Title: Rules of the Game: Do Corporate Codes of Ethics Work?
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Source: Review of Business. Fall98, Vol. 20 Issue 1, p12. 5p.
Document Type: Article

RULES OF THE GAME: DO CORPORATE CODES OF ETHICS WORK?

Over 90% of the Fortune 500 companies have ethical codes of conduct detailing what the companies expect from employees in terms of responsibilities and behavior. Corporate codes of ethics establish modes of behavior for all employees from the shipping clerk to the CEO. But do these codes result in more ethical behavior by employees? Do words such as inappropriate, excessive, inordinate or nominal confuse rather than help employees make better decisions? The role of codes and ethics in corporate structure is examined to determine whether they ensure ethical behavior.

Introduction

In today's increasingly complex global business environment, a company's code of ethics should serve as the foundation upon which employees make decisions based on honesty, integrity, confidence and trust. These codes provide employees with an understanding and knowledge of what their company expects from them in terms of responsibilities and behavior. Codes of ethics should reflect corporation standards and establish realistic modes of behavior that apply to everyone in the company, from the board of directors to the newest employee. In It's Good Business, Solomon and Hanson state that a code of ethics is important because it provides "visible guidelines, stability to an organization and a point of focus for everyone in the organization" [22].

The reputation of a corporation and its actions reflect the ethical conduct that affects the potential for growth. All employees need to be aware of company policies regarding ethics in order to make the right decisions in difficult business situations, to know how and when to seek help when faced with ethical dilemmas, and to know where to report possible unethical conduct. A corporation must be aware of its responsibility to treat employees with respect, decency and dignity, offer customers superior products and services, and treat suppliers with a commitment to fair competition. The corporation must also abide by all federal, state and local regulations and serve and improve the communities in which it works.

In Beyond the Bottom Line, Tad Tuleja describes a cartoon that appeared in the New Yorker in which several visibly puzzled executives are together in an office [26]. One of them presses an intercom button and pleads with his secretary, "Miss Dugan, will you please send someone in here who can distinguish fight from wrong?" Why is it considered acceptable, almost the norm, that business people are unable to identify and understand what is morally and ethically correct in a given situation?

In a poll conducted by the New York Times/CBS News in 1995, 55% of the American public believed that "the vast majority of corporate executives were dishonest," and 59% thought that "executive white-collar crime occurred on a regular basis" [8, 26]. A 1987 Wall Street Journal article noted that one-fourth of the 671 executives surveyed by a leading research firm believed that "ethics can impede a successful career, and that over one-half of all the executives they knew bent the rules to get ahead" [8]. A 1990 national survey concluded that "the standards of ethical practices and moral leadership of business leaders merit at best a C grade; and 65% of those surveyed believed that the unethical behavior of executives is the primary cause of the decline in business standards, productivity and success" [8].

The mass media's portrayal of the American business person reflects the opinion of a society that sees employers as today's villains, callous and dishonest. A study conducted by the Media Research Center between 1955 and 1986 found that prime-time television programs portrayed businessmen committing 40% of all television murders, just one percentage point less than in 1996. A decade later from 1995 to 1997, 30% of the 514 criminal characters portrayed on television were business owners or corporate executives [27]. Daily newspaper accounts of insider-trading, stock manipulation, industrial pollution, sexual harassment, discrimination, misleading advertising and mass layoffs reinforce the mass-media portrayal of a business person as interested in only making money. A study conducted by the Ethics Officer Association and the American Society of Chartered Life Underwriters & Chartered Financial Consultants included 1,324 workers, managers and executives and found that 48% admitted to taking unethical or illegal actions in the past year, 57% indicated that they feel more pressure to be unethical today than they did five years ago, and 40% said it's gotten worse over the last year [6].

Does the creation of a company code of ethics or behavior ensure ethical conduct on the part of all who represent the organization, from the directors, to the CEO, to the mailroom clerk? Today, over 90% of the Fortune 500 companies have ethical codes of conduct. These codes act as a guideline for employees by providing the knowledge and understanding of what their company expects from them in terms of responsibilities and behavior. Do these codes result in more ethical behavior on the part of employees?

Corporate Codes of Ethics

Corporate codes of ethics are important because they offer a point of focus for everyone in the organization. They help an organization maintain overall goals and standards, provide stability and visible guidelines and remind every employee to look beyond the bottom line [22]. Codes of ethics supply employees the confidence and perseverance to perform their duties in a climate of integrity and support. Companies must train, educate and communicate to their employees how an unethical decision has the potential to damage the company's reputation and its potential profits. At first, an unethical decision may seem harmless, but it can, in the end, have far reaching repercussions. Employees must develop an understanding that making the right choice is the only option in the decision-making process. In today's business environment, organizations must learn how to create, implement and evaluate their corporate ethics policies.

Gift giving and receiving, along with the expectations, intentions and implications of the gift, varies from culture to culture. What is acceptable in one situation may be looked upon as a bribe in another and can result in a conflict of interest. Accepting a "gift" which will ensure that an order will be approved can have far-reaching negative effects on an employee as well as the organization. In many cultures, gift giving is an essential part of doing business, and it would be considered unethical not to give and receive girls. "In many Asian and Muslim cultures, gift-giving is part of building a relationship, so American companies have to find a way of dealing with that when they're a global company operating in those environments" [25]. A code can help employees resolve issues that fall into the "gray area." It's company policy or that would violate our company code of ethics are statements employees can use to avoid an embarrassing or awkward situation.

In November 1995, American Tack & Hardware Company in Monsey, NY sent a letter to all their suppliers stating, "Our company is committed to ethical business relationships and has a long-standing policy prohibiting employees from accepting gifts during the holiday season or at anytime" [12]. This letter clearly stated the company policy and ended with "We are sure you would not want to jeopardize the position of our employees or your relationship with our company by disregarding this policy." This directive is strictly enforced, and employees at American Tack & Hardware are fully aware of the company's policy and understand the consequences should they choose to ignore it. In its "Statement of Policy Concerning Gifts Letter," dated December 5, 1997, American Tack & Hardware took a pro-active stand by stating, "Our employees are aware of their responsibility to take a positive role in promoting this policy" [11]. Many business executives experience an ethical lapse rather than an obvious ethical violation by calling in sick when they really are not, exaggerating or lying to a customer or client in order to make a sale and performing poorly on the job by not giving their "best effort." Additional improprieties include: conflicts of interest, petty theft, improper gifts, questionable billing practices, improper gathering of information from competitors, poor treatment of employees, sexual harassment, revealing confidential information, lying to supervisors, cheating on expense accounts, producing defective products, paying or accepting kickbacks and violating environmental laws.

All of these items fall into one or more of the most common motives for unethical behavior described by Frank Navran:

- Entitlement: Taking from an organization because of how the leaders treat employees
- Retaliation: Revenge or entitlement without tangible value
- Self-Protection: Acting unethically as a survival strategy
- Arrogance: Feeling indispensable or immune from negative consequences
- Challenge: Excitement of seeing if something can be done [15].

While a corporation cannot solve all ethical problems, it can develop a strong framework of explicit values that is consistently applied when it conducts business. Corporations and their employees must realize that in many situations there is no easy solution, no one absolutely correct answer. To arrive at a solution, one person may use the utilitarian theory of the greatest good for the greatest number, another may use Kant's theory against using a person as a means to an end and a third may be concerned with justice. One must try to develop well-reasoned, well-thought out answers to an ethical problem that the company's code of ethics can support.

Ensuring Ethical Behavior

Do codes of ethics ensure ethical behavior on the part of corporate employees? How important is the role of top management in the promotion of ethical behavior in the corporate environment? Do training programs in ethical decision making clearly define the guidelines needed in today's ever-changing business world? Rice and Dreilinger believe that ethics programs should "provide employees with the tools they need to identify ethical issues and to work out how to resolve them" [18].

At Martin Marietta, management believes that "like a waterfall, ethics must start at the top and cascade down through a company" or simply "the attitudes and morals of a company are the attitudes and morals of the boss" [20]. Martin Marietta teaches ethics awareness by communicating to each employee what the rules are, what is expected of them and what can happen if they want to play by other rules. In 1985, the company developed an integrity-based ethics program that stressed voluntary, non-mandated compliance with the belief that ethical conduct reaches for the spirit of the law rather than the sole objective of obeying the law. According to Jan M. Grell, "an integrity-based approach to ethics management" combines leadership responsibility for ethical behavior with a concern for the law [10].

In 1992, Martin Marietta created the board game "Gray Matters" which contains 55 ethically challenging scenarios [14]. The game provides employees with an interesting and entertaining way to learn how to handle a variety of ethical issues. Lockheed Martin created the Corporate Office of Ethics and Business Conduct designed to demonstrate "tangible evidence of its commitment to an ethical work environment for all those to whom we have an obligation" [1].

In 1990, the Woodstock Theological Center Seminar in Business Ethics brought together a group of executives, academics and religious leaders to discuss problems and develop suggestions for concerned business leaders to meet the challenges facing them. Some corporate leaders complained that "serf-indulgent permissiveness had become so pervasive and corrosive that executives had lost confidence that their employees and colleagues will act in ethically responsible ways" [4]. The executives felt their task was to create a workplace climate in which ethics would be so integral to day-to-day operations that ethical behavior would be virtually serf-enforcing. One conclusion was that a worker's environment was just as important as the individual's character and virtue. Ethical standards must be built into the climate and culture of the workplace if they are to have a significant influence on behavior.

Open communications can help curb ethics violations by stressing from the top down individual responsibility for behavior and conduct. A serious commitment by management to provide continuous ongoing training will reinforce the company's values. Frank Navran suggests three steps for creating a work environment that promotes ethical behavior:

- Provide dear and consistent expectations. Ethical standards apply to all people within the organization.
- Model the standards (lead by example). Live the standard and communicate regularly to employees how you are living them.
- Humanize the workplace. Treat people like people [15].

Corporate Culture

A company communicates its rules, regulations and policies to employees in many different ways, pamphlets, brochures or statements of ethics. Employees expect top-level management to establish standards of leadership, direction and ethical behavior. The culture, values, norms and ethical philosophy of a company are generally based on the values of top management and, while unwritten, are reflected in the behavior and actions of the managers. A culture is usually created unconsciously by top management. In many instances, corporate culture plays a large, sometimes unconscious, role in the way an employee responds in a given situation. It is the unwritten idea of that's the way it's done here or don't make waves. Corporate culture is defined as "a pattern of basic assumptions and values that are considered valid and are taught to new members as the proper way to perceive, think and feel in an organization" [21].

In the November 10, 1996 issue of Navran Associates Newsletter, Michael G. Daigneault, stated:

Whether unethical behavior is recognized and appropriately dealt with in an organization is somewhat a product of the "corporate culture" of that organization. When vision, standards and a strong, visible show of support from the leadership for practical ethical behavior is lacking, any corporate culture -- including a legal organization -- can prove to be a breeding ground for unethical behavior. Given the proper framework and show of support from the top, the corporate culture can be the venue to foster ethical behavior by an organization's employees [5].

Corporate culture plays an important role in the area of training. "It does not enhance a trainer's image (or the training) when he/ she tries to inject a little fun and physical activity into a room by throwing a koosh ball at a participant and is met by a room full of blank stares from a group that believes that having fun stopped with graduation from Grade 4" [19].

Corporate ethics are essential in a global culture where standards differ on such issues as sexual harassment, accepting and giving of gifts, bribes and child labor policies. A company must develop a culture of ethical awareness, whereby employees know the rules and receive the support they need to abide by these rules. Employees should be encouraged to ask questions or report misconduct without fear of retaliation or reprisal. Companies must realize that employees working in Third World countries may be faced with situations that in the U.S. are considered unethical.

Hewlett-Packard attributes its growth and success to a corporate culture that is based on (a) respect for others, (b) a sense of community and (c) plain hard work. HP's corporate culture has been developed and maintained through extensive training of its managers and employees [3].

Southwest Airlines maintains that its success is due to a strong workplace culture. In addition to hiring the right person for the job, communication and demeanor, the way you appear and the way you act play important roles in the company [3]. J.C. Penney's creed "do not take unfair advantage of anyone" can be contrasted with executives in the Pepsi-Cola Co. being treated as military officers in a war with Coca-Cola that often "makes enormous demands and pits employees against each other" [22]. Important factors influencing corporate culture are:

- What managers do is more important than what they say. Managers must mirror the desired culture.
- Employees must "fit into" the existing corporate culture. Employees must be encouraged to continually improve their problem-solving skills.
- The culture should reflect the nature of the business and be appropriate to the profession.
- The external culture must include respect and understanding of the mores of the community [23].
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Support for Employees

In a survey of Fortune 1,000 companies in 1993, one-third of the respondents reported having an ethics officer who provided advice on ethics to top management, disseminated a code of conduct, investigated alleged ethics violations, advised the board of directors on ethics issues and oversaw ethics training programs [7]. While companies can create codes of ethics and appoint ethics committees, ethics officers and ombudsman, their effectiveness is limited unless ethical standards become an essential part of the corporate identity. "They should be spelled out explicitly in the firm's mission statement, and top management must exemplify these standards by their personal behavior" [4].

An ombudsman can have a variety of roles from receiving, investigating and, if necessary, prosecuting an alleged complaint to ratifying the company's code of conduct as well as counseling those who need to resolve ethical dilemmas in a non-threatening atmosphere of confidentiality. Pacific Bell created an "ombudsman office," whose function was to "give a private and confidential heating to ethics complaints from employees who might be reluctant to report their concerns to their immediate supervisor" [16]. The company is trying to create a support system where employees feel safe raising ethical issues.

With the passage of the U.S. Corporate Sentencing Guidelines in 1991, more than 100 companies have established ethics hot lines. Employees can telephone the hot line rather than going to their immediate supervisor to discuss ethical issues confidentially. Although helpful to employees, Rice and Dreilinger feel that company ethicists, hot lines and officials responsible for handling ethics violations lead to a problem of transferring ethical responsibility from the employee to some "higher source" [18].

Many companies provide ethics training for employees. Some of the topics presented during these training sessions include awareness of ethics and ethical issues, discussions of the company's codes of ethics and procedures for reporting unethical behavior. Training seminars and workshops present opportunities for participants to ask questions and discuss issues surrounding ambiguous behavior. However, many ethics training programs are seen as insufficient because they put too much emphasis on adhering to specific rules. Rice and Dreilinger believe that "ethics training programs should focus on providing broader guidelines that can be applied in situations not covered by `rules'" [18].

A company must demonstrate that employees will be held accountable for and face the consequences of their actions -- in other words, zero tolerance for unethical behavior. "Chemical Bank has fired employees for violations of the company code of ethics even when nothing illegal was done, and Xerox has dismissed people for minor manipulation of records and padding of expense accounts. By contrast, some of the nation's most prestigious stock brokerage firms employ salespeople with long records of violating securities laws" [2].

A company cannot expect to operate a responsibility-driven policy unless top management pursues and sets an example of responsibility. "Companies are part of society and have to behave responsibly. They have to take account of the views and contributions of their employees and customers" [17].

Johnson & Johnson is often seen as a model of corporate responsibility. Managers are expected to be familiar with the CREDO (a 24-point statement of the company's basic beliefs) and use it in decision making. Failure to follow the CREDO can lead to reprimand or dismissal. When Johnson & Johnson recalled Extra Strength Tylenol in 1982 because of product tampering, they notified doctors and hospitals about the contaminated capsules, established a toll-free consumer hotline and offered consumers free replacements of capsules with tablets. The Washington Post praised the company's actions by saying:

Johnson & Johnson has efficiently demonstrated how a major business ought to handle a disaster. From the day the deaths were linked to the poisoned TYLENOL. .. Johnson & Johnson has succeeded in portraying itself to the public as a company willing to do what's right regardless of cost [24].

Dr. Jim Cuglewski, a recipient of the Council of Better Business Bureau's National Torch Award for Marketplace Ethics, believes that "setting an example every day is the best way for an owner to show employees how to treat customers, suppliers, one another and, by extension, the company" [13].

Existence of a company code of ethics does not, in and of itself, ensure ethical behavior on the part of its employees, since codes work to the extent that they reflect and support the corporate culture. Employees learn what is considered acceptable and appropriate conduct by observing the behavior of top management Gerald Graham, Dean of the W. Frank Barton School of Business at Wichita State University, has created a checklist to evaluate an organization's leaders. Do they:

- Set high ethical standards
- Behave in very ethical ways
- Sponsor training programs on ethics
- Stress the hiring of ethical people
- Fire people caught doing unethical things
- Identify examples of unacceptable behavior
- Develop and communicate ethical codes of conduct
- Stress core values of the organization
- Behave at all times with integrity
- Give the appearance of high ethical conduct [9]?
  A score of seven or more checks suggests a strong commitment to an ethical organization.

Attempts on the part of top management to create an ethical atmosphere will have little effect on the ethical attitude and behavior of employees if management does not practice what it preaches. Therefore, it is the responsibility of top management to develop clear, concise and coherent policies and procedures that reflect the corporation's commitment to ethical business practices and communicate them to all employees.

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