



Our Vision is an Ethical World

Ethics
Resource
Center

Fellows Program

Insights 2000

**Insights 2000:
A Report of the ERC Fellows Program**



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Insights 2000: A Report of the ERC Fellows Program

by Michael G. Daigneault, Frank J. Navran
and Jennie Ziegler

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Acknowledgments

The Mission of the ERC Fellows Program is to:

- Identify, clarify, research and critically evaluate organizational ethics and compliance trends, issues and ideas.
- Foster ongoing collaboration and cooperation among business, government, non-profit, educational and organizational ethics communities.
- Strengthen our ability to anticipate and meet emerging workplace ethics and compliance challenges.
- Lead our institutions and society to a positive organizational ethics and compliance agenda for the future.

mission

We pledge to accomplish this mission through open dialogue, research, communications and cooperative effort.

Chairman, Ethics Resource Center Fellows Program

The Honorable Stephen D. Potts
*Former Director, U.S. Office of Government Ethics
Member, Ethics Resource Center Board of Directors*

Founding Chairman, Ethics Resource Center Fellows Program

Norman R. Augustine
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The Ethics Resource Center would like to thank the many Fellows and researchers who participated in the studies that made this publication possible. Their contributions of intellect, dedication and expertise were remarkable.

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Thanks to the countless people who participated in the ERC Fellows Program studies. From chief executive officers to chief ethics officers, their contributions were invaluable and greatly appreciated.

The ERC Fellows Program

The ERC Fellows Program is a select group of corporate, government, non-profit and education leaders who share an expertise and strong practical interest in the fields of business and organizational ethics. The purpose of the ERC Fellows Program is to identify, examine and further understand the critical business ethics questions challenging organizations today.

The Ethics Resource Center

The ERC is a nonprofit, nonpartisan educational organization whose vision is an ethical world. Its mission is to be a leader and a catalyst in fostering ethical practices in individuals and institutions. The ERC fulfills its vision and mission through its ethics work in four core areas: Institution & Coalition Development, Research & Knowledge Building, Education & Advocacy and Consulting & Technical Assistance.

Corporations, foundations and individual donors fund the ERC. Additional funding for the ERC's operations result from fee-for-service programs provided to corporations, nonprofits, associations, educational institutions and government agencies.

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About This Report

The Ethics Resource Center (ERC) Fellows Program was established to identify and examine critical business ethics questions challenging organizations today, with a focus on developing new learning in regard to vital ethics issues and challenges.

Led initially by ERC Fellows Program Founding Chairman Norman R. Augustine, Retired Chairman of Lockheed Martin Corporation, and the program's current Chairman Stephen D. Potts, Former Director of the United States Office of Government Ethics, the ERC Fellows have carved a unique role in the advancement of organizational ethics by asking leading edge questions designed to shape the climate of tomorrow's workplace. With a gaze set firmly on the future, the ERC Fellows meet regularly to share critical ideas and questions as well as help to forge a consensus on key issues among a wide variety of opinion leaders.

The mission of the ERC Fellows is to identify, clarify and critically evaluate ethics issues and challenges that each organization alone simply does not have the time or the resources to delve into on its own with a particular emphasis towards the building a knowledge base for the future.

Insights 2000: A Report of the ERC Fellows Program

This report offers a focused set of insights, challenges, implications and recommendations emanating from three projects undertaken by the ERC Fellows Program during 1998-99. Its format and its content have been distilled from more than 200 pages of text to ease accessibility and understanding. The three projects, *Ethics as a Leadership Issue*, *Ethics and Compliance in a Global Economy*, and the *Integration of Principle into Practice*, were conducted by members of the ERC Fellows Program.

This summary report was written by Michael G. Daigneault, President of the ERC, Frank J. Navran, Senior Consultant & Director of Training at the ERC and Jennie Ziegler, Director of External Relations at the ERC. We also offer our thanks to Mendy Osbourn, External Relations Assistant, who played a critical role in the final stages of this publication.

We are pleased to offer selected readings that may provide additional understanding for each of the seven insights presented. An extensive bibliography that informed the initial research conducted by the ERC Fellows may be found on-line at the ERC's website — www.ethics.org.

Insights 2000: A Foreword

There are two truisms that business people around the world seem to accept. First is that the squeaky wheel gets the grease. Second is the better the data, the better the odds of making the right decision.

It is those truisms that led to the creation of the Ethics Resource Center Fellows Program. The idea which resulted in this program is that the ethics community – business leaders, ethics officers, ethics practitioners and academics – needs better data about what challenges we will be facing five or more years from now. We need to begin addressing issues that are first appearing on our radar screens today while continuing to anticipate tomorrow's issues. Often, we are too busy dealing with today's squeaky wheels to look for tomorrow's challenges. We need to anticipate them because if we do not, the costs of being late to address them could consume us.

What resulted was a unique coalition of business leaders, ethics officers, ethics consultants, scholars, non-profit and governmental representatives coming together to look toward those future challenges and to conduct the research needed to provide decision makers with better data about what is coming.

This book is a compilation of insights that resulted from the first two years of our efforts. It is written for and by business people. It takes those research findings that seem most important, and presents them in simple business language. For readers wishing for more detailed support behind these insights, there are references to the Fellows research and other relevant readings in each section.

For each of the seven research-based insights we present, there is an extrapolation that builds on both the research itself and the collective wisdom of the ERC Fellows. That extrapolation asks, "What are the potential problems if I and my organization ignore this insight?" "What should I as a leader or ethics officer do as a consequence of this knowledge?"

As you use the data in this book there are also two caveats – cautions we extend.

Some of what you read will be so consistent with your intuitive senses that it will look and feel familiar. That could lead some readers to discount its significance because it feels like old news. It isn't. Our research addresses questions that *may* have been on your radar screen for a while, but in our experience, much of corporate America's response has been to pay superficial attention to them and to understate their significance. In this report, the answers are formulated from current research, and the text contains new data – data that can lead to better decisions.

Some of what you read may be so counter-intuitive as to be difficult to accept. In fact, the research underscored that many CEOs dismissed one of the more significant leadership findings out of hand – and that tendency was in itself another important realization. Read with healthy skepticism. But, do not dismiss that which makes you feel uncomfortable or which challenges your assumptions. We call that learning and after all that is the purpose of our work.

Welcome to *Insights 2000*.

Michael G. Daigneault, Esq.
*Convenor, Ethics Resource Center Fellows Program
President, Ethics Resource Center*

w e l c o m e

Ethical Leadership

Over the years, I have given a great deal of thought to the subject of leadership and the characteristics that are common to successful leaders. I have concluded that they include a number of obvious qualities such as courage, vision, perseverance, decisiveness and a commitment to teamwork. But by far the most important quality for effective leadership is a strong sense of integrity, a commitment to ethical behavior. History shows that if people can't trust you, they won't follow you. Successful leaders are individuals who set for themselves and those around them a moral compass, a sense of ethical purpose in all that they undertake.

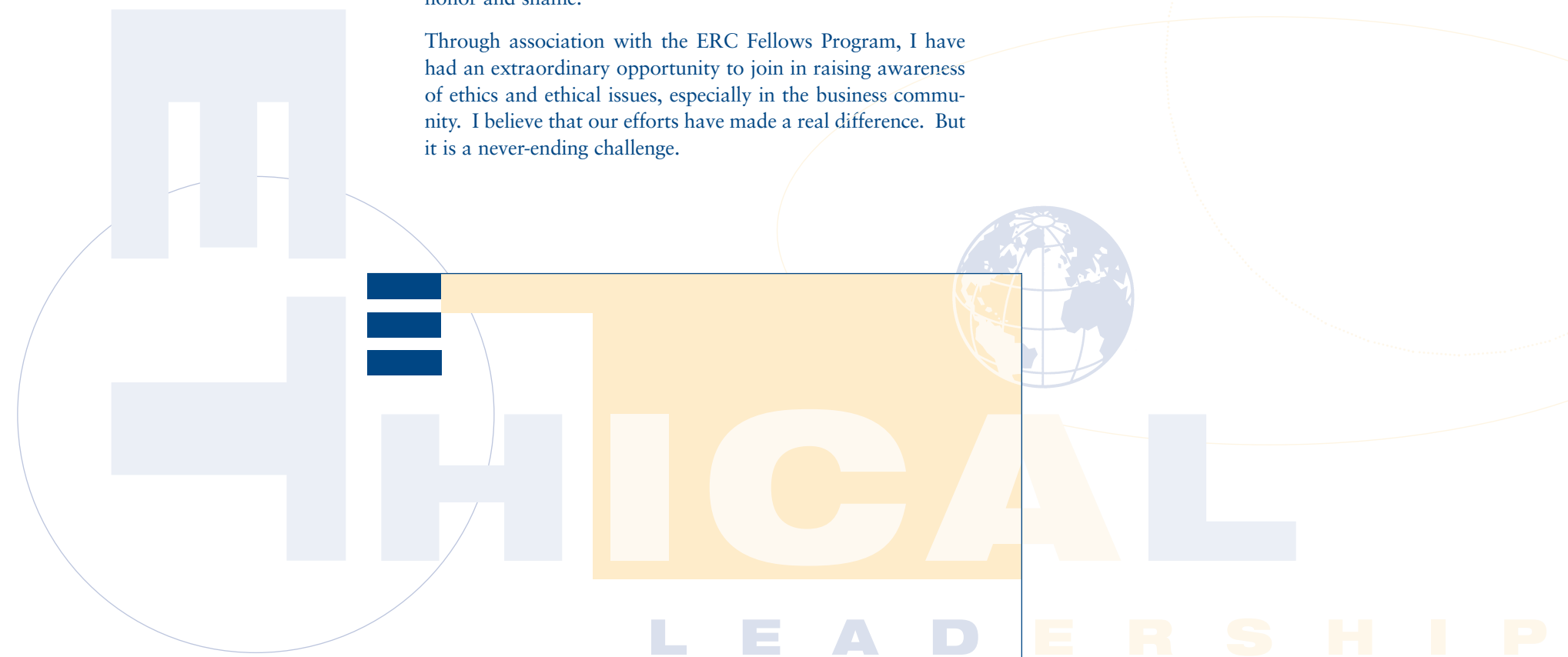
Former President Ronald Reagan said it very well in a speech he gave a few years after he left the White House. He said: "The character that takes command in moments of crucial choices has already been determined. It has been determined by a thousand other choices made earlier in seemingly unimportant moments...It has been determined by all the day-to-day decisions made when life seemed easy and crises seemed far away, the decisions that piece by piece, bit by bit, developed habits of discipline or of laziness; habits of self-sacrifice or self-indulgence; habits of duty and honor and integrity – or dishonor and shame."

Through association with the ERC Fellows Program, I have had an extraordinary opportunity to join in raising awareness of ethics and ethical issues, especially in the business community. I believe that our efforts have made a real difference. But it is a never-ending challenge.

It is my belief that, to be truly effective, America's business leaders need not only to commit themselves to ethics as a central principle for their professional lives, but also to make that commitment known — to employees, shareholders, customers and all others who need to be aware that ethics are a crucial aspect of business decisions. This section of Insights 2000 includes practical advice on getting that message out. I recommend it wholeheartedly.

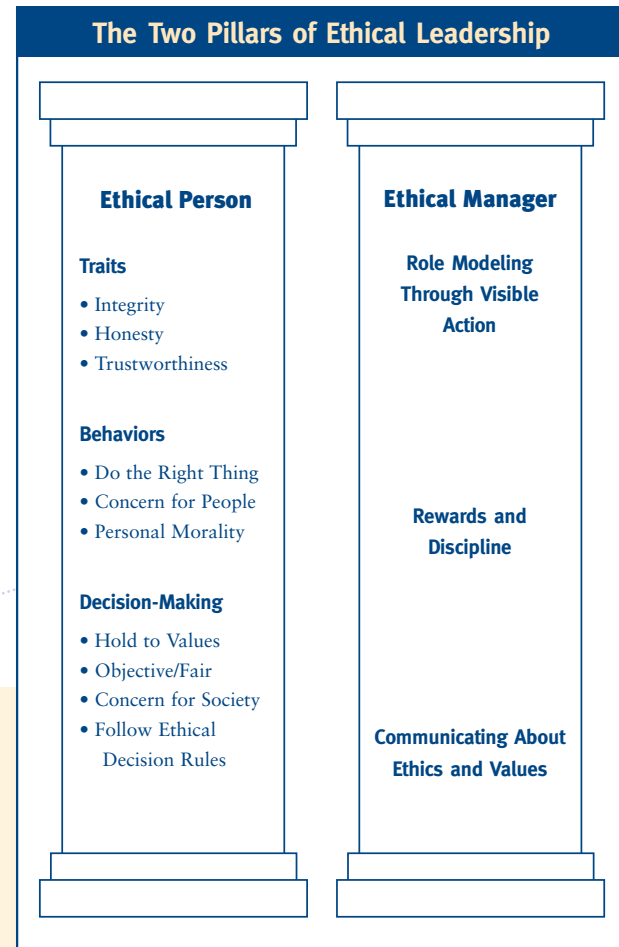
Norman R. Augustine

*Former Chairman, Lockheed Martin Corporation
Founding Chairman, Ethics Resource Center Fellows Program
Member, Ethics Resource Center Emeritus Board*



Insight

The ERC Fellows Program research suggests an important distinction between being an ethical person and being perceived as an ethical leader. Making ethical decisions and being an ethical person are simply not enough. A reputation for ethical leadership cannot be taken for granted. Just because leaders know themselves and their decisions to be ethical does not mean that others perceive them that way. Something more is required. That “something” is to be perceived positively by one’s followers on two key dimensions: as an ethical person and as an ethical leader. We know that perception can become reality. How employees view their leader’s ethics will shape the work environment.



The above graphic was used with permission by the Regents of the University of California/California Management Review.

Potential Problems

Leaders who do not fully appreciate or accept the distinction between being an ethical person/leader and being perceived as such by their employees and other critical stakeholders are more likely to:

- Fail to anticipate and subsequently recognize differences between their self-perceptions and those of the people they lead regarding their personal and leadership ethics.
- Cling to the intuitive, but unsubstantiated, belief that you cannot distinguish between ethical leadership and leadership. That is, “good leaders are by definition ethical leaders” or the weaker converse, “unethical leaders are by definition bad leaders.”
- Appear uncomfortable talking about ethics and values, which is, more often than many leaders suspect, interpreted as being less than forthcoming, candid and transparent about the ethics of their decisions.
- Under-appreciate the direct and indirect connections between the perceptions of their ethics as a leader and the culture of their organization.
- Believe (mistakenly) that ethics issues distract them “from the business at hand.”
- Presume that once their organizational ethics and compliance program is in place their leadership responsibilities vis-à-vis ethics are largely satisfied.

Likely Implications

If leaders were more attentive to and transparent about the ethical dilemmas inherent in the business decisions they make and how they work through those ethics issues, then:

- They would more openly discuss the ethics of their decisions in addition to articulating the more traditional rationales and “business” issues and purposes served when presenting decisions to the organization and its critical stakeholders.
- They would recognize the value of discussing the ethical components of key decisions; leaders would require their reporting employees to do likewise, seeking to understand the ethical, as well as traditional business implications of decisions being proposed.
- Employees, recognizing that ethics was on their executives’ agenda, would be much more certain to genuinely consider the ethical implications of their own decisions.
- Ethics issues would be increasingly legitimized as a topic for discussion by executives and their direct reports as key decisions were being considered.
- Ethics issues would be increasingly legitimized as a topic for discussion by task teams and at staff meetings and when decisions are proposed below the executive level for approval by higher authority.
- The consistency of key decisions with company and personal values would be better understood, shaping and reinforcing the organizational culture to reflect those values.
- Executives would be perceived as actively involved in and supportive of the organization’s ethics initiative, as their decisions visibly reflect the company’s values and ethics positions.
- Executives would be seen as clearly modeling ethical behavior and thus, positively impacting their employees’ perceptions of ethics in the workplace.¹

The ERC’s 2000 National Business Ethics Survey demonstrates strong correlations between the ethical modeling of leaders and decreased observations of misconduct, decreased pressure on employees to compromise ethical standards, greater satisfaction with their organization overall and an increased feeling of value as an employee.

Recommendations

Leaders

- ✓ Be actively involved in the creation and ongoing management of your organization's ethics and compliance program.
- ✓ Ensure that your involvement in that program is visible to employees and other critical stakeholders. Communicate why ethics is a core business issue and what the organization expects and requires of all employees, agents and strategic partners.
- ✓ When announcing critical decisions to direct reports and others, be certain to acknowledge the ethical issues inherent in the situation being addressed and how the proposed solution (decision) addresses those ethical issues.
- ✓ When discussing the ethics of key decisions, publicly acknowledge the difficulty of resolving such dilemmas and challenges and awareness of the fact that ethical people could reasonably disagree on how best to resolve the dilemma.
- ✓ Insist that your direct reports talk you through the ethics of their decisions for review and/or approval at the same level of detail they discuss other business considerations.
- ✓ Ensure that subordinate leaders understand their impact on the organization's culture and how their attention or inattention to the ethical dimension of their choices impacts the organization's culture.

Ethics Officers

- ✓ Play an active role in ensuring that those above you in the organizational hierarchy receive needed attention and guidance from the ethics office - that you are "managing ethics upward" in your organization.
- ✓ Keep your leaders aware of their role in shaping the ethical culture and climate of the organization.
- ✓ Monitor executive decision-making and provide feedback on how the ethics of those decisions may or may not be understood.
- ✓ Periodically audit executive speeches, articles, interviews and other published documents and provide feedback on the visibility and consistency of the ethics message being communicated.
- ✓ Keep executives informed of how the ethics of their actions and decisions are being perceived by critical stakeholders and opinion leaders.

- ✓ Where possible, position the ethics office/officer as a resource in managing the perception of the leader as an ethical leader - not just an ethical person.
- ✓ Provide coaching and training to executives to help them increase communications concerning their ethical commitment.
- ✓ Encourage the organization to include the development of "ethical leaders" in their existing executive and senior manager training.
- ✓ Encourage the inclusion of "perceptions of being an ethical leader" in the organization's recruitment, review and succession planning.
- ✓ Manage the reality that some ethical decisions will not be perceived as ethical by everyone.

Suggested Readings

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From Compliance to Values

My experience as a CEO has convinced me that the visible commitment of leaders is essential for an effective ethics program. But the research presented here also reminds me that high commitment may not be enough. As leaders, we need to be aware of the differences between programs focused strictly on compliance with laws and regulations and those that also address ethical values within the workplace.

It is easy to see why compliance programs and ethics programs may differ in focus. Thoughtful organizations develop these programs to meet their specific, often unique needs and goals. They know that one type of program does not fit all. Naturally, these organizations seek to communicate and run their programs using the "best practices" available. But how do ethics officers know that the best practices they chose yesterday are still right for their organizations today and will remain so in the future? Consider what happens when organizations with strong compliance-oriented programs broaden their focus to include ethical values. Do they shift their program practices and if so, how?

In answering these kinds of questions, ethics officers make choices that can have important consequences for their organizations. For example, they recognize that ethics and compliance programs have to be structured in ways that achieve their goals without compromising employee commitment and support. Ethics officers deal with these issues on a regular basis as they strive to keep their programs vital.

As leaders, we need to set clear expectations for the ethical behavior of those in our organizations. But to choose a path that will reach these expectations, we must occasionally step back, examine our assumptions and encourage others to do the same. The next section helps us to do just that. I am pleased that the research in this section of Insights 2000 raises and provides insight into these issues. I hope you share my appreciation for what we can learn.

Irving W. Bailey, II
President, Bailey Capital Corporation
Former Chairman and CEO, Provident Corporation
Chairman, Ethics Resource Center Board of Directors

Insight

Ethics officers and leaders naturally have assumptions about the scope, roles, structures and required investment of an organizational initiative focused on ethical values. More times than not, these assumptions are not adequately differentiated from those required for legal compliance. This can be a problem, particularly for organizations seeking to expand their compliance programs to focus more broadly on ethical values.

ERC Fellows Program research suggests that the practices or program components required for successful values-based ethics programs may be fundamentally different than those needed for compliance programs emphasizing the avoidance of legal and regulatory exposure. For example ethics program decisions based on compliance assumptions may fail to surface and address important issues relating to input, oversight and communications in values-oriented programs. As a result, ethics programs may fail to meet expanded organizational goals and/or employee expectations. To develop and maintain values-based ethics programs that are truly effective, basic assumptions about ethics and compliance should be periodically revisited.

These observations may seem self-apparent – a product of simple common sense. Yet they are not that common. Organizations that know where they want to head with their ethics programs often do not appreciate the kinds of basic changes they may need to make to accommodate both their compliance goals and their expanded ethics goals.

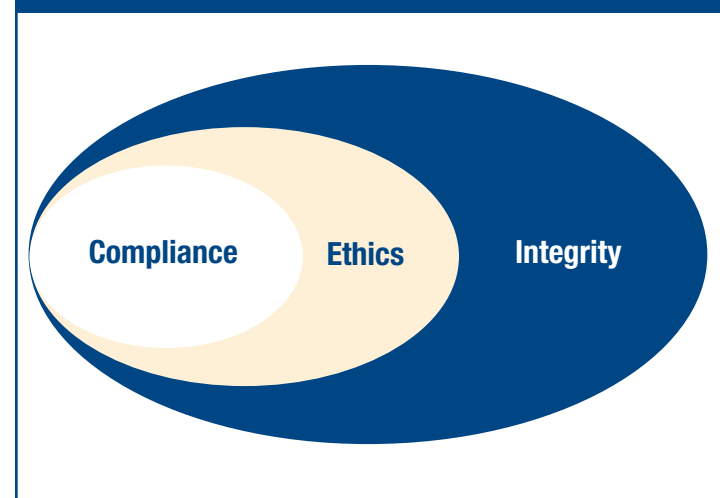
Potential Problems

Organizations, leaders and ethics officers who do not adequately differentiate between ethics and compliance are likely to:

- Define their organization’s focus as ethics or values-oriented, but develop and implement corporate programs in a manner essentially limited to compliance.
- Communicate their organization’s focus as ethics-oriented thus creating expectations among staff and other critical stakeholders, which may be unfulfilled.
- Implement compliance-oriented methodologies, systems and structures that inhibit promoting values as a basis for individual and organizational decision-making.
- Rely on best practices developed in compliance programs, which may not effectively support an ethics or values program.
- Fail to recognize that ethics-based programs and compliance programs require different definitions of success.

“Despite clear goals for values-based ethics programs, basic compliance assumptions can undermine organizational change efforts in the area of ethics.”²

The Increasing Scope of Business Conduct Expectations

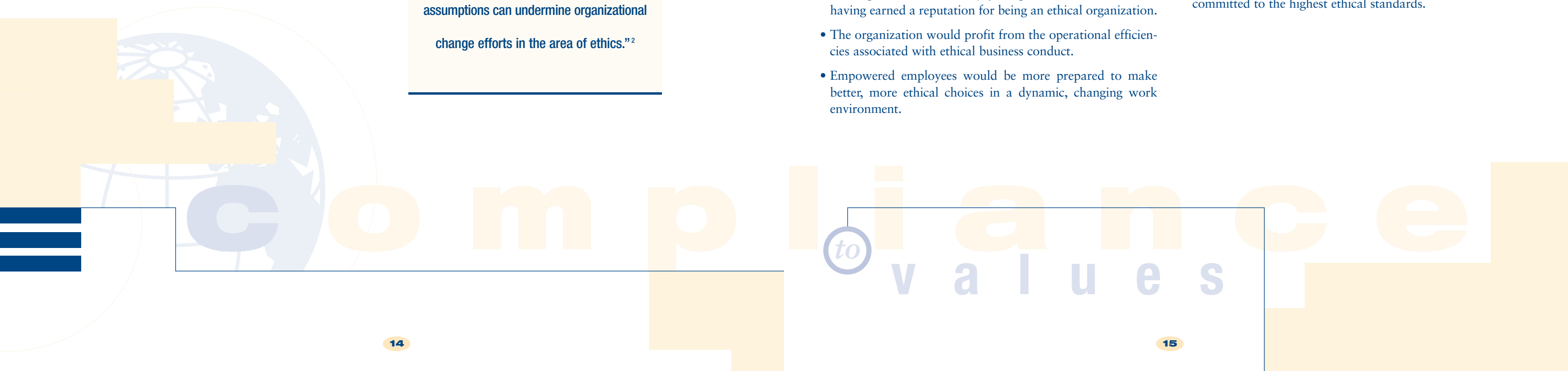


Likely Implications

If the purported ethics focus were truly operational — if the organization was committed to going beyond concerns for legal and regulatory exposure avoidance and build a program that facilitated values/principles based decision-making, then:

- Decision makers would be motivated to make decisions based on a set of criteria including organizational values, not just law, regulation and avoiding penalties for wrongdoing.
- The organization would enjoy the positive brand benefits of having earned a reputation for being an ethical organization.
- The organization would profit from the operational efficiencies associated with ethical business conduct.
- Empowered employees would be more prepared to make better, more ethical choices in a dynamic, changing work environment.

- Leaders and ethics officers would articulate the goals of their programs differently. There would be less emphasis on conformance with policy and meeting the minimal standards of law and regulation and more discussion of ethical conduct, living the organization’s values and striving for the highest standards of business conduct.
- Personnel selected to lead and staff an ethics office would be screened, trained and evaluated differently. Organizations would not presume that legal, auditing or security experience were necessarily the best or adequate preparation for serving in an ethics office.
- Employee expectations regarding their participation in the development and implementation of key components of the ethics initiative would be met.
- Staff and other stakeholders would recognize the individual benefits/value that derive from the organization’s ethics program.
- Employees and other critical stakeholders would demonstrate increased confidence that leadership is committed to upholding the same ethical standards as employees.
- Employees and other critical stakeholders would enjoy increased confidence that the organization does not require people to sacrifice their individual values in the pursuit of organizational goals.
- Employees and other critical stakeholders would experience increased pride in association with an organization that is committed to the highest ethical standards.



Recommendations

Leaders

- ✓ Determine what type of initiative your organization needs (ethics or compliance), why it needs that type of program and how that program will benefit the organization and its stakeholders.
- ✓ Assess the program you currently have to ensure that it matches your needs and expectations. Be attentive to the fact that the program's rhetoric and the reality may not be aligned.
- ✓ Develop an ethics strategy that is congruent with your organization's needs, goals and resources.
- ✓ Choose ethics/compliance office staff carefully according to your strategy.
- ✓ Communicate your strategy to your management team and board, making a defensible case for the ethics or compliance choice.
- ✓ Communicate your strategy to your employees and other stakeholders making a defensible case for the ethics or compliance choice.
- ✓ Recognize that a preponderance of the leadership team must take seriously the integration of your initiative into the organization's operational culture for it to succeed.
- ✓ Define success based on the fundamental characteristics of your choice - compliance only or compliance and ethics.

Ethics Officers

- ✓ Be attentive to what type of initiative your organization has created (ethics or compliance), what that type of program can accomplish and how that program will benefit the organization and its stakeholders.
- ✓ Structure your initiatives to be consistent with the reasonable expectation that each focus creates (e.g. high levels of employee participation in an ethics program versus a top-down approach in a compliance program).
- ✓ Recognize that how you choose personnel is critical. Who you select can communicate as much about the program and its focus as any other single decision you make.
- ✓ Accept that communications is a core function of an ethics/compliance office. There is a communications component to everything you do, every decision you make.

- ✓ One-way communication is more consistent with a compliance orientation. If your program also embraces a values-based approach, find ways of engendering dialogue.
- ✓ Your operational strategy and measurements of success should consistently flow from your program's underlying assumption (compliance or ethics).
- ✓ Tailor the design of critical components based on the ethics/compliance choice. For example: "Hotlines" are typically seen as reporting mechanisms, consistent with a compliance orientation. "Helplines" are seen as both a guidance seeking mechanism, as well as a reporting vehicle and are more consistent with ethics programs.
- ✓ Online or CD-ROM based training is typically one-way and most useful for communicating and testing knowledge of rules, policies and procedures (compliance). Live training is more suitable for engaging participants in dialogue and encouraging two-way communication around issues and concerns (ethics).

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Business Ethics Quarterly, 8, 447-476.

Accountability

When I arrived at the U.S. Office of Government Ethics in 1990, I was informed that our Program Review Division was so strained for funds that we only had five employees assigned to oversee all of the ethics programs for the Executive Branch agencies.

My staff and I roughly calculated that we could conduct a thorough accountability review of all the programs in about 15 years. Clearly, we could not fulfill our statutory responsibility to ensure that agencies were accountable for their ethics programs. Although the Office of Management and Budget initially discouraged us from requesting a budget increase to enable us to discharge our accountability responsibility, we took the plunge. Fortunately, Senators Levin (D-Michigan) and Cohen (R-Maine) agreed with the Office of Government Ethics that the Executive Branch ethics program would not be taken seriously until we truly held the agencies accountable by reviewing their programs.

With the backing of President Bush and the Senators, we were able to get the funds to hire the personnel we needed. The results speak for themselves. The Office of Government Ethics is now on a four-year review cycle – enough to keep on top of the problems, but not so much as to interfere with the day-to-day management of the ethics programs.

When I shared with some Latin American colleagues my accountability experience at the Office of Government Ethics and the fruits of the ERC Fellows Program research on accountability, I discovered the concept virtually was unknown. And yet, accountability is the key to the success of any ethics program. I learned that what is measured is done.

Now, however, we must broaden our accountability perspective.

As this section of Insights 2000 points out, accountability for officially enforceable standards is far easier to achieve than is the case with larger societal expectations. Corporations must be on guard against slowing their pace to achieve full accountability when they reach the half way mark of accountability for officially enforceable standards. It is at that crucial junction that corporate leaders must vigorously assert themselves to refresh the commitment to complete the journey to societal accountability.

The Honorable Stephen D. Potts
*Former Director, U.S. Office of Government Ethics
Chairman, Ethics Resource Center Fellows Program
Member, Ethics Resource Center Board of Directors*

Insight

ERC Fellows Program research underscores that the corporation's role in global society is changing: the company's marked increase in power carries with it a concomitant increase in responsibility.

Corporations are being held to ever-higher standards of ethical business conduct. There are increasing numbers of governmental and self-appointed non-governmental watchdogs, as well as an increasingly powerful media, devoted to monitoring the world's corporations and ensuring that they hold themselves accountable.

But accountability is not limited to the global stage. In addition, national and state/municipal governments are insisting that organizations meet ever-stricter standards of conduct.

It may be useful to think of accountability on two levels: narrow and broad.³ Narrow accountability refers to officially enforceable standards - laws, regulations, policies and practices. These standards are somewhat objective and are much easier to anticipate and prepare for. The second level is broad accountability - the more vague, but just as critical set of societal expectations that are not (yet) embodied or codified in law or policy.

These standards require a greater degree of organizational sensitivity and diligence: for the most part the demands of both broad and narrow accountability are legitimate and failure to meet them could result in a threat to the corporation's reputation.

Potential Problems

Organizations, leaders and ethics officers who do not accept and address the array of ever-increasing expectations regarding corporate accountability are likely to:

- Operate from outdated assumptions as to what is required to be deemed ethical in the domestic and international arenas.
- Develop and/or sustain compliance programs that are ineffective in addressing these broader agendas.
- Remain behind the curve in adhering to standards of narrow accountability rather than addressing the higher standards that derive from broad accountability.
- Find themselves being held accountable for an unacceptable/unethical action because the action was "legal" and, therefore, was never considered an area of vulnerability or exposure.

- React to allegations without adequate deliberation, thus facing the real risk of making a bad situation worse. This reaction may take the form of an under-response - doing too little, too late or an over response - doing more than is required. Both can be costly.

Likely Implications

If organizations, leaders and ethics officers understand the expectations and demands of those who are holding them accountable to an ever more challenging set of standards, then:

- They would talk more openly about the relationship between the relative power of the organization and the increase in perceived accountability, both collective and individual.
- Accountability would increasingly become a routine topic of conversation at staff meetings and in speeches, articles and performance reviews.
- Corporations would participate in an ongoing dialogue with the increasingly diverse set of (official and self-appointed) watchdog organizations - those holding them "broadly" accountable.
- They would facilitate easier access to information regarding the standards that are being applied to their organization.
- They would share the results of assessments of how and why their actions and decisions measure up to these standards.
- They would be prepared to deal with anticipated failings or shortcomings.
- They would come to understand that accountability exists in at least two levels:
 1. Narrow accountability to official laws, regulations, policies and practices that they are formally obligated to meet.
 2. Broad accountability to the expectations of society in general and special interest groups that represent society in particular.
- Leaders, in particular, would manage the relationships between the organization and the media, recognizing that a reputation for transparency, candor and directness with these critical opinion shapers is a worthwhile goal.

Recommendations

Leaders

- ✓ Define and understand your individual and collective obligations and responsibilities to society as they are understood by those who are devoted to these issues. Even if you disagree with their positions, seek dialogue and mutual understanding.
- ✓ Revisit your assumptions regarding the ethical "bar." It has been creeping higher and higher, and your organization may have fallen below the standard, at least in the eyes of some special interest groups and opinion shapers.
- ✓ Demand congruence between management systems. It is necessary for all of your internal systems to be striving for the same high levels of ethical excellence. You will receive precious little credit for what you do right if you allow (real or perceived) wrongdoing to go unchecked in another part of the organization.
- ✓ Ensure that your organization's core values are adequate to meet the accountability demands being placed on the organization.
- ✓ Integrate the values of your organization into the corporate strategy. Use your core values as a strategic "lodestone," ensuring that corporate decisions are congruent with publicly-stated corporate standards for doing what is right, good and fair.
- ✓ Remember that there are special interest groups watching you to hold you accountable to your standards and theirs.

Corporate Governance & Accountability ⁴	
The Five Core Processes of Effective Corporate Boards	
Board Governance	Establish independent leadership Ensure optimal board composition Maximize meeting effectiveness Evaluate board effectiveness Communicate with stakeholders
Strategy	Develop understanding of industry fundamentals Shape strategy Monitor strategic milestones Communicate with stakeholders
Management Development	Understand management's requirements based on strategy Set succession and development plans Reward for performance Communicate with stakeholders
Performance	Establish appropriate financial targets Stay informed about major operating developments Review results and approve corrective actions Communicate with stakeholders
Values, Ethics & Financial Integrity	Set boundaries Ensure oversight Monitor Communicate with stakeholders

Ethics Officers

- ✓ Audit and review your organization's core values and ethics accountability structures and mechanisms. Are values and ethics central components to your board's governance structure (see chart)? Are the thresholds for "acceptable" behavior consistent with rising expectations? Are the measures and mechanisms wide-reaching enough and sensitive enough to provide early warnings of potential shortfalls? Or will you only know of a problem after hearing about it on the evening news?
- ✓ As the organization reaches new levels of ethical conduct, use all of the available communications channels to promote your organizations' "accountability" accomplishments. Be careful though. Once you point to your accountability successes, future failings will be doubly difficult to defend or justify — yet, you cannot afford to be less than aggressive in publicizing what your organization does better than most.
- ✓ Build relationships with stakeholders, even those whose position you view as extreme. Mutual respect is the best you can aspire for with those who are morally opposed to some aspect of what you do or effect. The cliché of disagreeing without being disagreeable applies here. This is especially important with those stakeholders who are viewed by others as legitimate opinion shapers.
- ✓ Share information openly and transparently. There is no substitute for honesty and candor when the inevitable problem surfaces. Many ethical lapses are smaller and less significant than they first appear, and open communication - a clear showing of having nothing to hide - prevents the smaller problems from being blown out of proportion.

Suggested Readings

- Daigneault, M.G. and Joseph, J. (2000)
Public trust and accountability 2000: a report to Independent Sector's Taskforce on Accountability.
Independent Sector.
- Fleishman, Joel L. (1998)
To merit and preserve the public's trust in not-for-profit organizations: the urgent need for regulatory reform.
An American Paper.
- Kearns, Kevin P. (1996)
Managing for accountability: preserving the public trust in public and nonprofit organizations.
Jossey-Bass Publishers.

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countability

Global Values

When we reflect on the life-saving and life-enhancing role Merck plays all over the world, we feel an enormous sense of pride – and a great sense of responsibility to ensure that this generation is preserved for future generations.

"We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear."

George W. Merck

These words were written many years ago in a vastly different world, yet the value they embody continue to guide our Company every day, around the world. Technical advances are superceded and marketing strategies change and manufacturing processes pass into obsolescence. But our values and standards endure.

Although we speak many languages and represent many cultures, we are united in our drive to be the best and to deliver breakthrough medicines with integrity and with honesty. These "global" values provide a solid foundation upon which we build our business. They are designed to support individual professional development and a productive work environment, while establishing strong, trusting relationships with our customers, suppliers, fellow employees, shareholders and the communities in which we work and live.

These are a few brief thoughts about Merck's global values and how important they are to our success. This section of Insights 2000 will take you through the range of issues involved, make the case for global values, explain the risks and rewards, and recommend some actions you can take. I hope you find value in this important initiative, as it is not simply something that is good to do, but something that all of us need to do to be successful, in the long-term, doing business globally.

Raymond V. Gilmartin
Chairman, President and Chief Executive Officer,
Merck & Co., Inc.
Member, Ethics Resource Center Emeritus Board

global

V A L U E S

Insight

The ERC Fellows Program research on integration of ethics into corporate culture points to the centrality of having one set of core values to the success of a global corporation. Having those values be meaningful and generally acceptable to all employees and other critical stakeholders is equally important.

One difficulty arises when common values are subject to being applied differently by different peoples, cultures and societies. It is critical to be able to differentiate between the value itself and the behavior which one might assume best represents that value from a particular national, societal or cultural perspective. Examples of how different cultures apply the same values differently abound.

Global values exist in local contexts, but there are limits to flexibility. Certain conduct is universally unacceptable. The difficulty lies in the gray area where what is acceptable is a matter of judgment, and the basis for judging varies.

It makes global values harder to monitor and enforce with the levels of consistency managers, auditors and executives desire. Flexibility increases the appearances of risk. Yet, when it comes to global values, dogma is also a real risk. It raises the likelihood of being perceived as ethical imperialists and insensitive to or disrespectful of local customs and mores.

Potential Problems

Organizations, leaders and ethics officers who are less able to grapple with the tensions inherent in universal values that are locally applied and local values that are culturally determined are more likely to:

- Impose the cultural values of the organization's headquarters culture without regard for how those values may be perceived by people from other cultures and may fail to respect critical local values needed to position the business for success.
- Fail to address the ethical needs and expectations of a diverse workforce by imposing one set of operational assumptions and values resulting in the workforce being less effective and efficient.
- Fail to anticipate and respond to the unique ethical needs and expectations of diverse markets.
- Be unaware of or unresponsive to what local societies may expect from the local business operations of foreign corporations.
- Be less sensitive to those global ethics standards that are less in play in their home environment.
- Not pay adequate attention to the whole issue of corporate values as necessary guidelines for decision-making and the application of policies, procedures and practices within local operations.

Likely Implications

If organizations, leaders and ethics officers are better able to appreciate the significance of global values, local flexibility in the application of those values and attention to local ethical expectations, then:

- They will more effectively use their core corporate values as a tool in defining who they are as a corporation, and do so in ways that are understood and appreciated in all of their global operations and markets.
- They will better understand and anticipate many of the values-based conflicts and/or differences which they are likely to encounter as they apply their corporate values globally.
- They will recognize that, just as values are subject to flexible application in different national cultures, there is a similar phenomenon going on within the corporation as the values are filtered through the organizational culture by level, function and/or work unit.
- They are more likely to accept that one emerging role of the corporation in the global market place is to be the conveyor of values. It is multinational corporations who are exposing people (especially in emerging markets and transitional economies) to some of the sophisticated ethical expectations regarding rule of law, workers' rights, health, safety, the environment, transparency and free markets.
- They will realize the benefits of being perceived as culturally astute and sensitive to local values and ethics, while at the same time upholding global standards and the core values of the organization itself. This will help set them apart as an employer and as a provider of goods and services, enhancing their brand identity in the marketplace.



Global values exist in local contexts, but there are limits to flexibility. Certain conduct is universally unacceptable. The difficulty lies in the gray area where what is acceptable is a matter of judgment, and the basis for judging varies.

- They will experience greater cohesion within their diverse workforce.
- Their commitment to global values will help sustain the organization through crises, thereby decreasing vulnerability and risk.
- They will experience increased global support for their compliance efforts, since legal compliance is a core value for nearly every corporation.

GLOBAL

VALUES

Recommendations

Leaders

- ✓ Be clear and consistent in your definition of the organization's core values, especially in defining the limits — where flexibility is acceptable and where there is no tolerance for variation from the standard set by those values.
- ✓ Be equally clear in your commitment to local sensitivity and the organization's need to apply those global values, and the behaviors associated with them, in ways which reflect ethically acceptable, local applications within the previously defined limits of flexibility.
- ✓ Once the values have been articulated and local adaptations and flexibility have been defined, apply the standards consistently. Reinforce and enforce them.
- ✓ Make the corporation's global values a consistent and visible influence on the business decisions you make and/or approve.

Ethics Officers

- ✓ Be globally literate and open to the flexibility allowed by the organization. It may fall to you to be the final facilitator/arbitrator on the acceptability of alternative behaviors as core values are applied in a variety of contexts.
- ✓ Reinforce the core values at every opportunity. Recognize that as they become a cornerstone of your organization's global culture they will bring about a greater degree of consistency in decision-making, and facilitate a global conversation regarding the organization's standards, expectations and requirements.
- ✓ Ensure that there is a parallel between global policies and values and local policies and values. By its very nature, a global corporation must adopt policies that take local needs, challenges and opportunities into consideration. Those local responses must conform to the core values of the organization. It may be the role of the ethics officer to make that assurance.
- ✓ While the core values may be acted out differently in various parts of the world, focus the ethics offices communications strategy clearly and consistently: "These are our standards, expectations and requirements, and they apply to all employees, everywhere and in all circumstances."

Suggested Readings

- Donaldson, T. (1989)
The ethics of international business.
Oxford University Press.
- Donaldson, T. (1996)
Values in tension: ethics away from home.
Harvard Business Review. Sept.-Oct., 48-62.
- Fukuyama, F. (1996)
Trust: the social virtues and the creation of prosperity.
Free Press.
- Micklethwait, J. and Woolridge, A. (2000)
A future perfect: the challenge and hidden promise of globalization. Crown Publishers.

Global Integrity

With shrinking global boundary lines, it is vital that worldwide business leaders begin to understand local conditions and customs in defining business strategies. Today, more than ever, business must take the lead to improve the global economic model by establishing and upholding uniform ethical standards to govern all business conduct, even where local laws may accept less.

The vision of the ERC Fellows Program, "Our Vision is an Ethical World," sums up Archer Daniels Midland Company's commitment to making tough decisions in supporting principles to make the world a better place by applying advancements in research and technology to agriculture. In doing so, we realize significant opportunities to serve the world's customers and citizens. The highest standards relating to fair trade, health and safety, environmental protection and labor practices are examples of global areas of concern where we can, and will, make a positive impact. These actions, if adopted with one corporate voice, would not only boost trade but also demand a rise in the standard of living, promoting trust among a diverse cross section of the world's population.

ADM's vision "to unlock the potential of nature to improve the quality of life" upholds a global business standard. This principle demands excellence, not just to benefit our organizations, but to build a better world for our children. We must forge strategic partnerships with government, labor and commerce groups to pursue these initiatives. While obstacles do exist, we at ADM believe the benefits far outweigh the challenge. Corporations working together in agreement with local interests may realize added value not only to our own corporate responsibilities, but also to the children for whom we build. Only united together, can we begin to improve the quality of life for every man, woman and child on this planet.

G. Allen Andreas
Chairman and Chief Executive
Archer Daniels Midland Company

Insight

Our view of what constitutes compliance and ethics should be greatly expanded to meet global expectations. The ERC Fellows research has revealed at least fourteen overlapping elements of what is coming to be known as the concept of global integrity.

- **Legal Compliance** – Developing strategies for abiding by the laws, regulations and policies for every jurisdiction in which the company conducts business.
- **Ethics and Business Conduct** - Exceeding the standards set by law and using values to guide relationships with a broad set of stakeholders including employees, suppliers and vendors, customers, shareholders, community and society.
- **Corporate Social Responsibility** - Behaving in a manner in which the corporation or organization gives back to the community and supports the development of social capital.
- **Human Rights Standards** – Honoring the inherent dignity and the equal and inalienable rights of employees, customers and all members of the human family in every aspect of the way the organization conducts itself and its business — consistent with values relating to issues such as freedom of association, diversity and privacy.
- **Labor Standards** – Maintaining positive employment practices that guide the treatment of employees, including children, and are governed thoughtfully and fairly by values addressing issues including adequate compensation, collective bargaining and remediation of disputes.
- **Health, Safety and Environmental Standards** – Committing to safe and environmentally friendly facilities, processes and products — guided by standards that ensure a safe and humane workplace and require monitoring and evaluation throughout the supply chain.
- **Sustainable Development** – Approaching economic growth with a long-term commitment to environmental protection, social equity and improving the quality of life.

- **Transparency, Anti-Bribery and Anti-Corruption** – Adhering to compliance and ethical business conduct to ensure that the organization is not involved in any corrupt activity and supports increased transparency regarding both internal business practices and the external business environment.
- **Rule of Law** – Adhering to relevant laws and use of an organization’s power to actively foster the implementation of fair and consistent laws, supporting civil society, wherever they do business.
- **Emerging Free Market Systems and Structures** – Fostering and encouraging the strengthening of a free market system and the democratization of the social and political systems of the countries, states and regions within which an organization operates.
- **Good Governance** – Maintaining standards of self-regulation and management including monitoring and accountability systems, stakeholder rights and the board of directors’ responsibilities which support strong governance practices in organizations, as well as the further development of good governance in other organizations — including suppliers, vendors and governmental entities.
- **Technology** – Expanding ethical considerations in technological fields – ranging from information, telecommunications, nuclear, medical and the biotechnology fields.
- **Respect for Local Cultures** – Committing to a standard of corporate conduct which epitomizes the highest degrees of respect for the traditions, belief systems, history and language of those societies upon which the organization has an impact.
- **Responsibility for Local Communities** – Taking the responsibility to work with local communities in a way that furthers mutually held goals such as those toward the environment, economic and social development.

As this definition of integrity gains currency, a number of results are likely. The scope of the global integrity agenda will continue to expand. The roles and responsibilities of individuals working in these areas will continue to evolve. In time, management structures will have to be developed to coordinate the organization’s integrity efforts.

Potential Problems

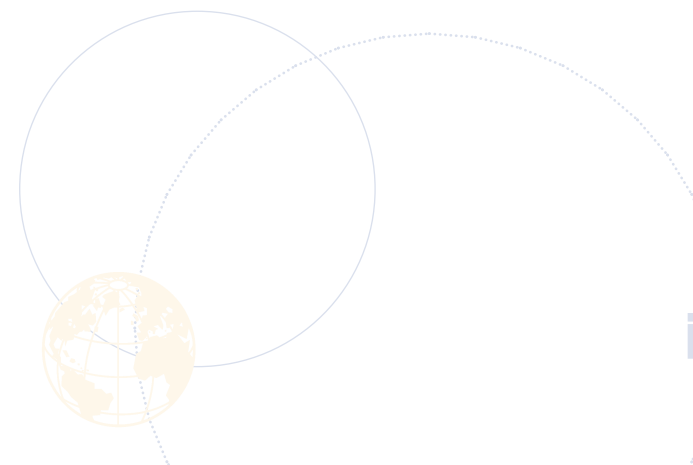
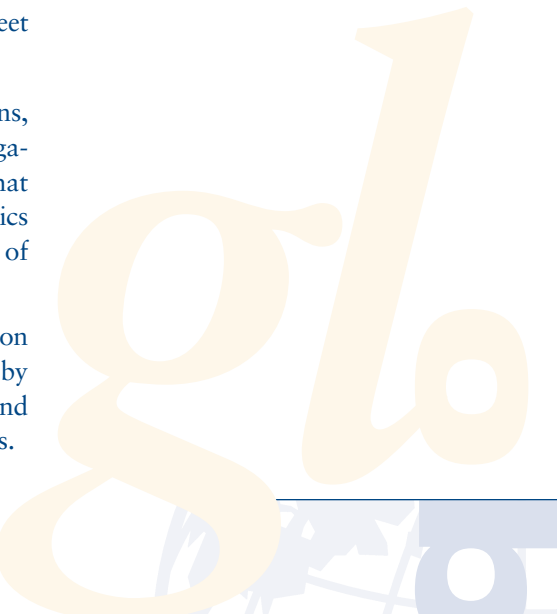
Organizations, leaders and ethics officers who fail to respond to each element in the emerging “global integrity agenda” are certain to be faced with a myriad of unanticipated and challenging ethics issues. The number of potential benefits and problems associated with this agenda defies a simple listing.

Likely Implications

If organizations, leaders and ethics officers better understand the significance of the global integrity agenda and act to meet the demands and requirements it conveys, then:

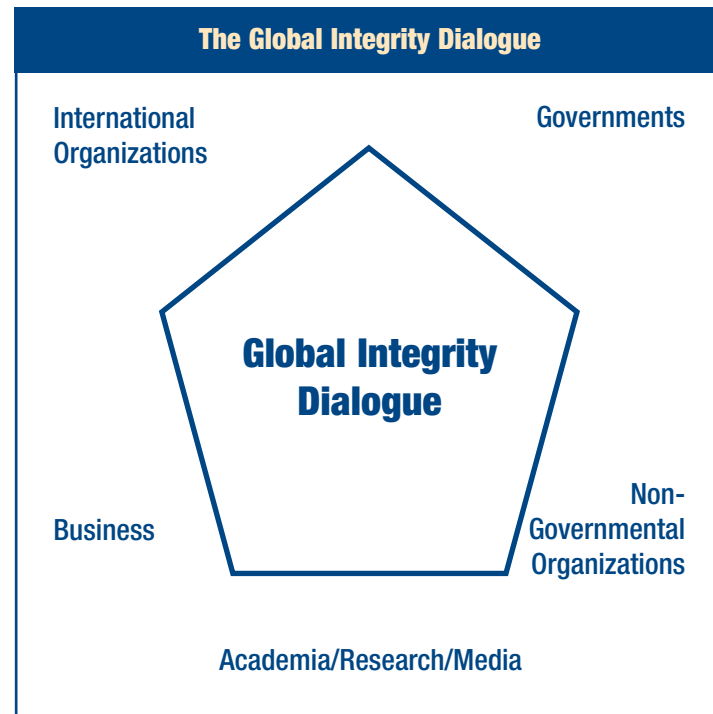
- The roles and responsibilities of key leadership positions, including the ethics office, will be redefined to give the organization a voice in every aspect of operations affected by that agenda. In the broadest application of that notion, the ethics office could be an active partner to an expanding list of stakeholders.
- The strategic positions and decisions of the organization would be better able to withstand public scrutiny thereby facilitating even greater degrees of openness, honesty and transparency in all aspects of the organization’s operations.

- Seemingly unrelated events and decisions will combine in ways that protect and enhance the reputation of the corporation as it addresses the myriad of stakeholder and special interest demands.
- Both public trust and confidence in the organization and employee pride in their association with the corporation would rise.
- Every decision and action of the organization will reinforce both the spoken commitment to the global integrity agenda and the ability and willingness of the organization to meet that agenda’s standards.



i n t e g r i t y

Recommendations



Leaders

- ✓ Work towards creating a more holistic vision of ethics to guide the organization - a vision that addresses (if not embraces) those elements of the global integrity agenda that apply to your operations and relationships.
- ✓ Support the development of structures that foster coordination of the organization's efforts related to the applicable elements of the global integrity agenda - e.g. redefine the roles and responsibilities of the ethics office such that the ethics office has a connection to those aspects of the corporation which affects "integrity" results and outcomes.
- ✓ Consistently foster the idea that "everything counts" - that the global integrity agenda means we have to pay attention to all of the issues. You cannot afford to be found significantly lacking in any integrity area (see the Accountability discussion).
- ✓ Model the behavior, as well as articulate your commitment that the organization intends to meet all integrity standards.
- ✓ Foster a global ethics strategy so that the organization is positioned where it wants and needs to be regarding the global integrity agenda.

Ethics Officers

- ✓ Be open to new ways of structuring your ethics program. It could become something totally different from what was first created.
- ✓ Establish effective, ongoing relationships with key internal and external stakeholders – such as representatives from government, the media, academia, the international community and the non-governmental sector — especially those setting or meeting what, for your organization, may be new global integrity standards.
- ✓ Break down whatever "turf" barriers may exist between the ethics function (whether narrowly or broadly defined) and other key integrity partners to facilitate the application of the organization's values to all aspects of operations.
- ✓ Talk to and understand the broader group of stakeholders (NGOs, multilaterals and the media) who set, enforce and hold organizations accountable to the global integrity agenda.
- ✓ Seek to be involved in key management decisions as the representative of the global integrity agenda to your company's key decision makers.
- ✓ Collaborate with senior leadership in developing and implementing a truly global integrity strategy.

Suggested Readings

- DeGeorge, Richard T. (1993)
Competing with integrity in international business.
Oxford University Press.
- Vogl, Frank. (2000)
Ethics and compliance in a global economy: making the case.
Ethics Resource Center Fellows Program.

i n t e g r i t y

Global Literacy

In an increasingly global economy, it is as important to celebrate our differences as much as our similarities. This is a lesson our industry learned in the 1980s as we sought to compete globally. We and our employees, suppliers, vendors and competitors in Asia, Europe and around the world found that we had a lot to learn from each other about how to build vehicles and relationships.

While complying with US and international law, we also have to honor local laws and strive to respect local customs throughout our global operations. Also, as we integrate economic, environmental and social objectives into our daily operations and planning, it is vital that we harmonize those objectives with the goals and concerns of local communities. Understanding local laws, customs, goals and concerns – achieving global literacy – is quite a challenge.

Achieving global literacy requires the dedication of time and resources to foster and build relationships with the respect and humility to experience another culture, another way of thinking and doing things. The size of this effort however shrinks in comparison to the rewards it brings. The richness of diversity can cultivate innovation, foster change and advance our corporate vision and values.

While pursuing our vision to be the world leader in transportation products and related services, we also recognize a responsibility as a corporate citizen to support stakeholder needs. At GM we believe that it is essential to invest in organizations and projects dedicated to improving the environmental, economic, social, educational and cultural aspects of our communities. We believe we have a responsibility to do so consistently with our core values.

This section of Insights 2000 lays out some of the issues, challenges and implications of achieving – or failing to achieve – global literacy. The recommendations are an excellent place for the leader or ethics officer to begin to shape and implement a strategy that includes that element while meeting your obligations.

John F. Smith, Jr.
Chairman, General Motors Corporation



Insight

Global literacy refers to the need for organizations and their leaders to continue to build greater awareness and understanding of the issues and forces that are in play outside of their domestic markets and operations. Nor is global literacy just an issue for multinational or multilateral organizations. Vast numbers of medium to large size corporations have suppliers, customers and/or strategic partners from outside their own borders. And with the explosion of e-business, even the smallest company can be global.

When organizations develop or review their ethics programs, it is necessary and appropriate for them to consider the ethics of both their own business practices and those of their global partners and stakeholders. That development or review requires an understanding of the global integrity agenda (discussed previously) and a level of global literacy that significantly exceeds that found in many U.S. organizations today. What is needed is what one European manager of a U.S. based multinational characterized as a true multinational company rather than just “a U.S. company doing business around the world.”



Potential Problems

Organizations, leaders and ethics officers who are not adequately literate regarding the global differences in the definition of “ethics” programs and varying requirements for their implementation are likely to:

- Inadvertently create global ethics initiatives that are too narrowly based on a premise of compliance with “domestic” laws and regulations. For example, a U.S. corporation might govern international commerce exclusively focused on the requirements set forth in the U.S. Foreign Corrupt Practices Act. This could communicate a “U.S.-centric ethical perspective” to many parts of the world, as is currently the case with many U.S.-based multinational corporations.
- Fail to define core elements of their ethics programs in terms that resonate with the culture of the countries and/or regions in which they operate. Ethics programs at U.S. corporations often start from a compliance point of view:
 - Many organizations in Europe focus first on environmental issues, safety, and health.
 - Many East Asian corporations describe the cornerstone of their ethics initiatives as concern for corporate social responsibility, community and philanthropy.
 - Emerging market countries are often most concerned with sustainable development by their foreign partners, as well as issues relating to human rights, free market development, democratization, cultural sensitivity and community development.
- Allow the local development of diverse ethical standards without adequate corporate input — missing the crucial balance between global consistency and local flexibility. What happens in many organizations is that local management is left to their own devices to create a strategy for applying the corporate ethical standards in cultures and climates where such initiatives are mismatched to local requirements. For example, many US organizations have not reconciled the need to sustain global standards regarding sexual harassment, while tolerating local standards regarding the role of (local) women in the workplace.
- Increase your organization’s vulnerability to being misunderstood and thus distrusted, as well as increasing the risk to your corporate reputation.

Likely Implications

If the organization, its leaders and ethics officers were truly globally literate — if they understood the significance and complexities of operating in diverse cultures, systems and environments, then:

- US corporations would not be perceived as shortsighted at best, imperialistic at worst, by strategic partners, foreign employees, foreign governments, regulators and government functionaries, strategic partners, suppliers and key customers; rather, they would be seen as committed to high ethical standards and the best interests of their global partners, customers and other stakeholders.
- Multinational corporations would not appear ignorant of “how business is done here” to their global stakeholders.
- Multinational corporations would experience accelerated attainment of their business goals, since costly and time-consuming mistakes, misunderstandings and false starts would be reduced.

- Corporations would be more active (versus passive) in understanding what is going on in their organization and its environment outside the country/culture of their global headquarters.
- Leaders and ethics officers would be able to articulate the reasons for supporting ethics programs in terms which are relevant and convincing to those whose support is required for program success, in every nation, culture and environment.

Recommendations

Leaders

- ✓ Encourage the organization as a whole, and the ethics office in particular, to take a “global perspective” on ethics and integrity issues.
- ✓ Foster the flow of international information and issues to ethics officers so that they might better understand the context in which their programs are being implemented and the appropriate response to issues and questions that arise.
- ✓ Model global literacy. Leaders should be both knowledgeable about global issues in general and attuned to the global ethics and integrity agenda as it applies to those countries and environments where the organization operates or conducts business.
- ✓ Build global literacy into all aspects of the organization. Encourage and require all aspects of the business to demonstrate global literacy and sensitivity to differences in planning and operations.
- ✓ See your corporation as a standard-bearer (industry champion) setting the bar to the highest ethical standards as well as the highest standards of global literacy.

Stages of Corporate Globalization

- 1. Domestic Enterprise Stage**
The company operates solely within its present culture.
- 2. Importers/Exporters Stage**
The company establishes transactions that extend beyond the borders of its home country.
- 3. Corporate Colonialism and Cheap Labor Stage**
The company has a presence in foreign countries, but there is little or no adaptation to local culture or needs. Manufacturing or procurement is given to the cheapest sources.
- 4. Transnational Stage**
The company uses foreign subsidiaries for ideas, production, distribution and sales.
- 5. Global Stage**
In the globally literate company, global values have become a state of mind. The generation of ideas beyond its home country or nationality of its employees is recognized as an integral asset to the company's future.

Ethics Officers

- ✓ Hire diverse personnel. The ethics office should reflect the organization and would benefit from having people with first hand knowledge of customs, mores and expectations from all areas of the company's operations (both functional and geographical).
- ✓ Actively integrate global perspectives into your ethics documents (e.g. values statement and code of conduct), communications strategies, as well as your infrastructure (e.g. help-line and reporting procedures).
- ✓ Study global situations and environments so that you understand the external forces that are affecting your ability to fulfill your responsibilities in diverse cultures and environments.
- ✓ Reach out to global stakeholders as partners in helping you to craft, implement and sustain effective ethics initiatives in all company facilities, functions and locations.
- ✓ Become involved in global initiatives, organizations and in setting standards. Take a leadership role in developing the global ethics agenda for your company, your industry and your chain of integrated suppliers, vendors and partners.
- ✓ Understand your organization's global efforts/strategies and why past successes and failures have occurred. The better you understand the past, the more likelihood there is for a successful future.
- ✓ Educate everyone on the organization's values, how those values are to be applied, as well as where to go for clarification and how to report misconduct. Most importantly, in the education effort, attempt to show the alignment between organizational values, personal (individual) values of the decision-maker and the values and expectations of the culture and environment where the decision is being made and applied.

Suggested Readings

Ohmae, K. (1995)
The end of the nation state: the rise of regional economies. Harper Collins.

Rosen, R., Digh, P., Singer, M., and Phillips, C. (2000)
Global literacies: lessons on business leadership and national cultures. Simon & Schuster.

Trompenaars, A., Hampden-Turner, C., and Trompenaars, F. (1998)
Riding the waves of culture: understanding cultural diversity in global business. Irwin Professional Publishers.

Best Practices

Since our founding in 1963, Guardsmark has been committed to trying to do the right thing by fostering a unique culture of ethics and excellence within our workforce. The Guardsmark ethics program has grown and evolved over time to remain fresh, dynamic and responsive to the needs of our employees and clients.

Guardsmark's best practices center around our more than 15,000 employees engaged in a year-round process to improve and build upon the company's commitment to ethics and diversity. The Guardsmark Code of Ethics was first adopted in 1980, not because of any external reason, but because it was the right thing to do. The code has been reviewed and revised each year since 1991 and contains a “sunset clause,” which mandates the annual expiration and renewal of the code two months after the fiscal year ends. The revision process relies on input from employees in all ranks, from hourly employees to salaried management to top executives. Each year we strive to increase the number of participants in the process, and in 2000 more than two percent of our workforce recommended changes to the code. Employee suggestions evolve into code changes in a process that begins with the individual participant, continues in conferences of the Ethics Committee and culminates with extensive discussions at a corporate quality assurance meeting of executives at the highest levels of the organization. The new Code of Ethics and Diversity Policy are formally adopted and signed in an annual ceremony attended by Guardsmark team members from around the country.

The practice of reviewing and renewing the code annually is critical to our company because it compels the development of new ideas essential to furthering our culture in a changing business environment. We believe in continuously raising the bar on how we approach our service and in promoting initiative and excellence among our employees. For Guardsmark, the total involvement and ongoing commitment of our people to the ethics process are as important as the code itself.

We are proud of the code and all it stands for. We widely publicize both the revision process and the adoption of the new code with stories in the company newsletter and videos. The Code of Ethics and the Diversity Policy are printed in several formats and prominently displayed in every Guardsmark office throughout our international presence.

As world events bring new issues to the public agenda, an ethics code should be updated to address those issues so that it is, and continues to be, a living document. Mandating the annual expiration and re-adoption of a code helps ensure its vibrancy. We encourage every organization to consider this and other best practices, adopt those that make it the best it can be – and then continue to improve. The Ethics Resource Center is vital in communicating the importance of that philosophy and assisting organizations in applying it.

Ira A. Lipman
Chairman and President, Guardsmark, Inc.



Insight

The concept of best practices as applied to ethics initiatives calls for careful review and discretion. ERC Fellows Program research suggests that best practices are not “one size fits all,” and the modifications needed to adapt another organization’s practices may be more extensive and difficult than is commonly understood. Further, while many organizations may believe they are fully and appropriately adapting best practices — our research suggests that, in fact, they may be falling short. It is important to state that the usefulness of exchanging best practices is not at issue here. Organizations often gain substantial benefits through these exchanges. Rather, our purpose is to highlight conditions that can improve your ability to identify and adapt practices that are best suited to your organization and to its ethics goals.

The key to understanding which practices, successfully employed by other organizations, will work in your circumstances lies in both your:

- Ability to understand your organization — its priorities, goals and unique needs, and
- Knowledge of the other organization and its specific circumstances.

For example, a process for addressing allegations of employee misconduct may require the organization to first reflect on its culture, expectations and aspirations. It is not sufficient to merely focus on what the law and regulations require or what has worked in other organizations. In short, take into account what your company is today and what you hope it will become tomorrow.



Potential Problems

Organizations, leaders and ethics officers who do not fully understand the inherent limitations of adopting best practices from dissimilar organizations and/or programs are more likely to:

- Use components from other ethics programs which were successful in the original application and which may not be successful in the new circumstances.
- Create a program built on systems and structures (inherited from the best practice source) that are incompatible with their organization’s environment, history, culture, strategies, goals and resources.
- Send conflicting messages about the intent of the ethics program and expectations regarding specific behaviors to employees and other critical stakeholders.
- Increase employee cynicism and distrust of the organization, its leadership and the ethics initiative.
- Create an organizational culture where a subsequent, customized ethics program has a lessened chance of success.
- Fail to use the ethics initiative as a process for building and reinforcing a corporate culture that reflects the organization’s expectations, requirements and aspirations.

Likely Implications

If the organization, its leaders and ethics officers are willing to reconsider the definition of best practices to more closely reflect the findings of this research, then it would be found that:

- Adopted best practices would more likely be effective since assumptions about the purpose and/or nature of an ethics/compliance initiative and the organization it is being borrowed from would be congruent. It should be remembered, however, that consistent assumptions while necessary, may be an insufficient precondition to the successful adaptation of a best practice.
- Before a best practice is judged to be readily transferable, there would be strong similarities in organizational context and culture, strategies and goals.
- Best practices are being defined very differently within different types of organizations. For example, highly regulated industries and/or bureaucratic organizations may build best practices around policies and procedures, while less regulated/bureaucratic organizations may prefer to rely on concepts or principles.
- The adopting organization would recognize that similar systems, structures or processes will likely produce different results (be more or less effective) when applied in a different context. One key in determining if a practice is truly “best” for your organization is to assess the likelihood that it will produce the specific, desired result within the unique context of your organization. That means you must have a clear sense of your organization’s culture and history (how that culture emerged), as well as your program’s goals and resources. That should then be compared with the context in which the practice was successful (best) before.

P R A C T I C E S

Identifying and Evaluating Best Practices⁵

Organizations must be mindful of balancing their needs:

- To achieve multiple goals, based on compliance and values
- For best practices to be consistent with program justifications
- To meet employee and other stakeholder expectations
- For best practices to fit within the organization’s unique culture and business environment



Recommendations

Leaders

- ✓ Look beyond the components of a best practice to examine the results it produced. Then, determine if the context in which that success was achieved is similar enough to your own to suggest transferability of the practice.
- ✓ One way to predict the probable success of a best practice is to review how your own practices have fared. What are the similarities between your own successful and unsuccessful practices and the best practice being considered?
- ✓ When considering the adoption of a best practice, be certain to provide the resources necessary to allow for effective understanding and modification of the practice by all parties - from the ethics officer to human resources to your legal department.
- ✓ Time and patience are critical elements in adapting a best practice to your organization. Often a small pilot application will provide critical data in assessing what will be required to make a best practice successful in your context.

best

Ethics Officers

- ✓ Be clear about your assumptions regarding what your program goals and the unique characteristics of your organization's environment, history, resources, culture, strategies and goals.
- ✓ Be clear about what you understand a "best practice" to be. What is it about this practice that qualifies it as "best"? Do you really know its processes? How and why it was developed?
- ✓ Use your understanding of your culture to suggest ways you might modify others' practices to fit your unique culture. That will likely necessitate knowing about the culture and context in which the practice was previously successful before you attempt to implement it within your organization. Talk to your counterparts.
- ✓ It is not enough that your assumptions (e.g. ethics versus compliance) and those of the organization where the best practice originated are equal. It is critical to learn why a best practice worked in another organization - research and study their assumptions, methods, culture and history to appreciate why the practice was effective. How and why did it succeed? Would others have said it failed?
- ✓ Ethics officers should communicate about how to share and modify best practices. Shared experiences should facilitate successful adaptations. Go beyond merely a top-line discussion of the practice.

Suggested Readings

- Hoffman, W.M., Frederick, R.E. and Schwartz, M.S. (1995). *Business ethics: readings and cases in corporate morality*. McGraw-Hill.
- Hoffman, W. M. and Driscoll, D. M. (2000). *Ethics matters: how to implement values-driven management*. Bentley College: Center for Business Ethics.
- Treviño, L.K., Nelson, K.A., and Nelson, K. (1999) *Managing business ethics: straight talk about how to do it right*. John Wiley & Sons.

Endnotes

- ¹ Recent studies demonstrate strong correlations between ethical leadership and more positive perceptions of ethics among employees. For example, when leaders are seen as modeling/paying attention to ethics, employees observe less misconduct at work, feel less pressure to compromise ethical standards, are more committed to their organizations, and so forth. For detailed findings see: Treviño, L.K., Weaver, G.R., Gibson, D.G. and Toffler, B.L. (1999). Managing ethics and legal compliance: what works and what hurts. *California Management Review*, 41 (2), 136-142; Joseph, J. (2000). Ethics Resource Center's 2000 National Business Ethics Survey Volume I. Ethics Resource Center, pp. 41-50.
- ² Joseph, J. and Johnson, K. W. (1999) Integration of principle into practice in the workplace: a preliminary report. *Ethics Resource Center Fellows Program Exploratory Research Findings: A Preliminary Report to the ERC Fellows*. Ethics Resource Center.
- ³ Daigneault, M.G. and Joseph, J. (2000) *Public trust and accountability 2000: a report to Independent Sector's Taskforce on Accountability*. Independent Sector.

- ⁴ This table is representative of the types of integrated accountability mechanisms and systems built into the governance approaches of many corporations. It has been adapted from the 1996 *Report of National Association of Corporate Directors Blue Ribbon Commission on Director Professionalism* (Blue Ribbon Commission) which outlines a corporate board's responsibilities as defined by the American Law Institute, The Business Roundtable and the National Association of Corporate Directors (NACD).
- ⁵ Joseph, J. and Johnson, K. W. (1999) Integration of Principle into Practice in the Workplace: A Preliminary Report *Ethics Resource Center Fellows Program Exploratory Research Findings: A Preliminary Report to the ERC Fellows*. Ethics Resource Center.