Ethics in Business Leadership

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Dynamic Leadership

ACADEMY

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Business ethics have made headlines in recent years, not because business has done a great job ethically, but because of disastrous lapses in ethical leadership. Examples include Enron, WorldCom, Adelphia and Arthur Anderson, all companies that died of ethical heart failure. Tyco, Kmart, and Global Crossing, are illustrations of what could happen even if you survive. There is a road of difficult rehabilitation ahead for many of these debilitated organizations. So what could help the business community monitor their conditions to avoid such ethical failure? Ethical leadership!

If ethics and leadership are linked, we must determine what is ethically distinctive about leadership. What are the ethical challenges distinctive to leaders and the practice of leadership? How are leaders different from non-leaders when it comes to ethics? Some people who hold a leadership position at work are not necessarily leaders, and conversely, others lead who do not hold a position of leadership. A person has to lead to be a leader and it is expected that a person who holds a leadership position will exercise leadership. In the United States, the word leadership carries honor and prestige. Leadership has a positive moral connotation. Some of the leadership literature implicitly or explicitly assumes that only ethical leaders are "real" leaders (Ciulla, 2005).

Ethics has to do with moral behavior within societal norms (Sauser, 2005). Ethics in leadership deals with moral leadership behavior within societal and organizational norms. The extent that a leader's behavior measures up to societal standards determines how ethical that leader is. Standards for societal behavior vary within multiple contexts.

Business ethics refers to clear standards and norms that help employees distinguish right from wrong behavior at work (Joseph, 2003). In business, a person's behavior has to stand the test of law, organizational policies, professional and trade association codes, popular expectations as to what is fair and what is right in addition to an individual's own internal moral standards. Although basic values tend to remain unchanged over time (Solomon, 1996), changes in economic conditions and advances in technology have led to different ethical interpretations. Fritzsche (1990) encourages managers to proactively be on the lookout for potential ethical problems before they occur.

Business ethics is not an element distinct from ethics in general, but a subfield of the broad area of study known as ethics (Desjardins, 2003). In business, there are many expectations for conducting business that vary from one culture to another. This adds a degree of complexity to the application of moral standards, particularly when it comes to finance, commerce, production, distribution, the sale of goods and services, as well as other business issues. Some, it not all, of the ethical problems in corporate capitalism revolve around a failure of leadership (Knights & O'Leary, 2005)

Sauser (2005) suggests eight steps for creating an ethical organizational culture. First, adopt a code of ethics. The best ethical codes are stated simply with words that everyone can understand. A good way to create a code of ethics is through employee participation, allowing employees to craft it. Second, provide ethics training. Ethics training may be facilitated by internal or external facilitators depending on the topic and level of expertise needed. "What if" scenarios work well using the code of ethics for employee participants to discuss resolution. Third, hire and promote ethical people. This is probably the best way to maintain ethical processes within the organization. Fourth, correct unethical behavior. Unethical behavior must be punished. Consistent and firm enforcement of ethical behavior communicates to all employees that substandard moral behavior will not be tolerated. Fifth, take a proactive strategy of social responsibility. Businesses that want to establish a reputation for being ethical corporate citizens often organize programs in the community to give back. Sixth, conduct a social audit. Similar to a financial audit, a social audit examines product design, purchasing, production, marketing, distribution, customer relations, and human resources to identify any areas of policy or practice that raise ethical concerns. Seventh, protect whistle blowers. This is essential to reinforce ethics within the organization. Finally, empower the guardians of integrity. A business leader must lead by example and must empower all employees to embrace and demonstrate the organization's commitment to ethics in everything they do.

Code of Ethics

Any company or organization interested in developing or revising a code of ethics should consider the *Executives Handbook of Model Business Conduct Codes* (Manley, 1991). Though published in 1991, Manley's book is still relevant today.

For quite some time, the case has been made to business leaders regarding the need for ethics and compliance programs (Joseph, 2002). Manley's book is a very practical resource to help the business ethics practitioner. It is also a resource for students of business and leadership ethics. In researching his book, Manley reviewed over 10,000 pages of codes of conduct from 276 of America's best-managed firms. He consulted with over 400 executives including 85 CEOs and chairmen, 71 senior or executive vice presidents, 77 corporate counsel, 105 vice presidents, and 65 directors of corporate responsibility, human resources or employee relations, treasurers and chief auditors.

Why should business be concerned with ethics in the first place? Big business has used codes of conduct for both strategic and public relations purposes for years. That being said, many small to medium sized organizations do not have formal, written codes of business conduct. Manley suggests than an organization will realize several major benefits from a code of conduct.

A code of business conduct provides guidelines to managers and employees alike, which also helps acquaint new employees with the firm's values and culture. Codes can improve the firm's public and consumer image as well as its business reputation. Codes offer protection in preempting or defending lawsuits and improve the company's financial performance. Employees benefit from business codes as they enhance morale, employee self-image, company pride and loyalty, integrity and excellence in the workplace, as well as the recruitment of outstanding employees. Codes can act as catalysts for constructive change. Stockholders interested in making ethical investments can reference company codes. Open and honest communication within the firm is encouraged by codes. Codes help integrate or transfer cultures of merged or acquired firms. Codes help prevent managers from requiring subordinates to perform improper acts, and the codes also help stop subordinates from trying to get mangers to perform improper acts. Codes promote market efficiency, especially in areas where the marketplace and laws are weak or inefficient. Employees have a responsibility to conduct themselves ethically as they take on the various business acts of the organization, and management has a responsibility of setting clear guidelines. Formal written codes of conduct better ensure consistent ethical behavior by all members of the organization.

Three key questions need to be answered to start the process of creating a code of business. First, who will approve the code in its final form? Second, how will the code be drafted? Finally, what will be the source of the ethical values that the code will reflect? Generally, the CEO or chairman of the board has final approval. Others involved include managers, employees, legal counsel, and sometimes outside consultants, but the ultimate approval lies with the CEO or chairman.

Various processes can be followed in drafting a code. There is no single way that works best. The process can be top down or it can be a participative process going across the organizational chart. A specific individual or a small group may be assigned the task. Participants may include the CEO or chairman of the board, and/or individuals or members from; the board of directors, the corporate legal department, finance, human resources, communications, corporate task force, employees, and consultants. Some organizations hire consultants to complete the entire process, but most prefer in-sourcing for this important task.

The next step is to identify the ethical values that should be incorporated into the codes. Existing documents can help: old versions of a firm's code of conduct, policy memoranda or statements of procedures, public relations releases, current laws or regulations that affect the firm, etc. Values of the company's founder(s), chairman, board members, executives, managers, and employees should also be considered. Many companies save time and effort by considering codes of conduct developed by other companies and adapt those codes by re-writing or re-shaping them to apply to their specific needs.

After the method for drafting the code has been decided, the people involved in the process chosen, and the ethical values identified, the code can be created. Manley offers several guidelines to follow based on the experiences of other firms. Most importantly, the firm's CEO must be a leader in the code's development. The CEO (or those under his immediate direction) should identify the firm's key objectives, which can serve as ground rules in the creation of the code. While input from large groups within the organization will be helpful, the code should be drafted by a small group of three to six people, including someone from the legal staff. The code should contain: (1) an opening statement asserting the need for the code; (2) expectations of high standards of conduct; (3) an explanation of how to interpret the code; and (4), the firm's position on code enforcement, decision making, and sanctions. The code needs to be more than a summary of existing policies; it should clearly distinguish between ethical and legal requirements. The code should require all employees to comply with all relevant laws and professional standards as well as emphasizing key values of the organization. The written code should contain approximately 25 to 35 relevant sections, covering such areas as compliance with the law, dealing with customers and suppliers, conflict of interest, and employee rights. Each section of the code should be comprehensive and concise but not voluminous. Operating principles need to be incorporated so that employees can perform daily operations and activities in compliance with the code. Specific examples should be included to help employees understand the code in real life situations. A code should fully describe the most commonly encountered conflicts of interest and make it clear that the company expects employee to exercise upright behavior in all business dealings. Guidelines should be included to address employee conduct. The CEO must carefully review the first draft of the proposed code of conduct and then circulate it within the company for comment. The final draft of the code should consist of the modified draft that incorporates employee comments. Codes of conduct help employees know what is "good" and what is "bad." Not having a formal written code of conduct abdicates the responsibility of ethical decision making.

After the code of conduct has been completed, the final steps are the most crucial: dissemination, implementation and enforcement. Without proper dissemination, a code of conduct is destined to failure; therefore careful thought must be given to these processes. Employee training is critical, even though there may be resistance to the attempt to introduce codes of conduct. Company leaders must convey that change is inevitable. Enforcing the code typically utilizes two methods of compliance: (1) surveillance and oversight; and (2) relying on individual integrity and senior-management role models. This latter method has been the demise of some organizations in recent scandals. Firms who successfully enforce their codes of conduct more often rely on the surveillance and oversight methodology.

Conclusion

Ethics provide a set of principles that guide leadership behavior. Ethics in leadership deals with moral leadership behavior within societal and organizational norms. Business ethics needs clarity of standards and norms helping all employees to know right and wrong behavior looks like at work. Developing a code of ethics helps provide that clarity.

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