Organizational Ethics and the Law

Faced with increasing pressure to create an ethical and law-abiding environment at work, businesses can take tangible steps to improve their ethical performance. The organization's culture and ethical work climate play a central role in promoting ethics at work. Ethical situations arise in all areas or functions of business, and often professional associations seek to guide managers in addressing these challenges. Corporations can also implement ethical safeguards such as ethics policies, ethics and compliance officers or ombudspersons, and employee ethics training. In addition to developing a comprehensive ethics program, corporations must of course follow the laws of the nation. This can become a complex challenge when facing different customs and regulations around the world. Although ethics and the law are not exactly the same, both are important emphases for businesses, especially when operating in the global marketplace.

This chapter focuses on these key learning objectives:

- Classifying an organization's culture and ethical climate.
- Recognizing ethics challenges across the multiple functions of business.
- Developing effective ethics policies, ethics training programs, ethics assist lines, and similar safeguards.
- Assessing the strengths and weaknesses of a comprehensive ethics program.
- Understanding how to conduct business ethically in the global marketplace.
- Knowing the differences between ethics and the law.

Nortel Networks, a Canadian telecommunications equipment maker, fired 10 financial managers over accounting irregularities following a review by Nortel's audit committee. A former tax-planning executive at Dynegy, Jamie Olis, was sentenced to more than 24 years in prison for his role in a secretive project to disguise a $300 million loan as cash flow for the U.S. oil and gas company. Calisto Tanzi, founder and former chairman of Parmalat, along with 15 other executives from the firm, were accused of market rigging, providing false accounting information, and misleading an Italian stock market regulator in an $18 billion scandal called the "European Enron." The accounting firm KPMG and the law firm of Brown & Wood agreed to pay $195 million to 280 investors who bought four different types of tax shelters, in addition to paying $30 million in plaintiff's lawyer fees. McKesson, the largest U.S. drug distributor, agreed to pay nearly $1 billion to settle a class-action suit that accused the firm of defrauding investors. At the time, this was the nation's third largest settlement of a class-action suit, trailing settlements of $3.2 billion by Cendant and more than $2.6 billion by WorldCom.[1]

In addition to the cases described above, dozens and dozens of other companies have been charged with accounting fraud, mishandling investors' funds, market improprieties, and many other illegal activities. *Why are businesses repeatedly being caught conducting illegal activities? How does this pattern of unethical behavior become common among businesses and their executives? And, most important, what can businesses, and possibly government regulators and the courts, do about stemming illegal and unethical activity?*

Corporate Culture and Ethical Climates

Personal values and moral character play key roles in improving a company's ethical performance, as discussed in Chapter 5. However, they do not stand alone, because personal values and character can be affected by a company's culture.

Corporate culture is a blend of ideas, customs, traditional practices, company values, and shared meanings that help define normal behavior for everyone who works in a company. Culture is "the way we do things around here." Two experts testify to its overwhelming influence:

> Every business—in fact every organization—has a culture. . . . [It] has a powerful influence throughout an organization; it affects practically everything—from who gets promoted and what decisions are made, to how employees dress and what sports they play. . . . [illegible][2]

The emphasis on ethics and value-based leadership is at the core of the Holt Company's culture, a four-generation, family-owned Caterpillar equipment dealership in San Antonio, Texas. How did the Holt Company adopt this ethical culture? The company's executives point to a day in the late 1980s when Peter Holt, the company's CEO, changed his mind.

> Holt was prepared to confront his senior managers and let them know he was not happy with things at the firm. The company's sales had slowed and the firm had serious financial concerns. Instead, Holt surprised his management team by asking "What am I doing wrong?" The focus on personal responsibility and not blaming others marked the beginning of instituting a new culture at the firm. Leadership at the Holt Company developed five core values, in descending order of importance: ethical, success, excellence, commitment, and dynamic. Ethical was defined as "being honest, showing integrity, being consistent, and showing fair treatment." As a Holt manager noted, "Profits are conspicuously absent in our core values." The company stressed things like making sure that decisions were balanced and took into account all stakeholders: employees, customers, and shareholders.[3]

Ethical Climates

In most companies, a moral atmosphere can be detected. People can feel the way the ethical winds are blowing. They pick up subtle hints and clues that tell them what behavior is approved and what is forbidden.

The unspoken understanding among employees of what is and is not acceptable behavior is called an **ethical climate**. It is the part of corporate culture that sets the ethical tone in a company. One way to view ethical climates is diagrammed in Figure 6.1. Three different types of ethical yardsticks are egoism (self-centeredness), benevolence (concern for others), and principle (respect for one's own integrity, for group norms, and for society's laws). These ethical yardsticks can be applied to dilemmas concerning individuals, a company, or society at large.

For example, if a manager approaches ethics issues with benevolence in mind, he or she would emphasize friendly relations with an employee, emphasize the importance of team play and cooperation for the company's benefit, and recommend socially responsible courses of action. However, a manager using egoism to think about ethical problems would be more likely to think first of promoting the company's profit and striving for efficient operations at all costs.

> The ethical work climate at Computer Associates International, the world's fourth largest software maker, was discovered by federal securities investigators through e-mail messages sent within the company. These messages indicated that senior executives ordered employees to backdate or modify dates on sales orders at the end of the fiscal quarter to enable the firm to meet revenue and sales targets. Prosecutors described the climate at Computer Associates as a business with a "35-day month" because company accountants were instructed to keep the financial records open for days beyond the calendar month.[4]

Researchers have found that multiple climates, or subclimates, may exist within one organization. For example, if employees interacted with the public or government regulators, a society focus coupled with a principle or integrity approach (law and professional code climate) might be found. However, if employees were isolated from these influences and their work was geared toward routine process tasks with a concern toward higher personal pay or company profits, the climate may be self-interest or company interest.[5]

Corporate cultures can also signal to employees that ethical transgressions are acceptable. By signaling what is considered to be right and wrong, corporate cultures and ethical climates can pressure people to channel their actions in certain directions desired by the company. This kind of pressure can work both for or against good ethical practices.

Business Ethics across Organizational Functions

Not all ethics issues in business are the same. Because business operations are highly specialized, ethics issues can appear in any of the major functional areas of a business firm. Accounting, finance, marketing, information technology, and other areas of business all have their own particular brands of ethical dilemmas. In many cases, professional associations in these functional areas have attempted to define a common set of ethical standards, as discussed next.

Accounting Ethics

The accounting function is a critically important component of every business firm. By law, the financial records of publicly held companies are required to be audited by a certified professional accounting firm. Company managers, external investors, government regulators, tax collectors, and labor unions rely on such public audits to make key decisions. Honesty, integrity, and accuracy are absolute requirements of the accounting function. Thus, the scandals that rocked the accounting industry and led to the demise of Arthur Andersen hit the integrity of this professional group hard.

Accountants often are faced with conflicts of interest, introduced in Chapter 5, where loyalty or obligation to the company (the client) is divided or in conflict with self-interest (of the accounting firm) and the interest of others (shareholders and the public). For example, while conducting an audit of a company, should the auditor look for opportunities to recommend to the client consulting services that the auditor's firm can provide? Sometimes, accounting firms may be tempted to soften their audit of a company's financial statements if the accounting firm wants to attract the company's nonaudit business. For this reason, the Sarbanes-Oxley Act severely limits the offering of nonaudit consulting services by the auditing firm.

The issue of conflicts of interest was at the core of the decision made by management at PricewaterhouseCoopers (PWC), one of the largest accounting firms in the United States and Canada, when it decided to withdraw as the auditor for the Royal Bank of Canada. PWC leadership cited a concern over a possible conflict of interest since it was worried that it may have violated auditor independence rules when it performed nonaudit work for a subsidiary of the Royal Bank, even though the work accounted for less than $150,000 in services. Peter Currie, CFO for PWC, said that the firm made a "bad judgment" when it assured Royal Bank executives that its independent audit status would not be jeopardized by its consulting work for the Royal Bank subsidiary.[6]

Other ethical issues appear in the accounting industry, with accounting fraud being one of the most visible and involving the largest amount of money. While many examples of accounting fraud appeared in the United States during the past few years, lapses in accounting ethics can be found elsewhere.

Kanebo Limited, a Japanese household goods company, reported that it had inflated its profits by $1.37 billion over four years. These errors were found during an internal investigation that uncovered a lengthy period of bogus bookkeeping, sparking an investigation by the Tokyo Stock Exchange. Kanebo's accounting fraud was the largest in Japan involving a nonfinancial firm.[7]

Government regulators have responded strongly to the accounting scandals of the past few years by tightening their grip over auditors in their countries to prevent what happened in the United States from occurring there. Britain's Department of Trade and Industry shook up the current accounting industry's self-regulatory system by passing new rules that required greater disclosure of accounting firms' revenue and how they handle conflicts of interest. Although the new rules did not ban an auditing firm from providing some nonaudit services, as the U.S. Sarbanes-Oxley Act does, they did impose greater and more aggressive oversight by the government. The European Union followed with the creation of the International Accounting Standards (IAS). These standards are seen as essential by the European regulators for the integration of European Union capital markets and for the global convergence of accounting standards.[8]

In the United States, professional accounting organizations, such as the American Institute of Certified Public Accountants and the Financial Accounting Standards Board, have developed generally accepted accounting principles whose purpose is to establish uniform standards for reporting accounting and auditing data. In 1993, the American Institute for Certified Public Accountants (AICPA) dramatically changed its professional code by requiring CPAs to act as whistle-blowers when detecting "materially misstated" financial statements or face losing their license to practice accounting. In 2003, on the heels of the Sarbanes-Oxley Act, the AICPA sought input from its members as it revised its Rule 101—Independence guideline.

Examples of this profession's efforts toward promoting ethics are shown in Exhibit 6.A. Spurred by the increasing threat of liability suits filed against accounting firms and the desire to reaffirm professional integrity, these standards go far toward ensuring a high level of honest and ethical accounting behavior.[9]

Financial Ethics

In the field of finance, business practices involving securities trading, investments strategies, banking practices and the like have produced some of the most spectacular ethics scandals of recent times. Wall Street financiers have been found guilty of insider trading, illegal stock transactions, and various other financial abuses. Examples of ethical abuses within the financial community were seen in the late 1990s, when the Securities and Exchange Commission launched investigations into the practices of two of the three largest stock exchanges in the United States, and these lapses of ethical conduct continue today.

> Richard S. Strong, founder of Strong Capital Management, a firm that helped fuel the extraordinary growth of mutual funds for over three decades, agreed to pay $60 million in fines and was banned from the financial industry for life as a settlement of accusations involving illegal trades at the expense of investors in his funds. New York attorney general Eliot Spitzer said, "The magnitude of his breach of duty is greater than what we have seen in other cases. When you're the CEO, your duty could not be more clear."[10]

Lapses in ethical conduct are evident despite efforts by the finance professions to foster an ethical environment, as shown in Exhibit 6A, that emphasizes self-regulation as the best path for ethical compliance. In 2006, the National Association of Securities Dealers and the New York Stock Exchange asked Wall Street finance companies to self-regulate what constitutes excessive client entertainment. After a number of regulatory investigations, the general belief among regulators was that the industry was best equipped to determine what was excessive when it came to gifts offered to clients. There are, however, skeptics that do not believe the industry can self-regulate when it comes to monitoring gifts, entertainment, and other incentive perks.[11]

In addition, the government took action to minimize unethical behavior in the finance industry after the September 11, 2001, attack on the United States. The U.S. Treasury Department now requires firms to implement comprehensive money-laundering compliance programs, similar to the standards established by the U.S. Sentencing Guidelines. Firms must designate a special money-laundering compliance officer, provide training for employees to detect money laundering, conduct independent audits, and establish policies and procedures to identify risks and minimize opportunities for abuse.[12]

Marketing Ethics

Relations with customers tend to generate many ethical problems. Pricing, promotions, advertising, product information, relations between advertising agencies and their clients, marketing research—all of these are potential problem areas.

> Two of Britain's best-known toy stores, Argos and Littlewoods, were hit with a record $35.5 million fine for colluding to keep prices of Hasbro products artificially high. According to the U.K. Office of Fair Trading (OFT), the companies agreed to block discounts on a range of Hasbro products, including board games Cluedo, Monopoly, Scrabble, and Trivial Pursuit, as well as Harry Potter merchandise. Argos denounced the OFT investigation as a one-sided affair since Hasbro was given a reprieve for its help and spared a $24.5 million fine, even though Hasbro has a history of collusion and was fined $7.8 million in 2002 for entering into a price-fixing agreement with 10 distributors.

Some marketing ethics issues affect the public through an organization's advertising practices, which are discussed in Chapter 20. To improve the marketing profession, the American Marketing Association (AMA) adopted a code of ethics for its members, as shown in Exhibit 6B. The AMA code advocates professional conduct guided by ethics, adherence to applicable laws, and honesty and fairness in all marketing activities. The code also recognizes the ethical responsibility of marketing professionals to the consuming public and specifically opposes such unethical practices as misleading product information, false and misleading advertising claims, high-pressure sales tactics, bribery and kickbacks, and unfair and predatory pricing. These code provisions have the potential for helping marketing professionals translate general ethical principles into specific working rules.[13]

Information Technology Ethics

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Jason Smathers, an engineer at America Online (AOL) was arrested and charged with stealing 92 million e-mail addresses of AOL customers and selling them to spammers that were marketing penis enlargement pills and online gambling sites. Sean Dunaway, accused of brokering the e-mail lists, was also arrested. Under the U.S. "spam law," passed on January 1, 2004, Smathers and Dunaway each faced a maximum sentence of five years in prison and a fine of $250,000 or twice the gross gain from their activities.[14]

As discussed in later chapters of this book, the explosion of information technology has raised serious questions of trust between individuals and businesses. In response to calls by businesspeople and academics for an increase in ethical responsibility in the information technology field, professional organizations have developed or revised professional codes of ethics, as shown in Exhibit 6.B.[15]

Other Functional Areas

Production and operations functions, which may seem to be remote from ethics considerations, have also been at the center of some ethics storms. Flawed manufacturing and lack of inspection of aircraft fuse pins, which hold the engines to the wing on Boeing 747 airplanes, were suspected in some accidents, endangering the lives of passengers as well as innocent bystanders.

After a series of mine disasters killed 16 miners in one month, the governor of West Virginia ordered a "time-out" and suspended production in all 544 mines in the state, the nation's second leading coal-producing state. Those concerned with the miners' safety pointed to the lack of safety precautions, education, and equipment that may have contributed to many of these accidents and the resulting fatalities. The governor ordered extensive safety inspections of the operations of the mines and more than 6,000 miners were provided with updated safety training.[16]

Ethics issues also arise in purchasing and supply management departments. The Institute for Supply Management (ISM) revised its professional code of ethics in 2005. Its code advocates "loyalty to your organization, justice to those with whom you deal, and faith in your profession." The professional code denotes 12 principles and standards "to encourage adherence to an uncompromising level of integrity."[17]

Efforts by professional associations to guide their members toward effective resolution of ethical challenges make one point crystal clear: All areas of business, all people in business, and all levels of authority in business encounter ethics dilemmas from time to time. Ethics issues are a common thread running through the business world. Specific steps that businesses can take to make ethics work are discussed next.

Making Ethics Work in Corporations

Any business firm that wishes to do so can improve the quality of its ethical performance. Doing so requires a company to build ethical safeguards into its everyday routines. This is sometimes called *institutionalizing* ethics. How often organizations adopt these safeguards is shown in Figure 6.2.

Building Ethical Safeguards into the Company

Managers and employees need guidance on how to handle day-to-day ethical situations; their own personal ethical compass may be working well, but they need to receive directional signals from the company. Several organizational steps can be taken to provide this kind of ethical awareness and direction.

> Lynn Sharp Paine, a Harvard Business School professor, has described two distinct approaches to ethics programs: a compliance-based approach and an integrity-based approach. A compliance-based program seeks to avoid legal sanctions. This approach emphasizes the threat of detection and punishment in order to channel employee behavior in a lawful direction. Paine also described an integrity-based approach to ethics programs. Integrity-based ethics programs combine a concern for the law with an emphasis on employee responsibility for ethical conduct. Employees are told to act with integrity and conduct their business dealings in an environment of honesty and fairness. From these values a company will nurture and maintain business relationships and will be profitable.[18]

Researchers found that both approaches lowered unethical conduct, although in somewhat different ways. Compliance-based ethics programs increased employees' willingness to seek ethical advice and their awareness of ethical issues at work. Integrity-based programs, for their part, also increased employees' sense of integrity, commitment to the organization, willingness to deliver bad news to supervisors, and their perception that better decisions were made.[19]

Top Management Commitment and Involvement

Research has consistently shown that the "tone at the top"—the example set by top executives—is critical to fostering ethical behavior. When senior-level managers signal employees, through their own behavior, that they believe ethics should receive high priority in all business decisions, they have taken a giant step toward improving ethical performance throughout the company. One prominent group recognized this in their response to the multiple ethics scandals that shook the confidence of the American public toward business.

> The Business Roundtable, a coalition of top executives, created an Institute for Corporate Ethics to develop and conduct training programs for senior managers. "This Institute is a bold investment that will bring together the best educators in the field of ethics, active business leaders, and business school students to forge a new and lasting link between ethical behavior and business practices," pledged Business Roundtable co-chairman Franklin Raines, chairman and CEO of Fannie Mae.[20]

Whether the issue is sexual harassment, honest dealing with suppliers, or the reporting of expenses, the commitments (or lack thereof) by senior management and the employees' immediate supervisor and their involvement in ethics as a daily influence on employee behavior are the most essential safeguards for creating an ethical workplace.

Ethics Policies or Codes

As shown in Figure 6.2, nearly all large U.S. corporations and most businesses of any size have **ethics policies or codes**. Their purpose is to provide guidance to managers and employees when they encounter an ethical dilemma. The rationales underlying the ethics policies differ from country to country. In the United States and Latin America, it was found that policies were primarily *instrumental*, that is, provided rules and procedures for employees to follow in order to adhere to company policies or societal laws. In Japan, most policies were found to be a mixture of *legal compliance* and *statements of the company's values and mission.*

The *values and mission* policies also were popular with European and Canadian companies.[21]

Typically, ethics policies cover issues such as developing guidelines for accepting or refusing gifts from suppliers, avoiding conflicts of interest, maintaining the security of proprietary information, and avoiding discriminatory personnel practices. Researchers have found that writing ethics policies alone was insufficient in promoting ethics at work. Ethics policies must be frequently and widely distributed among employees and to external stakeholder groups (customers, suppliers, competitors, etc.). The creation of an ethics policy must be followed up with employee ethics training to further the influence of the policy's provisions on day-to-day company activities.[22]

Ethics Officers, Compliance Officers, and Ombudspersons

Ethical lapses in large corporations throughout the 1980s prompted many firms to create a new position: the **ethics officer, compliance officer,** or **ombudsperson**. A second surge of attention to ethics and the creation of ethics offices came in response to the 1991 U.S. Corporate Sentencing Guidelines, discussed in Chapter 5. Finally, the recent wave of corporate ethics scandals and the passage of the Sarbanes-Oxley Act have again turned businesses' attention toward entrusting ethical compliance and the development and implementation of ethics programs to an ethics or compliance officer or ombudsperson. From 2000 to 2004, the number of members in the professional association, the Ethics Officers Association, doubled from 632 to more than 1,200 members. To reflect the growing number of compliance officers heading companies' ethics programs, this association recently changed its name to the Ethics and Compliance Officers Association.

> According to a survey of its members, ethics and compliance officers and corporate ombudspersons have been entrusted with reducing the risks to the company of employee misconduct (79 percent), ensuring commitment to corporate values (75 percent), and establishing a better corporate culture (68 percent).[23]

Similar to an ethics or compliance officer, an ombudsperson is an impartial, confidential, and informal resource for resolving conflicts within an organization. These conflicts range from compensation and performance appraisal issues to discrimination, harassment and safety matters. Coca-Cola Enterprises, the largest producer, marketer and distributor of Coca-Cola products, created an ombuds office in 2001. Thomas Zgambo, Coca-Cola Enterprises' ombudsperson, reported that the company averaged 2,500 contacts annually.

Ethics Assist Lines or Helplines

In some companies, when employees are troubled about some ethical issue but may be reluctant to raise it with their immediate supervisor, they can place a call on the company's **ethics assist line or helpline** (the new preferred term to hotline or crisis line). Daniel Kile, former director of ethics at Bell Helicopter Textron, noted that assist lines typically have three uses: (1) to provide interpretations of proper ethical behavior involving conflicts of interest and the appropriateness of gift giving, (2) to create an avenue to make known to the proper authorities allegations of unethical conduct, and (3) to give employees and other corporate stakeholders a way to discover general information about a wide range of work-related topics.[24] An ethics assist line may work with other ethics safeguards, such as at Raytheon where the assist line served as an early warning system for the need to develop a new ethics training program for the firm's supervisors.

This approach has become more common, found in more than 83 percent of all organizations with 500 or more employees, according to the National Business Ethics Survey conducted by the Ethics Resource Center in 2005. The growth of help or assist lines is partly due to Section 301 of the Sarbanes-Oxley Act, which since 2002 has required companies to provide employees with a mechanism to report potentially criminal misconduct to top managers and the board. Companies are learning how to make these mechanisms more effective, as illustrated by the following example.

> Shell Oil Company, based in Houston, Texas, implemented a hotline in 1993. Employees calling the number could leave voice messages from 8 a.m. to 5 p.m., Monday through Fridays. The response was decidedly cool—a total of only 32 calls from 1993 to 2000, while the company employed 30,000 workers. In 2000, they changed the name to a "helpline" and it was staffed by Global Compliance Services on a full-time, seven-day, 24-hour basis. By 2004, Shell's helpline was averaging 117 calls annually. Why the increase? "We advertised the helpline," recalled Danna Walton, Shell's senior counsel. The company distributed helpline brochures to employees. Company ethics and compliance officers posted signs around the workplace. The helpline number was printed on every other page of the company's code of conduct. It was promoted on the company's Web site. The company assured employees that allegations would be investigated and acted upon if something was found to be amiss. "You've got to make people understand that you're going to do something about it" when they make a report, said Walton. If not, they will stop using the mechanism.[25]

Some of the challenges of introducing the use of ethics helplines worldwide are profiled in Exhibit 6.C.

Ethics Training Programs

Another step companies can take to build in ethical safeguards is to offer employee training. The number of companies offering employee ethics training ranges from less than 40 percent for firms with 25 or fewer employees to more than 75 percent for organizations with 500 or more employees. Training generally is offered annually and held for less than two hours on average. Ethics training is offered to managers, rather than the rank and file, and usually involves lectures offered by a company trainer or general group discussions. Topics covered in ethics training range from compliance with governmental regulations, such as antitrust, to adherence to the company's sexual harassment or conflicts of interest policies.[26]

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> Coors Brewing Company encountered serious resistance from its employees when it tried to initiate its ethics program. The ethics policy was printed on a large, single piece of cardboard with a tear-off card to be signed by each employee attesting that she or he had read and understood the rules. About 30 percent of the workforce refused to sign the card, but the company learned an important lesson. The employees wanted and needed to experience the ethics training program first, and then would agree to the company's request for the sign-off of the ethics policy.

Ethics Audits

Some firms have attempted to assess the effectiveness of their ethical safeguards by documenting evidence of increased ethical employee behavior. One technique used was an **ethics audit**. Typically, the auditor was required to note any deviations from the company's ethics standards and bring them to the attention of the audit supervisor. Often the managers of each operating entity were required to file a report with the auditor on the corrective action they took to deal with any deviations from the standards that emerged in the prior year's audit. Managers also reported on the written procedures they established for informing new employees of the standards and for providing ongoing reviews of the standards with other employees.

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Although United Technologies objected to the term *ethics audit*, the company did embrace the value of assessing the effectiveness of its ethics compliance program. "There is no such thing as an ethics audit," according to United Technologies' vice president of business practices. "What we do are system audits." The system audit at UT examined the controls in place at its business units for preventing compliance and ethics irregularities. These often included a *desk audit* where auditors went into a sales manager's actual office to see if they could find any so-called red flags. The UT auditors also looked into the manager's file cabinets, correspondence, and e-mail.[28]

Comprehensive Ethics Programs

The critical component in creating an effective ethics design is the integration of various appropriate ethics safeguards into a comprehensive program. In an Ethics Resource Center survey of U.S. employees, only 26 percent of the employees reported that their employer had developed a comprehensive, six-element ethics program, that is, a program integrating written standards, training, advice resources, hotline for anonymous reporting, ethics discipline, and evaluation systems. The startling discovery, however, was the dramatic impact a comprehensive ethics program, along with a strong ethical culture, had in creating an ethical work environment for employees. People working at a firm with a comprehensive ethics program were more likely to report ethical misconduct in the workplace to the appropriate company authority and be satisfied with the company's investigation of and response to charges of ethical misconduct. In contrast, firms with only an ethics policy or code were often perceived as less ethically responsible and less able to address ethical misconduct in the workplace than firms without any ethical safeguards.[29] An example of a comprehensive ethics program is described in the discussion case at the end of this chapter.

Corporate Ethics Awards

Firms have been honored for their efforts to create an ethical climate and improve ethical performance. Business Ethics Awards, sponsored by *Business Ethics* magazine, have been awarded since 1989. In 2002 *Business Ethics* magazine created a new Living Economy Award, based on the work of theorist David Korten, author of *The Post-Corporate World.* He emphasized the need to build a living economy based on firms that focused on fair profits rather than maximum profits and were locally based, stakeholder-owned, democratically accountable, life-serving, and operated on a human scale.

The first Living Economy Award went to the White Dog Café, a $5 million café in Philadelphia that paid living wages to all employees, including dishwashers, and purchased humanely raised meat from local family farmers. A year later the Living Economy Award was presented to Organic Valley, a $156 million, 633 farmer-owned cooperative located in LaFarge, Wisconsin. Chroma Technology Corporation, a global high-technology manufacturer of optic filters, received the Living Economy Award in 2004. No employee at Chroma is paid more than $75,000 or less than $37,500, there are no designated managers, and employees hold seats on the board of directors. In 2005, Weaver Street Cooperative, a North Carolina firm, was honored with the Living Economy Award for its sustainable products, community focus, and democratic governance.[30]

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Ethics in a Global Economy

Doing business in a global context raises a host of complex ethical challenges. Examples of unethical conduct by business employees are reported from nearly every country. One example of unethical activity is **bribery**, a questionable or unjust payment often to a government official to ensure or facilitate a business transaction. Bribery is found in nearly every sector of the global marketplace.

> A Berlin-based watchdog agency, Transparency International, annually publishes a survey that ranks corruption by country according to perceptions of executives and the public. Countries where having to pay a bribe is least likely included Iceland, Finland, New Zealand, Denmark, Singapore, Sweden, and Switzerland. At the other end of the index—countries most likely to demand or accept bribes—were Chad, Bangladesh, Turkmenistan, Myanmar, Haiti, Nigeria, Equatorial Guinea, and Cote d'Ivoire. The United States ranked 17th on the list of 159 countries, with United Kingdom 11th, Canada 14th, Germany 16th, France 18th, Japan 21st, Italy 40th, India 88th, and Russia 126th.[31]

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Examples of bribery and corruption in business have been frequently reported. Companies in central and eastern Europe, for example, reported that 30 to 60 percent of all business transactions in the region involved paying bribes, and these firms paid from 2 to 8 percent of annual revenues in bribes. The average cost of bribery in the former Soviet Union was reported to range from 4 to more than 8 percent of company revenue. Globally, bribery occurred most often in public works contracts and construction, arms and defense industry exchanges, and business dealings in the petroleum and energy industries, according to a Transparency International report.[33]

Efforts to Curtail Unethical Practices

Numerous efforts are underway to curb unethical business practices throughout the world. The most common control is through government intervention and regulation. Efforts to address unethical business behavior often begin with national governments, which can enact stiff legislative controls, but recently include efforts by international organizations.

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Other examples of multinational and national anticorruption efforts include the Southern Africa Forum Against Corruption, an annual meeting since 2000, which is dedicated to lobby member countries to ratify the Southern African Development Community Protocol Against Corruption. Eight countries already have approved the protocol—Botswana, Mauritius, South Africa, Malawi, Tanzania, Zambia, Lesotho and Namibia. Other efforts begun in the 1990s continue today, such as the Council of Europe's Criminal Law Convention on Corruption and the Global Forum on Fighting Corruption and Safeguarding Integrity among Justice and Security Officials.

In past years, various international organizations, such as the International Labour Organization and the United Nations, have attempted to develop an international code of conduct for multinational corporations. These efforts have emphasized the need for companies to adhere to universal ethical guidelines when conducting business throughout the world. These codes and their ethical focus are discussed further in Chapter 7.

At the country level, Morocco marked January 6 as a national day to fight corruption. The Chilean government, intent on maintaining its reputation as "the cleanest country in Latin America," passed 50 anticorruption laws in 2003. At a conference of the Association of National Accountants of Nigeria, its director encouraged accountability and transparency when granting loans and technical aids as a way of reducing corruption. An independent corruption body was established in Indonesia as part of the president's vow to end corruption in that country. The government of Slovakia made combating corruption a top priority. The Swiss government nullified the tax advantages of paying commissions to consultants in foreign countries, a practice that had long been illegal in other countries. The interim president of Peru pledged to take a tough stance against corruption and established measures to prevent corruption suspects from fleeing the country without standing trial. Russian President Vladimir Putin pledged to reduce corruption in his country, as described in Exhibit 6.D.

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Some people question the effectiveness of governmental legislation or corporate policies. Rather than establishing rules, some businesses, including Motorola and Reebok, are trying to educate and motivate their employees worldwide to both respect the customs of other nations and adhere to basic ethical principles of fairness, honesty, and respect for human rights.[35] Some who study international business ethics say that such higher standards of ethics already exist. Thomas Donaldson, a leading ethics scholar, has outlined a set of fundamental human rights—including the rights to security, freedom of movement, and subsistence income—that should be respected by all multinational corporations. These standards and other ethical values are at the core of the development of transnational codes of conduct promoted by the United Nations and other international organizations.[36]

Ethics, Law, and Illegal Corporate Behavior

It is important when discussing specific ways to improve business's ethical performance to consider the relationship of laws and ethics. Some people have argued that the best way to assure ethical business conduct is to insist that business firms obey society's laws. However, this approach is not as simple as it seems.

Laws and ethics are not quite the same. Laws are similar to ethics because both define proper and improper behavior. In general, laws are a society's attempt to formalize—that is, to reduce to written rules—the general public's ideas about what constitutes right and wrong conduct in various spheres of life. Ethical concepts—like the people who believe in them—are more complex than written rules of law. Ethics deal with human dilemmas that frequently go beyond the formal language of law and the meanings given to legal rules. Sometimes businesses or industries preempt legislation and voluntarily adopt ethically based practices.

> Such was the case when the Interactive Digital Software Association, which represents video game makers, established a five-category system that was voluntarily adopted by the industry to inform consumers of the intended target audience. The video game industry also agreed to provide content warnings, such as mild profanity, and to use warning symbols.

This example suggests that following laws cannot always define proper action, that is, what is ethical or unethical. Although laws attempt to codify a society's notions of right and wrong, they are not always able to do so completely. Obeying laws is usually one way of acting ethically, and the public generally expects business to be law-abiding. But at times, the public expects business to recognize that ethical principles are broader than laws. Because of the imperfect match between laws and ethics, business managers who try to improve their company's ethical performance need to do more than comply with laws.

Corporate Lawbreaking and Its Costs

Although estimates vary, lawbreaking in business may cause serious financial losses to the firms, often inflicted by the company's own employees.

> "Over a third of companies were victims of fraud, suffering an average loss of over $2 million," according to the PricewaterhouseCoopers Global Economic Crime Survey. Two law professors estimated that corporate crimes in the form of faulty goods, monopolistic practices, and other law violations annually cost American consumers between $174 billion and $231 billion. Ten percent of the $1 trillion spent on U.S. health care is believed lost due to fraud every year.[37]

The United States is not the only nation suffering losses from illegal acts. German officials believe that more than 50 billion marks ($29.07 billion) a year is lost from the German economy as a result of inflated accounting, tax evasion, and illegal kickbacks. In a survey commissioned by the U.K. Fraud Advisory Panel, researchers found that **white-collar crime** cost U.K. businesses about $73 billion each year. Crimes involving embezzlement, money laundering, and check fraud were found to be widespread, with nearly half of the firm admitting that they conceal such crimes from external auditors.[38]

Beyond these monetary costs of illegal behavior are the physical and social costs. It is estimated that each year 200,000 to 500,000 workers are exposed to toxic agents such as radioactive materials and poisonous chemicals because of corporate failure to obey safety laws. Occupational diseases, many resulting from violations of health and safety laws, cause more than 100,000 deaths each year in the United States, and more than 6,000 workers die from on-the-job injuries. This amounts to an average of nearly 17 workplace deaths each day. Tragically, many of these deaths might have been avoided if employers and workers were informed about the risks and complied with established safety and health regulations.

[illegible]

The Justice Department also warned that fewer executives convicted of white-collar crimes would be allowed to serve their time in halfway houses and similar low-security facilities in the future. About 125 federal inmates serving their sentences in such facilities in January 2003 were transferred to federal penitentiaries. "The prospect of prison, more than any other sanction, is feared by white-collar criminals and has a powerful deterrent effect," said Deputy Attorney General Larry Thompson.[39]

But there is still an unanswered question: “Does crime pay?” Although Dennis Kozlowski of Tyco and Bernie Ebbers of WorldCom received stiff penalties for their deeds, consider the fates for these executives who committed illegal acts:

- Michael Milken, guru of the junk-bond scandals in the 1980s, left prison in 1992 after serving less than two years and with his fortune of $500 million intact.
- Global Crossing founder Gary Winnick pocketed millions from allegedly fraudulent stock sales and faced no criminal or civil charges at all.
- Investment banker Frank Quattrone had his conviction and 18-month prison sentence overturned on appeal and will keep most of his $200 million made through allegedly questionable initial public offerings.
- Mark H. Swartz, Tyco’s former CFO, received a $44 million cash severance, deferred compensation and supplemental pension package from the company. (Swartz voluntarily returned an additional $91 million in severance to the company.)
- Andrew Wiederhorn, CEO of Fog Cutter Capital Group, was sentenced to 18 months in prison after pleading guilty to two felony counts involving a $160 million loan by his company which resulted in its financial collapse. The firm’s board of directors voted to keep Wiederhorn on the company’s payroll, so while in jail he will receive $2.5 million in compensation.[40]

In a Conference Board–supported survey, 62 percent of the executives responding said that executives who leave their firm because of major violations of ethics and compliance codes “get a financial package and go.” So, while the risks are great, some evidence supports the adage “crime does pay,” although governmental and business efforts may seek to change this situation in the future.

Yet, the more likely lesson to be learned from the outcomes for many of the recent business ethics scandals is that “crime does *not* pay.” There are serious consequences for acting unethically and illegally, as the “perp walks” portrayed in the media of business executives going off to jail in handcuffs would indicate. Therefore, businesses have taken significant measures to foster an ethical environment in the workplace and to provide mechanisms to ensure their employees know what is the “right thing to do” and consistently act in an ethical manner.

- A company’s culture and ethical climate tend to shape the attitudes and actions of all who work there, sometimes resulting in high levels of ethical behavior and at other times contributing to less desirable ethical performance.
- Not all ethical issues in business are the same, but ethical challenges occur in all major functional areas of business. Professional associations for each functional area often attempt to provide a standard of conduct to guide practice.
- Companies can improve their ethical performance by creating a value-based ethics program that relies on top management leadership and organizational safeguards, such as ethics policies or codes, ethics or compliance officers or ombudspersons, ethics training programs, and ethics audits.
- Companies that have a comprehensive, or multifaceted, ethics program often are better able to promote ethical behavior at work and avoid unethical action by employees.
- Ethical issues, such as bribery, are evident throughout the world, and many international agencies and national governments are actively attempting to minimize such unethical behavior through economic sanctions and international codes.

- Although laws and ethics are closely related, they are not the same; ethical principles tend to be broader than legal principles. Illegal behavior by businesses and employees imposes great costs on business generally and the general public.

Discussion Case: *PPG's Corporate Ethics Program*

Founded in 1883, PPG Industries is a major global supplier of coatings, glass, fiberglass, and chemicals. In 2005, this Pittsburgh-based multinational operated more than 110 manufacturing facilities and equity affiliates in over 20 countries and had global sales of $10.2 billion.

In keeping with its reputation as an honest, fair, and capable firm, PPG Industries had developed a multifaceted ethics program. At its core was the PPG Industries Blueprint, describing the company's values, statement of mission, and objectives. This document identified the company's critical values as dedication to the customer; respect for the dignity, rights, and contributions of employees; recognition of the concerns and needs of society; commitment to integrity and high ethical standards; supplier relationships focusing on continuous improvement and shared responsibility; and responsibility to shareholders.

To put these values into practice through policies and programs, PPG management implemented a number of ethical safeguards and called on its employees to implement them through their personal conduct. Over a period of several years, PPG began issuing its Business Conduct Policies, which defined possible ethical issues encountered by PPG employees, as well as guidelines for handling their ethical challenges. The policies concluded by stating, "It is the policy of PPG and its subsidiaries, its agents and employees, to make every effort to operate as good, responsible, and ethical corporate citizens and to comply with all applicable laws of the jurisdiction in which they are present or operating."

Although the Business Conduct Policies clearly set the ethical tone for PPG's operations, PPG management felt a need to include an explicit global focus since the firm had acquired several overseas businesses with cultures and histories that differed from PPG's. The Global Ethics Committee was created, with members drawn from PPG operations in Europe, Asia, and South and North America. It was charged with advising top management on ethical issues, making recommendations concerning company policies and codes of conduct, developing an ethics training program, and providing a forum for the review of ethical issues. In addition, it assumed the role of the compliance committee after the passage of the U.S. Federal Sentencing Guidelines in 1991.

One of the most significant actions taken by the Global Ethics Committee was drafting PPG's initial Global Code of Ethics (GCOE) in 1989. In 2004, the Committee combined PPG's compliance-based Business Conduct Policies with the GCOE, creating a single unambiguous document that reaffirmed the importance of the company's ethical standards, introduced new and prospective employees to the company's ethical tradition and the high standards to which PPG holds its people, and served as a primary reference document by drawing together main elements of PPG's ethical convictions. The global code covered PPG's relationships with customers, suppliers, and competitors (issues such as gifts, inappropriate entertainment, and product safety) and responsibility to PPG people (such as health and safety and diversity issues). It also discussed protecting corporate assets (such as security of information and intellectual property) and company responsibilities to the public and public officials (ranging from corporate lobbying to environmental responsibility). Finally, the global code addressed differences in local laws and customs and reporting violations or workplace misconduct.

For example, the revised GCOE began with a letter of commitment from PPG Industries' chairman and chief executive officer: "Our reputation rests not only on our ability to be a provider of quality goods and services but also on our integrity and high ethical standards. Our continuing business success rests, in large part, on the work of every PPG employee to preserve and enhance our reputation with customers, suppliers, government officials and the public in general. . . ." The GCOE defined possible ethical issues encountered by PPG employees, as well as guidelines for handling their ethical challenges. The Code concluded by stating, "Your personal commitment to the principles and values outlined in this document is the single most important tool we have in ensuring PPG's continued reputation as a valued business partner."

To ensure that any instances of ethical misconduct were reported, PPG instituted the PPG ethics hotline in 1999, a toll-free telephone number maintained by an independent company located in another state, which assured callers it would protect their anonymity. Calls from PPG employees ranged from questions about employee relations to reports of fraud, discrimination, conflict of interest, or the release of proprietary information. On the basis of communications through the ethics hotline, PPG Industries improved communication channels within the firm, changed policies, and prosecuted violators as necessary.

Most recently PPG has ramped up the ethics and compliance training for employees, adding timely online modules in critical areas including Records Management, Foreign Corrupt Practices Act, Antitrust, Workplace Harassment and Discrimination, and an annual course and certification on Ethics. These courses have reached thousands of PPG employees worldwide. To ensure that the ethics message reaches even those without computer access, PPG sends paper copies of the relevant information to overseas employees and developed a phone-in ethics training and certification process for U.S. and Canada employees.

PPG's multifaceted corporate ethics program is one example of a business seeking to maintain an ethical culture while honoring its economic responsibilities. The firm was recognized for its exemplary ethics program as the recipient of the Pittsburgh Chapter's American Business Ethics Award for large companies in 2003. As PPG's chairman and CEO explained, "Let . . . us all work together toward our mutual goals: to furnish goods and services that meet our customers' and society's needs; to provide all employees with a safe, healthy, and fulfilling work environment; to afford our shareholders a superior return on their investment; and to contribute as a good corporate citizen to each nation and each community in which we operate."

Source: Quotations are from PPG's Global Code of Ethics. Additional information taken from the PPG Industries Blueprint and interviews with PPG's global director, security and compliance, Regis Becker.

[1] "7 More Managers Fired over Nortel Accounting," *The New York Times*, August 20, 2004, *www.nytimes.com*; "Ex-Executive of Dynegy Is Sentenced to 24 Years," *The New York Times*, March 26, 2004, *www.nytimes.com*; "Parmalat Fraud Trial Opens in Milan," *The New York Times*, September 28, 2005, *www.nytimes.com*; "Law Firm and KPMG Settle Suit by Tax Clients," *The New York Times*, September 20, 2005, *www.nytimes.com*; and, "McKesson Agrees to Pay $960 Million in Fraud Suit," *The New York Times*, January 13, 2005, *www.nytimes.com*.

[2] Terrence E. Deal and Allan A. Kennedy, *Corporate Cultures: The Rites and Rituals of Corporate Life* (Reading, MA: Addison-Wesley, 1982), pp. 4, 16.

FIGURE 6.1 The Components of Ethical Climates

Source: Adapted from Bart Victor and John B. Cullen, "The Organizational Bases of Ethical Work Climates," *Administrative Science Quarterly* 33 (1988), p. 104.

Ethical Criteria	**Focus of Individual Person**	**Organization**	**Society**
Egoism (self-centered approach)	Self-interest	Company interest	Economic efficiency
Benevolence (concern-for-others approach)	Friendship	Team interest	Social responsibility
Principle (integrity approach)	Personal morality	Company rules and procedures	Laws and professional codes

[3] "How Holt Company Introduced Its 'Managing by Values' Process," *Ethikos*, March–April 1997, pp. 4–6, 11.

[4] "[illegible] and "In CA Probe: Recovered E-Mails, Surprise Cache of Documents," *The Wall Street Journal*, September 24, 2004, pp. A1, A6.

[5] James Weber, "Influences upon Organizational Ethical Subclimates: A Multi-departmental Analysis of a Single Firm," *Organization Science* 6 (1995), pp. 509–23.

[6] "PricewaterhouseCoopers Withdraws from Audit Role, Citing Conflict of Interest," Institute for Global Ethics, *Ethics Newsline*, September 29, 2003, *www.globalethics.org*.

[7] "Japanese Firm Admits $1.37 Billion Accounting Fraud," Institute for Global Ethics, *Ethics Newsline*, April 18, 2005, *www.globalethics.org*.

[8] *International Accounting Standards*, The European Commission, *europa.eu.int*.

[9] For several excellent examples of ethical dilemmas in accounting, see Leonard J. Brooks, *Business & Professional Ethics for Accountants*, 3rd ed. (Cincinnati: South-Western College Publishing, 2004); and Ronald Duska and Brenda Duska, *Accounting Ethics* (Malden, MA: Blackwell, 2003).

[10] "Fund Executive, Fined $60 Million, Accepts Life Ban," *The New York Times*, May 21, 2004, *www.nytimes.com*.

[illegible]

[12] "New Money-Laundering Rules to Cut Broad Swath in Finance," *The Wall Street Journal*, April 23, 2002, pp. A1, A11.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

Code of Professional Conduct

These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

- Responsibilities—In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities. . . .
- The Public Interest—Members should accept the obligation to act in a way that will serve the public interest, honor the public interest, and demonstrate commitment to professionalism. . . .
- Integrity—To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity. . . .
- Objectivity and Independence—A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services. . . .
- Due Care—A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability. . . .
- Scope and Nature of Services—A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.*

CHARTERED FINANCIAL ANALYST (CFA)®

Summary from CFA Institute Code of Ethics and Standards of Professional Conduct

Members of CFA Institute (including Chartered Financial Analyst® (CFA®) charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the interests of clients, the interests of their employer, and the integrity of the investment profession above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity of, and uphold the rules governing, global capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

The Standards of Professional Conduct include:

- Professionalism, which discusses knowledge of the law, independence and objectivity, misrepresentation, and misconduct.
- Integrity of capital markets, which discusses material nonpublic information and market manipulation.
- Duties to clients, which discusses loyalty, prudence and care, fair dealing, suitability, performance presentation, and preservation of confidentiality.
- Duties to employers, which discusses loyalty, additional compensation arrangements, and responsibilities of supervisors.
- Investment analysis, recommendations, and action, which discusses diligence and reasonable basis, communication with clients and prospective clients, and record retention.
- Conflicts of interest, which discusses disclosure of conflicts, priority of transactions, and referral fees.
- Responsibilities as a CFA Institute member or CFA candidate, which discusses conduct as members and candidates in the CFA program and reference to CFA Institute, the CFA designation, and the CFA program.†

[13] The AMA Code for Market Researchers and a discussion of numerous marketing ethics issues can be found in David D'Alessandro and Michele Owens, *Ethics in Marketing* (New York: McGraw-Hill/Irwin, 1996); Bodo B. Schlegelmilch, *Marketing Ethics: An International Perspective* (London: International Thomson Business Press, 1998); and Patrick E. Murphy et al., *Ethical Marketing* (Upper Saddle River, NJ: Prentice Hall, 2005).

AMERICAN MARKETING ASSOCIATION (AMA)

Code of Ethics

Members of the American Marketing Association (AMA) are committed to [illegible]

- Responsibilities . . . —Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations, and actions function to identify, serve, and satisfy all relevant publics: customers, organizations, and society.
- Honesty and Fairness—Marketers shall uphold and advance the integrity, honor, and dignity of the marketing profession.
- Rights and Duties of Parties—Participants in the marketing exchange process should be able to expect that (1) products and services offered are safe and fit for their intended uses; (2) communications about offered products and services are not deceptive; (3) all parties intend to discharge their obligations, financial and otherwise, in good faith; and (4) appropriate internal methods exist for equitable adjustment and/or redress of grievances concerning purchases.
- Organizational Relationships—Marketers should be aware of how their behavior may influence or impact the behavior of others in organizational relationships. They should not demand, encourage, or apply coercion to obtain unethical behavior in their relationships with others.

Any AMA members found to be in violation of any provision of this Code of Ethics may have his or her Association membership suspended or revoked.*

ASSOCIATION FOR COMPUTING MACHINERY (ACM)

Code of Ethics and Professional Conduct

Preamble. Commitment to ethical professional conduct is expected of every member (voting members, associate members, and student members) of the Association for Computing Machinery (ACM).

This code, consisting of 24 imperatives formulated as statements of personal responsibility, identifies the elements of such a commitment. It contains many, but not all, issues professionals are likely to face. . . . The code and its supplemental guidelines are intended to serve as a basis for ethical decision making in the conduct of professional work. Secondarily, they may serve as a basis for judging the merit of a formal complaint pertaining to violation of professional ethical standards.

The general imperatives for ACM members include contribute to society and human well-being, avoid harm to others, be honest and trustworthy, be fair and take action not to discriminate, honor property rights including copyrights and patents, give proper credit for intellectual property, respect the privacy of others, and honor confidentiality.

[illegible]†

* Adapted with permission from the American Marketing Association's Code of Ethics, published by the American Marketing Association. For a full text of the professional marketing code see *www.ama.org*.

 A full text of the ACM code of ethics can be found at *www.acm.org/constitution/code*.

[14] "AOL Worker Is Accused of Selling 93 Million E-Mail Names," *The New York Times*, June 24, 2004, *www.nytimes.com*.

[15] For further discussion of ethics in information technology see Richard Spinello, *Cyber Ethics: Morality and Law in Cyberspace,* 3rd ed. (Sudbury, MA: Jones and Bartlett, 2006); Paul A. Alcorn, *Practical Ethics for a Technology World* (Upper Saddle River, NJ: Prentice Hall, 2001); and the ISWorld Net Professional Ethics Web page at *www.cityu.edu.hk/is/ethics*.

[16] "West Virginia Mines Take Safety Timeout," CNN.com, February 2, 2006, *www.cnn.com*.

[17] All quotations are from the Institute for Supply Management's Principles and Standards of Ethical Supply Management Conduct, available to members of the association at *www.ism.ws.*

FIGURE 6.2

Organizations' Ethics Safeguards at Work*

	Fortune 1000 Organizations (1996)	Southwest Pennsylvania NBES (2005)	Ethics Safeguard	(1992)
Promoted ethics at work	93%	71%		
Developed code of ethics	93	57	86%	
Created ethics office/advice		17	65	
Established ethics hotline		9	73	
Offered ethics training	25	20	69	
Conducted audit/evaluation		11	67	

* The 1992 Fortune 1000 survey looked at the 500 largest industrial and 500 largest service companies according to the *Fortune* listing. The southwestern Pennsylvania organizations survey looked at organizations in that region of all sizes (30 percent of the sampled organizations had less than 50 employees, and 22 percent had more than 1,000 employees) and at multiple industry groups (health care, finance, manufacturing, etc.). The National Business Ethics Survey contacted employees working for companies of all sizes (48% from large firms and 69% from for-profit organizations).

[illegible]

[18] Lynn Sharp Paine, "Managing for Organizational Integrity," *Harvard Business Review*, March–April 1994, pp. 106–17.

[19] Gary R. Weaver and Linda Klebe Trevino, "Compliance and Values Oriented Ethics Programs: Influences on Employees' Attitudes and Behavior," *Business Ethics Quarterly* 9 (1999), pp. 315–35.

[20] "Nation's Top CEOs Announce Plans for Center on Corporate Ethics," Institute for Global Ethics, *Ethics Newsline*, January 20, 2004, *www.globalethics.com.*

[21] Ronald C. Berenbeim, *Global Corporate Ethics Practices: A Developing Consensus* (New York: Conference Board, 1999).

[22] Betsy Stevens, "Communicating Ethical Values: A Study of Employee Perceptions," *Journal of Business Ethics* 20 (1999), pp. 113–20. For examples of codes, see Ivanka Mamic, *Implementing Codes of Conduct* (Sheffield, UK: Greenleaf Publishing, 2004); and Oliver F. Williams, C.S.C., ed., *Global Codes of Conduct: An Idea Whose Time Has Come* (Notre Dame, IN: University of Notre Dame Press, 2000).

[23] "EOA Survey: Companies Seeking to Integrate Ethics through the Whole Organization," *Ethikos*, July–August 2001, pp. 1–3, 16.

[24] "Operating an Ethics Hotline: Some Practical Advice," *Ethikos*, March–April 1996, pp. 11–13.

The U.S. Sarbanes-Oxley Act, passed in 2002, requires companies to take several steps to assure accurate financial reporting, including setting up a confidential whistle-blowing mechanism. As U.S.-based multinationals have sought to meet the requirements of this law in their European operations, they have run into some unexpected obstacles. The core of the problem is the hotlines' anonymity.

For example, the French Data Protection Authority told McDonald's and Exide Technologies that they could not use ethics hotlines to gather information on possible corporate problems. The French regulators asserted that hotlines violated French privacy laws, because callers to the hotlines could remain anonymous. The French maintained that anyone named by a whistle-blower should be told of the complaint, so they could have a chance to prove their innocence. The French have a long-standing unease with anonymity, dating back at least to Nazi Germany's occupation of France during World War II, when individuals were forced to inform on others.

The European Union's Data Protection laws give individuals the right to know what data are being processed about them. It also assures that data are processed fairly and lawfully, are kept secure, and are not transferred to a country that fails to protect privacy rights, such as the United States, in the opinion of EU regulators.

One consultant recommended that U.S. multinationals operating in Europe develop a tri-level program in response to the Sarbanes-Oxley requirement: (1) a fully developed program for its U.S. operations, (2) another program posted on the parent company's global Web site and addressed to the world (employees and the general public), and (3) a "Europeanized" version of the program for its EU subsidiaries to adapt and ratify, consistent with local laws and procedures in Europe.

Source: "U.S. Helplines Raise EU Privacy Concerns," *Ethikos*, September–October 2005, pp. 1–4, 18–20; and "Blow the Whistle—No Wait: Ethics Hotlines May Be Illegal in Europe," *Business Ethics*, Fall 2005, p. 10.

[25] "Developing Effective Helplines: Shell Oil and Lubrizol," *Ethikos*, September–October 2005, pp. 5–7, 17.

[26] Beard Center for Leadership in Ethics, *Ethics Initiatives in Southwestern Pennsylvania: A Benchmarking Report* (Pittsburgh: Duquesne University, 1996); and Ethics Resource Center, *National Business Ethics Survey: How Employees View Ethics in Their Organizations* (Washington, DC, 2005).

[27] Sean Valentine and Gary Fleischman, "Ethics Training and Businesspersons' Perceptions of Organizational Ethics," *Journal of Business Ethics* 52 (2004), pp. 381–90.

[28] "Audits Reduce Compliance Risk at United Technologies," *Ethikos*, March–April 2001, pp. 12–13.

[29] See Joshua Joseph, *2000 National Business Ethics Survey, Volume I: How Employees Perceive Ethics at Work* (Washington, DC: Ethics Resource Center, 2000).

[30] "14th Annual Business Ethics Awards," *Business Ethics*, Fall 2002, pp. 10–12; "15th Annual Business Ethics Awards," *Business Ethics*, Winter 2003, pp. 8–16; "16th Annual Business Ethics Awards," *Business Ethics*, Fall 2004, pp. 8–17; and, "17th Annual Business Ethics Awards," *Business Ethics*, Fall 2005, pp. 15–20.

[31] Transparency International Corruption Perceptions Index 2005, *www.transparency.org/cpi/2005.*

[32] Rajib Sanyal, "Determinants of Bribery in International Business: The Cultural and Economic Factors," *Journal of Business Ethics* 59 (2005), pp. 139–45.

[33] "Bribery, Corruption Are Rampant in Eastern Europe, Survey Finds," *The Wall Street Journal*, November 9, 1999, p. A21; "Corruption Stunts Growth in Ex-Soviet States," *The Wall Street Journal,* July 5, 2000, p. A17; and "Chronikos," *Ethikos*, March–April 2000, p. 10.

Russian President Vladimir Putin was serious about his pledge to clean up Russia, since he realized that the entrepreneurial sector of his country's economy could never achieve its full potential without a full-scale battle against corruption. "The authorities are speaking out about corruption, and I think it is going to have a positive impact on this problem," said Pavel Chickov, head of Public Verdict, a group that monitors governmental agencies. Putin sought closer ties with the West, prompting his cooperation with Western-initiated anticorruption efforts.

A number of actions underscored Putin's commitment to end bribery and corruption:

- A probe of high-level bureaucrats led to charges against many officials including Railways Minister Nikolai Aksyonenko for illegally spending ministry funds.
- Judges' salaries were increased fivefold in an effort to cut down on courtroom bribery.
- A new law banned the intervention of state prosecutors in private litigation between contending business parties, eliminating another potential bribery situation.
- Other regulations sharply restricted discounts that railroad regulators could give to shippers.
- The number of business activities that required a license was drastically reduced from 2,000 to 100—fewer licenses meant fewer chances for a bureaucrat to be in line for a bribe.

Source: "Cleanup Time: The Kremlin Is Launching a Major Attack on Corruption," *BusinessWeek,* January 14, 2002, pp. 46–47; and "Russia Gets Tougher on Corruption," *Pittsburgh Post-Gazette,* September 24, 2004, p. A6.

[34] "Ethics Alert: Foreign Corrupt Practices Prosecutions Doubled," *Business-Ethics.com,* Winter 2005, p. 9; and "Titan Comments on Government Investigation Settlements," Titan Corporation press release, *www.titan.com.*

[35] For a description of Motorola's global ethics program see R. S. Moorthy, Richard T. DeGeorge, Thomas Donaldson, William J. Ellos, Robert C. Solomon, and Robert B. Textor, *Uncompromising Integrity: Motorola's Global Challenge* (Schaumberg, IL: Motorola University Press, 1998); and Reebok's company policies on human rights at *www.reebok.com/about_reebok/human_rights.*

[36] For a complete list of fundamental human rights, see Thomas Donaldson, *The Ethics of International Business* (New York: Oxford University Press, 1989).

[37] For more information on the costs of corporate crime see "More than One-Third of Global Companies Hit by Economic Crime," Institute for Global Ethics, *Ethics Newsline*, July 14, 2003, *www.globalethics.org.*

[38] "Economic Crime Costs U.K. Billions: Survey," Institute for Global Ethics, *Ethics Newsline*, October 25, 2004, *www.globalethics.com.*

[39] "U.S. Stiffens Sentences for White-Collar Criminals," Institute for Global Ethics, *Ethics Newsline*, January 13, 2003, *www.globalethics.org/newsline.*

[40] "White-Collar Crime: Who Does Time?" *BusinessWeek*, February 6, 2006, pp. 60–61; "Windfalls Are Common in Ousters over Alleged Ethics Violations," *The Wall Street Journal*, November 25, 2003, p. B8; and "Convicted CEO Will Get $2.5 Million Salary Plus a Bonus While Serving Prison Time," *SFGate.com,* August 2, 2004, *www.sfgate.com.*

Key Terms

bribery, *127*
compliance officer, *123*
corporate culture, *113*
ethical climate, *114*
ethics assist line or helpline, *124*
ethics audit, *126*
ethics officer, *123*
ethics policies or codes, *123*
laws, *130*
ombudsperson, *123*
U.S. Foreign Corrupt Practices Act, *129*
white-collar crime, *131*

Internet Resources

www.TheCRO.com	CRO Magazine
www.theecoa.org	Ethics & Compliance Officers Association
www.integrity-interactive.com	Integrity Interactive Company
www.dii.org	Defense Industry Initiative on Business Ethics and Conduct
www.ethicscan.on.ca	EthicScan, Toronto-based ethics clearinghouse
www.globalethics.org	Institute for Global Ethics

Discussion Questions

1. [illegible]
2. How many of the ethical safeguards described in this chapter has PPG Industries adopted in its corporate ethics program?
3. Do you see any deficiencies or weaknesses in PPG Industries' ethics program? What further steps, if any, would you recommend to the company?