ethics developed for use in their home country may need to be revisited for their international operations.
- Are guidelines for domestic employees still relevant and applicable on overseas context?
- The cross-cultural issues most commonly addressed are:
  - Gifts
  - Conflicts of interest
  - Insider dealing
  - Equal opportunities and discrimination
  - Protection of the environment
A guideline should implement 3 principles:

- Respect of core human values
- Respect for local traditions
- The belief that context matters when deciding what is right or wrong
e.g. Codes of Ethics on international business for Christians, Muslims and Jews
D- Managing Stakeholders relations

I - Assessing Stakeholder importance: An instrument perspective

3 key relationship attributes likely to determine the perceived importance of stakeholders:

- **Power**: The perceived ability of a stakeholder to influence organizational action
- **Legitimacy**: Wherever the org. Perceives the stakeholders' actions to be desirable, appropriate
- **Urgency**: The degree to which stakeholder claims are perceived to call for immediate action
2- Types of Stakeholder Relationship

It has been generally assumed that relationship between businesses and their stakeholders tended to be somehow confrontational.

Stakeholder relationships can take a variety of different forms:

- Challenge: mutual conflict or opposition
- Sparring partners: healthy conflict, periodic conflict
- One way support: based on sponsorship
- Mutual support: two way support
- Endorsement: paid / unpaid public approval such as labeling
- Project dialogue: discussion between partners for specific purpose
- Strategy dialogue: discussion between partners for long term issues
- Task force: co-operation to achieve a specific task
- Joint venture or alliance: formal partnership involving mutual resources commitment
3- Problems with stakeholder collaboration

- Resource intensity: extremely time consuming and expensive compared to traditional form of corporate decision making
- Culture clash: different values and goals
- Schizophrenia (pronounced: skitsofrania)
- Uncontrollability
- Co-optation: real commitment or just own interest?
- Accountability: enforcement, responsibility, liability
4- Assessing ethical performance

Different **approaches** must be implement to be more performant

- *Ethical* such as internal management system
- *Environmental*
- *Social*
- *Sustainability*: social, economical and environmental considerations

* Given these distinctions, we shall refer to social accounting (Next slide)
5- Social Accounting

**DEF:** Social accounting is the voluntary process concerned with assessing and communicating organizational activities and impacts on social, ethical and environmental issues relevant to stakeholders.

The reason for engaging social accounting is that organizations and their stakeholders have different interests, concerns and aims.

Why do organizations engage in social accounting?

- Internal and external pressure
- Improved stakeholder management
- Enhanced accountability and transparency: Social rules and regulations
- Continuous improvement
- Auditing and certifying: e.g. SA 8000, Social accountability standard
- Reporting: e.g. Global Reporting Initiative (GRI)
- Reporting insurance: e.g. AA1000S Assurance standard
E- Organizing for Business Ethics Management

- Four ways of organizing for business ethics management:

  - **Compliance orientation**: preventing, detecting and punishing violations of the law
  - **Values orientation**: defining organizational values and encouraging employee commitment
  - **External orientation**: satisfying external stakeholders
  - **Protection orientation**: protecting top management from blame for ethical problems or legal violations