# Employers Council®

# Whitepaper

## Code of Ethics

**Summary:**

A business Code of Ethics is more than a policy statement. A Code of Ethics is a formalized, written moral compass that drives day-to-day business decisions. In other words, it sets the standard as to what is considered good and right and helps to guide employees' day-to-day behaviors in an organization. It is management's unique responsibility to set an example, establish policies, and implement systems that support a Code of Ethics. In doing so, management communicates to all employees that adherence to the code is mandatory for all employees, management included, and that breaches of the code will be dealt with appropriately. Once implemented, a Code of Ethics cannot be compromised.

# What Is A Business Code Of Ethics

Ethics are often defined as a system of moral principles that set standards of right and wrong behavior to guide one's conduct in everyday affairs. In the business and professional world, individuals and groups are often held accountable to a Code of Ethics. For example, attorneys, CPAs, and financial analysts are all held to specific codes of ethics unique to their profession. The Society for Human Resources Management has a Code of Ethics for HR professionals who are members of its organization.

Some organizations have a business Code of Ethics. A business Code of Ethics is a formalized, written set of principles of conduct that is intended to guide employees' day-to-day business decisions and must be based on an organization's values, both stated and practiced. In other words, the code sets a standard as to what is considered right and wrong and helps to guide employees' behavior. An employee's ethical or unethical behavior can have a significant positive or negative impact on the organization and its stakeholders.

Each organization's Code of Ethics will be unique. The code should be reflected throughout the organizational culture to be effective. A business Code of Ethics might be a simple statement such as "Do unto others as you would have them do unto you." It could also be a one-page document such as "Our Credo" which has guided the actions at Johnson & Johnson for more than 50 years. The J & J credo outlines the company's responsibilities to its stakeholders in this order: All who use their products, employees, local and world communities, and stockholders. Their credo helped them move quickly in the 1980s to recall voluntarily all Tylenol products despite the fact that this move caused a $100 million charge against earnings. (See the website: http://www.jnj.com/home.htm.)

A comprehensive Code of Ethics has been in place since BellSouth incorporated in 1983. Their Code of Conduct entitled, "Our Values in Action," explains their values, beliefs, Code of Ethics, and other areas relating to ethical behavior. (See http://ethics.bellsouth.com.)

An organization's vision, mission, and values statements are often fundamental documents for its Code of Ethics. However, it is not enough simply to have vision, mission, and values statements. For such statements to be the foundation for ethical behavior, they must be based on moral principles and used as a standard for making everyday business decisions.

Top management determines whether their organization will have a formal written Code of Ethics. To be effective, a Code of Ethics must be supported by all employees, and by policies and systems within the organization. This paper focuses on some of the fundamentals required to have an effective, formal written Code of Ethics.

# What If My Organization Does Not Have A Formal Written Code Of Ethics?

Rather than have a formal Code of Ethics, some organizations choose to implement policies that facilitate employees' ethical behavior. In such a case, a basic policy or guideline appropriate for an employee handbook might look like the following:

*ETHICS*

*High standards of ethical behavior and workplace conduct make good business sense. They serve as the cornerstone of our reputation as an Organization. Our ability to attract customers and quality employees depends on this reputation. Your actions may enhance, maintain, or damage this standard that we have developed. Therefore, we expect you to exercise the highest standards of ethics in all of your decisions that may impact the Organization.*

*No workplace conduct statement can possibly cover every circumstance that may arise. Use good common sense. Ask yourself if you would like to read about your behavior in the newspaper or see a story about it on the nightly news. If there is any question, it is your responsibility to get clarification from senior management.*

## WHAT ARE EXAMPLES OF POLICIES THAT SUPPORT AN ORGANIZATION'S BUSINESS ETHICS?

Outlining appropriate and inappropriate business conduct is integral to an ethics code. Policies or guidelines commonly used to support a Code of Ethics and/or ethical behaviors are generally found in the organization's employee handbook. These might include:

- Community Involvement/Political Activity
- Confidential Information
- Conflict of Interest
- Dating in the Workplace
- Drug-free Workplace
- Equal Employment Opportunity
- Employment of Relatives
- Ethics/Standards of Conduct
- Honesty/Theft
- Outside Employment
- Patents and Inventions/Copyrights
- Problem Solving
- Sexual Harassment

Policies and practices in operational areas such as marketing, sales, purchasing, and accounting should support an organization's Code of Ethics.

## WHAT ARE EXAMPLES OF HR SYSTEMS THAT SUPPORT AN ORGANIZATION'S BUSINESS ETHICS?

A Code of Ethics is more than a piece of paper. To be effective, it must be woven into the fabric of the organization. It is something to be lived and modeled, not just spoken. A code that is inconsistent with managers' and employees' day-to-day decision making is ineffective and hypocritical.

Appropriately, designed systems can support ethical behavior in the workplace. The following are examples of human resource systems. Beneath each system are examples of practices, programs, or behaviors that could support a business Code of Ethics. The way these systems or processes work can either strengthen or weaken an organization's Code of Ethics.

- Staffing

    - Non-discriminatory practices

    - Pre-employment references for top-level managerial candidates regarding ethical practices

- Performance Management

    - Honest, consistent feedback to employees

    - Ethical behavior - a standard of performance

- Compensation and Benefits

    - Rewards for ethical behavior

    - Fiduciary responsibilities

- Communications

    - Ethics articles in employee newsletter

    - Ethics "Help/Hot Line"

    - Continuous discussions with staff on topic of ethics

    - Nonverbal communication by management; i.e., modeling ethical behavior

- Training and Development

    - Code of Ethics discussions in Orientation

    - Ethics case studies in Management and Sales training

- Termination/Layoffs

    - Non-discriminatory practices

    - Treatment with dignity

- Safety
    - Responsibility for workplace safety
    - Responsibility for customer and environmental safety
- Community Outreach
    - Charitable donations
    - Sponsorships for community events
    - Corporate Social Responsibility

## WHAT ARE SOME KEY CONSIDERATIONS FOR DEVELOPING A CODE OF ETHICS?

*Management and Board Commitment* - A Code of Ethics will succeed only with the support, commitment, and examples of top management and the Board.

*Code Development* - A key manager or team in the organization must design the code to include all elements needed for success. A Code of Ethics gives employees a sense of direction in everyday business decisions.

*Buy-in from Key Employees* - The inclusion of comments and suggestions of key managers and employees will strengthen the code. Ongoing communications regarding the "relevancy" of the code in everyday decision-making is a critical element to success.

*Pilot Test* - If practical, pilot test the program in a department or several departments. Modify any element of the Code of Ethics program, if necessary, before implementing it throughout the organization.

*Legal Review* - Have the organization's general counsel or qualified attorney review the code with an eye to legal issues and ramifications.

*Code Implementation* - Use various methods of communication to educate all employees about the Code of Ethics. Ongoing communication and training about the code are essential to keep it a "living" document.

*Resources* - Ensure employees know where to go when ethical questions arise. Some organizations have an "ethics hotline," or refer employees to an ethics officer or corporate counsel.

*Ongoing Evaluation* - Review the Code periodically to determine if change is needed. Ask employees to find out what is working and what is not. Make adjustments to keep the code relevant to current leadership and culture.

# A Manager's Guide to Decision Making

There are many opportunities throughout each day to make business decisions. These decisions might stir one's conscience as to whether or not a particular decision is ethical. Many decisions

are made without a second thought, such as whether or not to take home a company pen for personal use. There are also more complex situations, such as deciding whether to grant a lucrative contract to a friend, which would generally create a conflict of interest.

Ethical behavior can have a significant positive impact on an organization and its stakeholders. On the other hand, unethical behavior can have a negative bearing on an organization and all who have a stake in the organization. Behavior is generally considered ethical if it is accepted as good or right in the context of the governing moral code. Sometimes there are professional, and/or organizational codes of ethics or policies to help drive employees' ethical behavior. In the absence of ethical signposts in one's profession, or in the organization, there are other avenues to help managers determine what is ethical.

Below is an example of a decision-making model, which contains questions to assist individuals in identifying whether or not an action is ethical. When using this model, individuals are encouraged to take time to think about each question and avoid making assumptions. Write out answers to the questions if that would be helpful. Gather more information by talking to a trusted co-worker. When pondering a decision that has ethical implications for an organization, it is generally appropriate to seek advice from a company-assigned mentor, another member of management, Human Resources, legal counsel, or a person appointed by management for this purpose before making a decision. Ultimately, the expectations set forth by the organization will be the final guide when making such decisions.

## EXAMPLE OF A DECISION-MAKING MODEL:

- Is the behavior legal?

- Is the behavior in line with the spirit of the law?

- Is there a professional code of ethics that applies to this situation?

- Does it comply with an organizational code of ethics or policy?

- Is the action in step with the organization's mission and values?

- Is there an agreement or understanding about how this situation will be handled?

- Is the proposed action consistent with how similar situations have been handled in the past?

- Is this an extraordinary situation, in which deviation from past practice is appropriate?

- Has the situation been thoroughly investigated, hearing all sides of the story?

- Does my conscience bother me? How will it make me feel about myself?

- Does this situation require that I lie or withhold information that I should not?

- Would I want to be treated in this same way?

- Will I have to hide or keep my actions secret?

- How would I feel if the details of this situation appeared on the front page of the local newspaper?

- Who will be affected by this decision?  Are there any alternatives that would be better for all concerned?

- What is the right thing to do?

# Additional Resources on this Subject

A.  SEMINARS

Catalogue
Keywords: ethic, ethical

B.  REFERENCE MATERIAL

Employee Handbooks: Ethics-Standards of Conduct