

Selections from . . . **Ethics Today Online**

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The articles collected in this publication are some of those that were most requested by readers of Ethics Today Online, a free monthly e-newsletter published by the Ethics Resource Center (ERC). These articles were originally published between September 2003 and July 2004. Current and back issues of Ethics Today, subscription forms, additional resources and information about the ERC are available at www.ethics.org.

Business Ethics in the 21st Century

By Norm Augustine

Prepared for the ERC/Demos Forum

I always feel somewhat uncomfortable when addressing the topic of ethics-sort of, “Why am I standing up here in front of you?”

It is much the same feeling I experienced my first day on the faculty at Princeton University. I had of course spent my career up until that time in government and industry, so it was a new experience when the Dean asked me to deliver the welcoming lecture to the freshmen engineers. As the Dean was introducing me before the lecture I was flipping through my notes, not paying much attention to what he was saying. Suddenly I heard him announce, “. . . and now we will hear from Professor Augustine.” Now, for just an instant-and this is true-the thought went through my mind, “Gee, what a coincidence. They have some guy here by the same name as me!”

One often hears in business the expression that “what gets measured gets done”. If that is the case, it would seem that what business needs today is an Ethics Barometer..just like the Dow Jones is a financial barometer. Every company’s rating would be reported in the Wall Street Journal each morning. You could “just look it up”.

If only it were that simple. Actually, Lockheed Martin does track the number of calls we get to our Ethics Hotline and report it to the board of directors once each quarter. The only problem is that, at least when I was CEO, if the number of calls increased the board would criticize me for permitting what was considered to be evidence of deteriorating ethical comporment. On the other hand, if the trend declined, I would be upbraided for neglecting our ethics program. Somehow that seemed unethical to me! (But I decided not to report the board to the Hotline!)

There does seem to be a number of indicators as to the current state of ethics in the business world: They include Enron, Rite-Aid, Waste Management, Sunbeam, World-Com, ImClone, Xerox, Tyco, Adelphia, Global Crossing, Computer

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Students Building Character

Lee Kaiser and Katie Sutliff

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Over the past few decades, a quiet revolution has taken place in education. Trends like cooperative learning and buzzwords such as “student-centered instruction” have become part of the lexicon of teaching. They are no longer considered just theories or even innovations. Instead, they are the commonly agreed-upon best practices of the educational world. To borrow from an all-too-frequently-used phrase, the paradigm has shifted.

Now, learning is measured in terms of student progress. Teaching happens when students work together and form partnerships. Classroom communities are intentionally designed. Teachers act as facilitators as they guide students on their educational journeys. Meaning is discovered; ideas, creativity and critical thinking are being nurtured just as the traditional basics of reading, writing and arithmetic always have been.

Character education programs, however, have been slower to tap into this line of thinking. Administrators and teachers, already overtaxed, are putting in countless hours to create interesting and relevant ways to teach character, but faculty and staffs can be intimidated by having one more thing to do and can get frustrated when the process is slow, difficult — and often draining. Despite their best efforts, administrators, parents and teachers can be left with a sense that the character education initiative isn't working and wondering, “What can we do to move this process forward?”

Kings Glen Elementary School amended that question to, “What can our students do to move this process forward?” With 550 students in fourth through sixth grades, Kings Glen's student body comprises youngsters from diverse economical and cultural backgrounds. It is a tight community where uniqueness is valued and celebrated, and the school's character education program is successful because it is centered

A Word from the President

Ethics and Compliance: One World or Two?

By Patricia J. Harned, Ph.D.

In some cases, ethics and compliance in a business organization may seem like two very different worlds, but they are inextricably linked. While in some organizations ethics and compliance are different divisions with separate personnel devoted to their functions, a fine line exists between the two. In fact, you can't ask why it's important to comply with law and regulation without entering into a discussion about ethics. Additionally, reports of misconduct to an ethics helpline very often involve violations of compliance standards. Finally, examples in company codes of “values in action” are usually descriptions of compliance with regulation. Drawing a line between ethical behavior and compliance, in reality, isn't all that easy to do.

Without question, we are experiencing a great shift when it comes to the focus of organizational leaders on ethics and compliance. For years discussion among business ethics professionals has centered on the idea that company programs mature from a focus on compliance to an emphasis on ethics. But in light of Sarbanes-Oxley and other regulatory efforts, we are now observing more and more organizations merging their ethics and compliance functions. It's harder to say that one can exist wholly apart from the other.

Our issue this month reports on the effort by a group of leading professionals and academicians to consider the role of ethics and compliance in business, among other ethics topics that confront organizations on a regular basis. Last week, the ERC Fellows, a unique forum of the nation's leading thinkers in corporate ethics, met in Washington, D.C., to discuss the complexity of ethics management in the context of the new business ethics legislation and practice. The members of the ERC Fellows Program include chief ethics and compliance executives from some of the largest manufacturing and services corporations, government and non-profit organizations, as well as business ethics professors from several of the nation's leading universities. Their twice-yearly meetings allow the members to participate in intensive off-the-record discussions that focus on the cutting edge ethics issues of critical concern to America's corporate leaders.

This meeting focused on “Ethics in a Compliance World” and began with a panel discussion featuring participants from business, government and academia.

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Students Building Character

on, and evolved from, the most important segment of the school's population — the students.

Students in the Lead

Kings Glen's philosophy about character education is simple: success lies within the child. The strength of the school's character education program is its student body. All concerned firmly believed that any efforts made toward instilling positive character traits needed to come from the students. Thus, most of the programs at Kings Glen that focus on character education were created by the children, for the children.

This is key. Students are at the heart of the program and have a real deciding voice in developing policies and pro-

grams. Jenny Nagy, a sixth-grader at Kings Glen, says, “In other schools, they don't have this kind of a program. Usually adults do all the work. Sometimes adults don't know what kids want, but kids know best.” Her classmate, Ashley Beveridge, a Character Club member, concurs. “Instead of being told what I need to know, I'm a part of creating and deciding what is important to know and do. Kids usually respond better when it's their peers' ideas rather than when it's an adult's idea.”

The student character club at Kings Glen consists of four teams — two fifth grade and two sixth grade. Students in the clubs are expected to model and

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Lewis H. Ferguson, General Counsel, Public Company Accounting Oversight Board; Paula Desio, Deputy General Counsel of the U.S. Sentencing Commission; and Michael Michael, an academic Invited Fellow from Harvard University, discussed compliance and the role of rules in corporate ethics. All agreed that, despite the new government regulation, morality cannot be legislated. As years of Fellows and ERC research have shown, prevention of fraud and corporate crime relies on creating a robust ethical culture and having leadership that communicates the importance of ethics.

The Fellows engaged in discussions of how new regulations affect the ethics or values aspects of corporate ethics programs and what they need from regulators to advance the ethics/values dimension of these ethics programs. Additionally, they discussed how recent regulatory developments can be leveraged within businesses to improve the ethics/values aspects of corporate ethics programs.

The insights and recommendations that come out of these twice yearly Fellows meetings are always enlightening as we get a chance to hear candidly from those in the trenches - individuals engaged daily with the issues of enforcing business ethics. Further, because the Fellows are actively engaged in finding practical solutions to daily and long-range ethics challenges - and produce product deliverables through their working groups that further the work of ethics officers nationwide - we at the ERC gain valuable knowledge and information that we can apply in pursuit of our mission.

This latest meeting gave us a leg up on the discussions that will surely evolve as a result of recent revisions to the Federal Sentencing Guidelines for Organizations, which blur the distinction even further. The Guidelines have long required an effective compliance program, but the latest draft includes language about ethics for the first time, stating that organizations must “otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.” Traditionally, compliance has meant, “What you can’t do” while ethics has been defined as “What you should do”. The lesson learned by organizational experience, however, and one that is reflected in the new regulations, is that when ethics and compliance are effectively combined in a single program, they can result in a total benefit - to employees, organizations and society - that is far greater than the sum of the two parts. ❖

Globalizing a Code of Ethics

By Cheryl Raven

Effective codes of ethics, compliance and business conduct flow from core values which seek to articulate the best of the company’s culture. These values also provide a strong base for application of the organizational ethics program in a global context. Recently a large number of companies have begun to follow the leaders in the field in globalizing their ethics program. There are an untold number of issues to be addressed when a domestic or multinational corporation seeks to maximize its ethics and compliance program in its operations abroad. These include:

- **Translation of the code**

This is the most basic and common step in globalizing a code of conduct. The Ethics Resource Center has had the opportunity to review some translations with our international colleagues. This experience has shown that a pure/literal translation of the code may not be sufficient. Translating the code back to the original language might reveal inconsistencies. Tone and connotation are fundamental to this technical and sensitive document. The translation should be reviewed by individual(s) with a back-

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Students Building Character, Continued from Page 2

exemplify the traits at all times, and those students are charged with representing their classmates’ voices. Each week, each team meets to brainstorm ideas and develop strategies to meet their goals. The meetings are based on the premise that students know students best, and they are in tune with what will capture their peers’ interest. Team members are keenly aware of what will motivate students to learn and live positive character traits, and they always arrive with energy and creativity. At each meeting, team members are reminded of the club’s vision and mission then begin brainstorming ways to teach, promote and recognize the desired key traits of caring, honesty, respect and responsibility.

During brainstorming, any and all ideas are welcomed. Next, team members evaluate the pros and cons of each idea, with considerations such as time, funding, available resources and, most importantly, the extent to which the idea furthers the club’s mission.

Once the list of projects is created, it’s prioritized, and responsibilities are assigned. From there, club members return to their classrooms, friends and homes to share ideas and assess reactions. Once the members are confident a particular project will meet the club’s vision and mission, is feasible and will be welcomed and supported by others, the project is readied to be launched, when it is introduced to the entire school community.

Empowering Students

This system works well because the students are motivated to successfully put their own ideas in place, and everyone benefits. As fourth-grade teacher Kathie Smith explains it, “Children inspire children. With inspiration from their peers, students adopt positive behavior more readily.” First, the student body benefits because more and more of their number are recognized for doing the right thing, and their families observe more positive development, interactions and decision-making qualities in their children. The school staff has less negative behavior to deal with, and visitors to the school note its welcoming,

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Why Small Organizations Need Our Help

By Leslie Altizer

Today, there exists a large gap in the presence of formal ethics programs between large and small organizations. The gap may be attributed to a higher level of public and media attention large organizations are receiving when it comes to ethical responsibility. Because of their public profile, large companies feel a greater pressure than small organizations to implement effective ethics programs. Conversely, the small organization is probably not feeling enough pressure to begin building formal ethics infrastructures because they have largely avoided the public eye. Moreover, smaller organizations have a lesser amount of resources available to them to build an effective ethics program.

Another potential cause for the lack of formal ethics programs within small organizations is that these organizations have cultures that are more informal. Thus, formal infrastructures are not as prevalent and this results in very strong informal standards. Employees tend to be more bound by these informal standards because they represent the culture of the organization.

A final reason for this gap is that smaller organizations may feel they are not populated enough to warrant a formal ethics infrastructure. Is it really worth having an Ethics Hotline or Ethics Office when a company only employs 20 people? This is probably the greatest argument for why small organizations don't need formal programs. It is not as feasible for smaller organizations to have the same level of formal infrastructures but it is possible for this group to customize a formal structure that fits their culture. A small company can still have formal written standards for employees to follow. It can still have a means for employees to make an anonymous report of misconduct. It can designate an individual or Committee to respond to these reports in a confidential manner. It will just take more time and energy for this group to discover what will work.

The Federal Sentencing Guidelines

identifies seven requirements that organizations must follow in order to establish effective ethics programs. The 2003 National Business Ethics Survey (NBES) focused on four of these elements and how prevalent they are in the American workplace. The results of the survey make visible the need for more attention to be shifted onto smaller organizations, especially in the for-profit sector. The four elements examined

Globalizing a Code of Ethics, Continued from Page 3

ground in ethics, compliance and values and signed off on by the executive responsible for each operating segment, i.e. a country or regional managing director.

▪ **Examples, policies and procedures relevant to the local business climate**

Effective codes include a number of policies, procedures and examples. In most cases these are initially written to provide guidance to employees in the home office and/or area of largest operations. In addition to translating the code, policies, procedures and most of all examples relevant to the local operating environment are necessary for the code to be applicable abroad. For example, labor standards may be an issue in one country, bribery in another and environmental concerns in a third.

Some companies have found it effective to keep the code distinct from policies, providing references as appropriate. This facilitates the development of local policies, while allowing the company to be unified by one set of values, one code, one way of doing business. This approach benefits from keeping in mind the global context when drafting an original code in English. For example, a reference to doughnuts might not translate as well as pastries and convey the same meaning in many languages and cultures.

▪ **Adaptation of training and communications**

Similarly, ethics training needs to be appropriately translated and made relevant to the local context. In the best

were: written standards of ethical conduct, training on standards of conduct, an ethics office, and an ethics hotline or means to anonymously report misconduct.

A Code of Ethics is an organization's first step in building an ethics program. A good Code of Ethics is how an organization begins to build an effective ethics program. An effective Code of Ethics

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case, training programs are developed individually for each country/region, in coordination with the central office. Local experts not only in training, but also in ethics, compliance and values should also deliver training as well. External ethics trainers can be found in most areas of the world. If trainers from within the company are preferred, they can receive additional training on ethics, compliance and values from such local experts.

Communications regarding the company's expectations of ethical behavior obviously must be translated and made relevant as well. The cartoon character which might convey the message innately in one country might not work in another. The level of literacy of the workforce is an obvious concern as well.

▪ **Local access to anonymous help line**

Reporting and help lines can be difficult to implement, particularly in countries with a history of authoritarian government. Local concerns must be solicited and taken into account. Greater measures may be required to make employees trust in assurances of confidentiality and anonymity. Much of the literature addresses this as an intractable problem, but the ERC is aware of a number of corporations which have developed very successful programs by addressing local concerns.

▪ **Incorporation of international perspectives in central ethics committee/taskforce**

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How Do You Deal with a Situation When Your Personal Values Clash with the Legitimate Business of an Organization?

By Stuart Gilman, Ph.D., and Jeff Salters

The nice thing about this question is that it is as old as antiquity. The problem with the question is that it is not easily addressed or resolved.

Conflicts often arise between ethical obligations in the roles we play (job, friend) and our personal values. The question is how to best resolve these questions within an ethics framework that makes sense. In order to understand what this framework can look like, let's focus on different types of ethical issues:

Black and white issues: Should I lie to clients about our offshore facilities in order to win contracts? To lie to clients is to show disrespect for critical stakeholders. Clients deserve to be told the truth for a number of reasons. First, lying is wrong. It seldom serves the ends intended by the person or organization who lies. Second, it distorts a relationship that needs to be founded on trust. Third, your company's inability to per-

form will affect your personal reputation as well as that of your company. Finally, companies that institutionalize lying are at best short-term enterprises.

Black and white issues that look more complex: Your company is a major defense contractor that has agreed to support a government "black ops" program to create an undetectable poison gas to use against terrorist cells with acceptable "collateral" damage. You strongly believe that the use of poison gas is immoral and know that the U.S. has signed many international treaties outlawing the use of gas as a weapon. The idea of acceptable collateral damage is especially disturbing. However, you also find the recent terrorist activities reprehensible. This is a classic case of conflicting ends and means. Certainly, strong actions must be taken against terrorism but is there a limit? The question of whether you can continue to work for the organization depends on how repugnant you feel it is to develop poison gas, regardless of its intended use.

Gray on gray issues: My company creates computer security programs. A federal agency has approached us to hide a "key" inside the encryption system so that law enforcement agencies can get access for "legitimate law enforcement purposes." You have real privacy concerns surrounding the creation of such a key. You also believe that effective law enforcement is necessary for our society. It seems to be easier just to go along, but you are torn about the relationship between ends and means in this case. You see no absolute right to privacy, but should law enforcement have unlimited access to all information?

One way to manage these types of issues is to avoid them in the first place. As a member of leadership, you can influence the types of business opportunities your company pursues. Encourage your colleagues to establish a decision-making process that factors in your company's values. That way, the organization will avoid taking on projects that

clash with its (and hopefully your) values.

Similarly, make it clear to future leaders before they come on board, what products and services your company provides, a sense of the kinds of decisions they will be required to make, and an idea of the kinds of actions they may be asked to take. This will allow them to decide if your line of business is consistent with their values.

That said, the question remains: what to do next? The traditional response is that you have a choice of exit, voice or loyalty. It is important to think about these choices more extensively.

Exit: Do you resign? Do you raise your concerns to your colleagues, explaining why the work is incompatible with either your ethics or the company's ethical commitments?

Voice: Is there an ethical culture in the company that would make it reasonable to raise these issues? If not, can you use your influence to encourage such a culture, or at least begin the dialogue? Do you raise these issues outside the organization? What are the legal and personal consequences of doing this?

Loyalty: What is the cost of loyalty? Can you live with the decisions? Is it making you ethically numb so that all you care about is your paycheck? Are there ways of using your support for the company's decision to begin a dialogue about ethical issues in an ongoing way?

In summary, there are both frameworks and choices to consider when confronted with ethical issues. Our research at the Ethics Resource Center suggests that context also helps determine decisions and behaviors. In other words, organizations with a strong ethical culture encourage discussions about their decisions so that they can take the ethical concerns of their employees into account. As a member of leadership you play a major role in shaping such a culture, thereby helping to create your organization's moral compass. ❖

Globalizing Codes, Continued from Page 4

All of these efforts should, of course, be coordinated through a central ethics function. One strategy which will support the effectiveness of a global ethics program is the inclusion of individuals with international perspectives in the office or on the ethics committee. Individuals of particular importance are representatives of legal departments abroad. This could be "virtual" participation via phone, e-mail and teleconferences. It could also or in addition include individuals at headquarters who spend a significant amount of time in the field.

Many of the issues may seem obvious, but our experience suggests that they are only addressed by a minority of leading-edge corporations. As globalization continues, new legislation is passed, both in the US and abroad, and civil society is increasingly skeptical of corporate business practices, the globalization - and effectiveness - of a corporation's ethics program will become of greater importance. ❖

What to Do After Your Code of Conduct is Written

From the ERC's "Creating a Workable Company Code of Conduct."

Developing a code of ethics, while a significant task in and of itself, is really the start of the overall process for meeting the requirements for the effective communication of organizational ethics standards. A code cannot stand alone. Too often this is not understood and well-crafted codes end up having limited impact because of three failings:

- The failure to ensure that the content of the code is effectively communicated to its intended audiences;
- The failure to train employees on both the code's content and a process for working through ethical challenges not directly addressed by the code (including those situations where elements of the code appear to be mutually exclusive);
- The failure to keep the code alive - to adapt its language and focus to meet the changing needs of the organization.

Before your code committee declares the project concluded, outline the beginning of subsequent phases to enculturate your new standards into the company.

Communication Strategy

Intentionally announce the presence of the code ... often! The communication strategy should have at least these four objectives:

- Ensure that every employee receives a copy of, or has ready access to, the code;
- Ensure that every employee understands his/her personal responsibility to abide by the provisions and standards laid out in the code;
- Ensure that the organization's commitment to the code is unambiguous and clear to every employee; and
- Ensure that employees are exposed to abundant examples of the code's utility, and how common questions about its intent and application have been resolved.

Training Strategy

- Help employees understand the code and its usefulness. The training strat-

egy should ensure that all employees have the opportunity to:

- Review the code's provisions with a focus on how those provisions apply to the individual's specific job responsibilities;
- Learn what specific behaviors and decision making processes the organization wants him/her to apply when confronting ethics challenges;
- Raise questions about ambiguities or uncertainties resulting from the code's specific language and examples;

- Practice applying the standards communicated by the code to "typical" ethics challenges faced by employees; and
- Learn what the organization wants employees to do when:
 - Facing ethical uncertainties;
 - Observing ethical misconduct; or
 - Perceiving pressures being applied (to one's self or others) to commit ethical misconduct.

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The Role of Leadership in Organizational Integrity and Five Modes of Ethical Leadership

Ken Johnson

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Components of Ethical Leadership. Ethical leadership begins with the way leaders perceive and conceptualize the world around them. Ethical leadership, organizational ethics, and social responsibility are inseparable concepts. They are developing concepts, to be sure, but inseparable. How ethical leaders relate to and come to understand the world around them involves judgment and action. These can be developed. In sum, the leader's role is to guide the human potential of the organization's stakeholders to achieve organizational aspirations in ways that liberate rather constrain their imaginations and judgment.

Ethical leadership must, then, be effective, efficient, and excellent if it is not to waste human potential. It is not enough to be ethical in one's individual actions to be an ethical leader. To be effective, efficient, and excellent, four components of ethical leadership must be understood and developed: purpose, knowledge, authority, and trust.

The relationship between these four components can be visualized as interrelated components, as described in the figure opposite. Attention to any one component alone is incomplete and misleading.

- *Purpose* — The ethical leader reasons and acts with organizational purposes firmly in mind. This provides focus and consistency.
- *Knowledge* — The ethical leader has the knowledge to judge and act prudently. This knowledge is found throughout the organization and its environment, but must be shared by those who hold it.
- *Authority* — The ethical leader has the power to make decisions and act, but also recognizes that all those involved and affected must have the authority to contribute what they have toward shared purposes.
- *Trust* — The ethical leader inspires — and is the beneficiary of — trust throughout the organization and its environment. Without trust and knowledge, people are afraid to exercise their authority. *

Modes of Ethical Leadership. It is often thought that ethical leadership must be "soft" leadership. Nothing could be further from the truth. Being an ethical leader means applying the right amount of authority in each situation. Sometimes the situation requires leadership that is anything but gentle. Gratuitously tough

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Ultimately, this training effort should do more than communicate a code's content. It should result in employees having an increased level of confidence and comfort when making business decisions that address ethical challenges. Specifically, an employee should feel:

- Confidence that the selected course of action is consistent with the organization's ethical standards and that it will be supported by the organization;
- Comfort that the selected course of action is consistent with the organization's core values as well as those of the decision maker, and that the decision will generally be recognized as ethical.

Updating Strategy

A code that is not current is not relevant. Every organization needs a process for ensuring that the code and its supporting communications and training strategies continue to reflect the organization's ethical priorities. Codes need to evolve because issues and the organization's standards for dealing with them evolve.

New issues emerge—the use of e-mail, Internet access and access to “adult” web sites were not addressed in the typical code 10-12 years ago. Now nearly every contemporary code addresses these issues.

Existing issues change in their priority—for example, sexual harassment has been addressed in codes longer than the issue has been a central matter of corporate focus. But today's codes feature more information and description of what constitutes sexual harassment, the responsibilities of those witnessing it and references very detailed policies.

Today, organizations are addressing Sarbanes-Oxley, SEC and NYSE requirements for their codes and making the changes needed to ensure code currency with these new demands. Determine the next steps for your company. We suggest that you establish an ethics committee (either as an extension of your code committee or as a new group of representatives) to tend to the development of a program and infrastructure that will reinforce your code. ❖

Conflicts of Interest

By Brian Sears, Director, Ethics Awareness, Lockheed Martin Corporation

Consider the following three scenarios:

- An employee for a computer services company starts a side business installing and servicing personal computers.
- A supplier representative sends a client two tickets to the Superbowl in appreciation for all the business they received from the client's company.
- A U.S. government employee inquires about job openings at a company that does business with the government employee's agency.

Do any of these examples sound familiar? Do any constitute a conflict of interest? The easy answer is...of course! The computer services employee could be taking business away from his or her employer. Accepting an expensive gift from a supplier may influence the client. The government official might have an influence on contracts held by his future employer. But let's take a closer look.

A conflict of interest can be defined as an action or relationship that might impair an employee's ability to make objective and fair decisions relating to the employee's job performance. Many organizations add the words “even the appearance of a conflict” to the definition. With this foundation, we can examine the above three examples:

An employee for a computer services company starts a side business installing and servicing personal computers.

Questions that need to be asked include, “Are the customers served by the employee the same customers served by the employer?” “Does the employee spend any company time on or use any company resources for his or her side business?” If the answer to either of these questions is “yes,” then the employee has a conflict of interest, since (a) the employee is taking business away from his or her employer, and (b) the employer's resources are being used for business activities for which the company does not benefit. If we assume that the employee starting the side business has a different customer base, i.e. customers that would never use the employer's services, such as family and friends of the employee, AND the employee conducts the side business on his or her own time, away from the office, then perhaps the side business does not constitute a conflict of interest. An important element is full disclosure of the situation to the employer so that a conflict of interest determination can be made.

A supplier representative sends a client two tickets to the Superbowl in appreciation for all the business they received from the client's company.

In this example the key factor is the client's policy regarding employee receipt of gifts and business courtesies. These policies are frequently driven by the client's type of business or industry. Many industries, such as government contracting, have strict policies limiting the value of gifts employees may accept, and tickets to the Superbowl may be viewed as extravagant and would exceed these limits. Other industries, e.g. financial services, have a more relaxed attitude toward the acceptance of gifts, and going to the Superbowl at a supplier's expense is not viewed as unusual. Employees of the executive branch of the U.S. government have some of the most restrictive gift rules. Before accepting the gift, the client needs to know the organization's gift policy. Another factor might be if the offeror of the gift represents a foreign business or government, where the rules and customs in the foreign country are different than the receiver's rules and customs. In some cultures, gift giving is a normal part of business relationships, and to refuse a gift can be viewed as an insult to the individual offering the gift and can damage future business dealings. Similarly, when an employee is considering offering a gift to a foreign official, the employee needs to be aware of the gift-giving rules that

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Ethics Effectiveness Quick Test Excerpt: Leadership

This instrument was designed by Frank Navran to assess an organization's ethical effectiveness. Responses to questions in each of twelve ethics management areas help identify what is working well within an organization and where improvement might be required. The following excerpt deals with Ethical Leadership Practices.

Ethical Leadership Practices: Ultimately the ethical effectiveness of an organization rests on the decisions and actions of those in a leadership role. Leader behavior becomes the model for what the organization requires and expects from the total employee body.

Indicate your response by circling the appropriate rating for each question, where 1 equals "Disagree Fully" and 7 equals "Agree Fully."

1. Leaders understand the organization's ethical requirements and expectations.
1 2 3 4 5 6 7

2. Leaders act in ways that are ethically consistent with what they require of those they lead.
1 2 3 4 5 6 7

3. Leaders regard their ethical responsibilities to be as, or more important than, any other responsibility.
1 2 3 4 5 6 7

4. Employees know that they can freely approach any leader to raise an ethics question.
1 2 3 4 5 6 7

5. Leaders take the initiative in resolving potential ethical conflicts in day-to-day business operations.
1 2 3 4 5 6 7

6. Leaders know who within the organization they can turn to for guidance when facing unique ethics situations.
1 2 3 4 5 6 7

7. Leaders freely accept accountability for the ethical content of the decisions and actions of those they lead.
1 2 3 4 5 6 7

8. Leaders routinely recognize and reward the ethical decisions and actions of those they lead.
1 2 3 4 5 6 7

Scoring

< 4 = Leadership practices are ineffective as an ethics model.

4-6 = Leadership practices are marginally effective as a model.

> 6 = Leadership practices are an effective ethics model.

Potential Impact

Leadership behavior shapes the organization's ethics culture. When leadership practices are not aligned with the organization's ethical standards it can result in:

- a. Employees ignoring ethical standards to pursue other, more traditional, operational results at any cost.
- b. Loss of organization credibility when people see ethical standards disregarded.
- c. Concerned employees not believing they can legitimately raise an ethical question encountered at work.
- d. Ethics guidelines being viewed as window dressing rather than legitimate operating principles.
- e. Increasing conflict as people are required to do things which violate their personal standards.
- f. Decreasing productivity as people feel less committed to the the goals and objectives of their leaders.
- g. Increased stress levels as the work environment becomes ethically incongruent.
- h. Loss in overall organization effectiveness as ethical conflict undermines other aspects of the total operation.

Associates, Cendant, Homestore, and Microstrategy—for beginners. It would be very tempting to dismiss this evidence as merely being the result of a few “bad apples,” however, there are far too many “bad apples” to accommodate such a dismissive explanation. The problem appears to be—and is—far more pervasive.

There are, of course, many highly ethical companies—or at least companies that try very, very hard to be highly ethical. I worked for one of those companies and have served on the board of others. In fact, I have even competed against a number of such companies.

At Martin Marietta, one of Lockheed Martin’s predecessors, I recall a situation when we were involved in a competition with another company for a large production contract to be awarded by the government. Both firms were well qualified to do the job so the award, a rather large one, was to go to the company that submitted the lower bid. It was simply a matter of opening the envelope, finding the lower number, and awarding the contract.

The surprise, which came two days before our bid was due, arrived in the form of a plain-brown-envelope in the mail at our plant that was engaged in the competition. The envelope contained a copy of our competitor’s bid sheet ... presumably courtesy of a disgruntled employee. At the bottom of the page was our competitor’s bid price...a price which was lower than the one we had already decided to bid.

The people in charge of our effort promptly turned the unwanted package over to the government and telephoned our competitor to alert it to what had happened. We did not change our bid—and we lost. I might add that this all took place without coming to my attention until after the matter was settled. In the minds of our employees there was no reason to elevate the matter. They simply solved it...the only way one could solve it.

In another company on whose board I serve, also a company that prides itself on maintaining high ethical stan-

dards, it was discovered that a few of their employees were “dumpster-diving” in the trash outside a competitor’s plant, seeking information about the competitor’s latest products. Worse yet, at least from the company’s CEO’s standpoint, a personal friend of his was in charge of the firm’s competitor information program ...a program intended to survey trade magazines, patent applications and other public sources to ascertain trends in the industry—but certainly not to engage in unethical activities.

The CEO’s response was immediate and decisive: He promptly fired his friend, along with the other employees involved in the activity, and called the competitor’s CEO to report the mischief that had occurred. The papers that had been garnered from the trash bin were returned to the competitor and steps taken to make certain that no one who might have had access to any of the information would be in a position to use it on behalf of the company.

Of course the public seldom becomes aware of the handling of incidents such as these. In fact, much of the public seems to hold the view reflected in a recent survey of four hundred college seniors where fully fifty-six percent of the respondents indicated that they believed the only real difference between the executives at Enron and those of other big companies was that the Enron executives got caught. Indeed, other surveys which purport to rate the confidence the public has in various U.S. institutions regularly rank business executives right down there with politicians and the media—slightly above ax murderers. And no wonder—these days one often wonders when reading the business pages (or, I might add, the sports pages) whether they might accidentally have turned to the newspaper’s crime report.

So is “business ethics” really an oxymoron? In my experience it most certainly is not. In fact, I have personally participated in multi-billion dollar transactions that were put together on a handshake...literally a handshake. No

Ethics Effectiveness Quick Test Excerpt: Leadership, Continued from Page 8

Recommended Actions

Ethical leadership practices are a necessary prerequisite for organization effectiveness. Leaders ultimately fail if they settle for less than the highest ethics standards.

To increase the consistency of your leaders’ ethical practices:

1. Publicize Your Standards. Every leader in the organization should be fully familiar with the ethical standards that are in place.

2. Train Leaders On Ethics Requirements. Leaders need formal training on how they are expected to support the organization’s ethics standards.

3. Provide Support Systems. Ethics systems are needed to support the ethics related actions of leaders. These systems should include: ethics policies, rewards, measurements, selection and promotion systems that recognize the value of ethical leadership practices, as well as structures that allow employees to raise ethics concerns without fear of reprisal.

4. Senior Management As The Ethics Models. Senior managers set the standards for the organization through their decisions and actions. Their behavior must conform to the organization’s strictest ethical standards.

5. React Ethically To Critical Events. Ethical standards are most vulnerable in times of crisis. It is during a crisis that leaders must conform to the highest ethical standards. It is also the time when there is the greatest temptation to cut corners and when the impact of their decisions and actions on those they lead is the greatest.

6. Demonstrate Concern. People care about what their leaders care about. If leaders demonstrate concern for ethics, so will those they lead.

Take the Ethics Effectiveness Quick Test or download a PDF copy at www.ethics.org/quicktest. ❖

— Continued on Page 10 —

lawyers. No bankers. No P.R. firms. Not until after the deal had been sealed with a handshake were these experts engaged to codify what had been agreed. Further, the terms and conditions of the commitments never wavered in the many months that lay ahead as the deal moved toward consummation as a written contract.

One asks if human character is less laudable today than it has been in the past. Certainly there have been ethical transgressions throughout history...probably tracing themselves back to the Garden of Eden. Recently, in the field of science, even such giants as Pasteur, Darwin and Newton have come under scrutiny for aspects of their work which to some raise doubts. But it does seem that in recent decades there has been a gradual decaying of the standards to which business and individuals hold

themselves. The prevailing attitude seems to be along the lines that "If a guy got 4,256 hits, that should be enough to qualify for Cooperstown," and, similarly, "If a CEO gets double-digit total shareholder returns, that should be enough to qualify for the Big Bucks."

Never mind that it was accomplished by sponsoring highly corrosive entertainment, such as that displayed at a Super Bowl, or running degrading advertisements, or simply cooking the books. With regard to the Super Bowl "caper", most of those involved have steadfastly denied possessing any knowledge that the event would take the ugly turn that it took. But it does seem that if one sleeps with dogs, one shouldn't act surprised when one gets fleas.

The problem is that doing the ethical thing can be difficult. No one ever said

that ethics is easy. First of all, one may not even recognize that they are treading into a situation which involves ethical considerations. I recently chaired a commission on ethics for the National Academy of Engineering and the initial reaction of many engineers was "What does ethics have to do with engineering? Engineering is about the laws of physics-laws which are absolute, not subject to interpretation." While it is probably true that one of the things about engineering that appeals to many engineers, including myself, is that Mother Nature is a reliably fair-albeit unforgiving-judge of one's work, it is quite easy to persuade engineers, or anyone else for that matter, that they often face ethical decisions.

When I was teaching at Princeton,

— Continued on Page 11 —

Students Building Character, Continued from Page 3

positive atmosphere. The community at large benefits from the positive and inspiring character development being instilled. Most directly, the character club student participants enjoy meaningful and rewarding experiences, because they have suggested, planned and accomplished their goals and now recognize they actually can make a difference in their school. They successfully affect their peers, their school and their future. At Kings Glen, students aren't just taught about character development and encouraged to make positive changes in the world, they are empowered to make those changes actually happen.

This process has had a direct impact in several areas at Kings Glen. Initial enthusiasm was engendered with a kick-off pep rally and character education assemblies. Staff development has been affected in that, once the school's core values were identified and defined, staff training and brainstorming sessions have focused on these character traits. A character climate survey was developed and instituted, and data are routinely collected from the quarterly citizenship progress report marks.

In the classrooms, students participate in class meetings and compliment

circles. The students love the circles, and they have had a positive affect on class climate. "I've noticed a difference over the years in how my students carry themselves," says Resa Valentine, a sixth-grade teacher. "They are learning positive character development and doing so more effectively because it is coming to them from their fellow students." Fifth-grade teacher Pete Cookson agrees. "You notice the students' excitement with each new program that the Character Club introduces."

Grade-level projects, quarterly citizenship and study-skills awards, a cafeteria recognition program, a school motto contest, the Random Acts of Kindness board and the Hall of Character are all ways in which positive efforts, people and programs are recognized. The club is particularly proud of the Top Gator Award; its selection committee is made up of both students and teachers and is a specific way to recognize students who embody the school's values.

Character education at Kings Glen extends beyond the school's walls and includes the influences of more than just its students and staff. From the start, parents and the community have been included in the effort and on the school

plan committee, with the acknowledgment that good character doesn't end when the dismissal bell rings. An initial character education newsletter, bulletin and certificate were sent home with students, and the PTA and local community have worked with school staff to support character-education efforts through after-school activities. Character Club members marched in the local high school's homecoming parade, and club members have coordinated efforts with other schools in their pyramid as well.

Measuring Effectiveness

To acknowledge the school's commitment to the community and to the world in general, the students assembled a book of volunteer opportunities and created a schoolwide volunteer program. They've also conducted a great deal of service work: carrying out a holiday food drive, supporting a clothing drive, writing letters for the Military Mail Program, collecting Pennies for the Pentagon, supporting Hoops for Heart and the Walk for the Homeless. In turn, local businesses have demonstrated their support by donating merchandise as recognition for those students who display good character.

— Continued on Page 11 —

I used to pose a question to my students as to whether they would be interested in investing in a company that a young businessman was promoting which would produce a product that would unquestionably generate enormous demand throughout the world; would create millions of jobs; and would improve most people's lifestyles markedly. My students would invariably...and nearly always unanimously...indicate interest in making such an investment (albeit a hypothetical one since these were, after all, students subject to the oath of poverty!).

I would then proceed to advise the class that I had overlooked one detail that I needed to mention: the invention would kill about 250,000 people each year...and perhaps many more indirectly.

"Now," I would ask, "would you still be interested in making an investment?"

At this point the vote would suddenly shift to unanimous opposition to such a pursuit. Given this strong feeling, I would ask if we were to discover that such a product had already been placed on the market, should it be banned? Generally speaking, the students would agree that indeed it should be banned. I would then casually mention that the name of the inventor was Nicholas Cugnot-and the invention was the automobile.

The second difficulty in comporting oneself in an ethical fashion is that it is not always clear what is the proper thing to do. Supreme Court Justice Potter Stewart said that ethics is "knowing the difference between what you have a right to do, and what is the right thing to do". Perhaps the most demanding form of ethical dilemma occurs when two or more of one's dearly held principles

seem to collide...for example, loyalty to a friend and abhorrence of something a friend may have done. This was an element of the dilemma faced by the CEO of the firm which employed his dumpster-diving friend.

But perhaps the largest impediment to ethical behavior is that it often demands a great deal of fortitude to actually do the right thing. One of my favorite examples concerns a rising mid-level employee of a mid-sized firm who one day was told by the company's CEO that the latter had been very impressed by the young man's work and, in fact, was going to invite him to serve on the company's board of directors. Needless to say, the rising star was thrilled. But the boss had one more thing to say: "There is one condition," he intoned, "and that is you will vote exactly as I tell you." The young man, after a moment's thought, responded with two words.

"I quit," he said.

The story has a happy ending since the now unemployed young man and several of his colleagues, who had also resigned upon hearing of the incident, proceeded to found a company of their own...a company which today is known as the Inland Container Corporation.

Finally, and perhaps most significantly, is that doing the right thing sometimes, probably even oftentimes, does not produce the desired result...at least not in the short term. In the case of the example I cited wherein we did not lower our bid given the knowledge that our competitor's bid was already below ours, we lost the competition and had to lay off a number of our employees. In the case of the CEO who called his competitor to report the dumpster-diving incident, the competitor promptly filed a lawsuit against his company which was eventually settled for a substantial sum of money.

What is to be done regarding what seems to be an epidemic of unethical behavior in business and in many other areas of our society? Are we simply to gather at nice affairs such as this one

Students Building Character, Continued from Page 10

Kings Glen has developed some concrete strategies to measure the program's effectiveness. Over the course of a year, staff members administer and analyze the character climate survey; collect and analyze detention data, alternative instructional assignments and suspension data; and carefully examine the citizenship portion of progress report data. All of these factors help the committees recognize what is working, what needs to be improved and what the tentative next steps should be. Just as teachers do with their curricula, character committee members recognize that all of those involved — teachers, students and administrators — must be reflective practitioners who are constantly refining the process, determining needs and finding ways to meet them. It is also important to keep in mind, as well, that character education is an ongoing process of development and thus will never really end.

Because the primary players in the effort are a changing and growing — literally — group of students, it follows that the process does not remain static. Students' creativity and motivation produces a constant flow of ideas in an ongoing process. Club members are

learning life skills, and they come to understand how organizations develop and execute action plans. They learn to work and care for others, respect and appreciate differences and follow through on their responsibilities. In turn, the staff members benefit because they realize the Kings Glen students are doing the work, not the teachers, school counselors or administrator, who can too often be overworked, overwhelmed and over-committed.

"The children have internalized the meaning of character education because they are so involved in its development and it is infused in all they encounter here," says Jim Baldwin, Kings Glen principal. "Whether it is in the cafeteria or in class, some element of the character traits they helped us to focus upon are in evidence."

The current goals of the Kings Glen character development participants include expansion of student involvement, more parental assistance with the Character Club, increased participation by community businesses and organizations and — the ultimate goal — 100 percent of the Kings Glen students demonstrating positive character traits. ❖

and wring our hands? Or is there something more we might do? I believe there is more that we can do—and it involves both carrots and sticks. The stick is of course needed to make clear that there is a price to be paid for ethical misconduct. For example, many companies have recently taken their retirement funds away from firms who have been involved in illegal trading practices.

But perhaps more important is the carrot...the essence of which is the matter of setting the proper tone at the top; the matter of talking about ethics and then proceeding to walk the talk. Under such circumstances employees tend to respond, “Oh...so that’s the way you do it around here. Fine. That’s the way I will do it, too.”

And how does one make this happen? I believe it is not all that difficult. In the past, when boards of directors were selecting CEOs, all too much attention was placed on the candidate’s record in producing favorable ROE’s, ROI’s, IRR’s, NPV’s and every other form of alphabet soup. On the other hand, if boards would simply make the first, uncompromising threshold for promotion an assessment of the candidate’s ethical standards, most of the business tragedies we have observed in the past few years could have been avoided. Happily, I can report to you that this practice is evidencing itself in more and more boardrooms everyday.

When I was a student at Princeton we had an honor code. During my six years as an undergraduate and graduate student I never saw a single soul cheat on an examination. Tests were always administered without proctors in the classroom...and I can remember a few occasions when I was permitted to take a timed exam at a time and place that was convenient to me during a prescribed week and my roommate was taking the exact same exam at his convenience the same week.

It worked like this: The freshmen were too frightened of being caught to even entertain the notion of cheating...it having been made very clear that the consequences of cheating were straight-

forward: “One strike and you are out.” By sophomore year, however, the honor code had become a matter of pride...no one would consider undermining the fact that we were being treated as trustworthy individuals. But by junior and senior years the situation was altogether different. We had simply become accustomed to operating in an environment where an honor code prevailed. No one thought much about it; they just went about their business since cheating was simply not an option. This, I think, is the highest form of ethical comportment... where one does the right thing because it is second nature...there is no alternative that needs to be considered.

This is a critically important point.

Many of the people I have known who got into serious ethical trouble did so when making a decision under the pressure of time. Had they stopped to think for a moment of the consequences of their actions, I am quite confident they would have acted differently. And what of the others who were also basically good people yet got into serious trouble? They were usually individuals who made a series of decisions which gradually and imperceptibly took them across the line from clearly-right to clearly-wrong.

The good news is that there are more people in the business world thinking about ethics today than at any other time in my career. That has to be a good omen for the future. ❖

Can You Distinguish a “Gift” from a “Bribe”?

And Who Is Responsible for Drawing This Line?

By Frank Navran

The difference between a gift and a bribe is simple to define - it is in the intent of the giver.

When one gives a gift it is for the purpose of “enriching” the life of the recipient. Whether the gift is tangible or intangible, simple or elaborate, modest or extravagant the intention of the giver is to in some way improve the recipient’s situation - to allow them to have more of something they value than they had before the gift was given.

When one proffers a bribe the intent is the direct opposite. While creating the appearances of enriching the recipient - that enrichment is a means to an end - that end being to enrich the giver. However much the recipient may receive it diminishes that person. They are doing something wrong and the moral cost will inevitably outweigh the material reward. Put the “preaching” aside and the argument still holds. The recipient of a bribe is at risk. Obligations are created and the payback to the giver will invariably exceed the benefit received. One can argue that it may be the employer who pays the giver - not the recipient - but that does not change the equation.

The test of gift versus bribe is simple. Is there an explicit or implied expectation of something (of value) in return and/or would a reasonable person, knowing the details of the transaction presume such an expectation/obligation to exist. If so, then it is a bribe.

In the corporate environment, the responsibility for drawing the line rests in three places:

1. With the giver of the bribe - what are the intended consequences and whom does that intent serve?
2. Within the organization employing the person being bribed - what are the explicit rules and are they clear enough and restrictive enough to protect the employee from inadvertently being compromised? and
3. With the recipient him/her self - is the individual exercising due care and reasonable judgment to avoid being placed under an improper obligation or creating the appearances of same? ❖

will center on an organization's core values and provide appropriate guidance for employee decision-making. It will also communicate these values to employees and leaders, put an organization in compliance with regulations, reduce financial risks, reduce the chance of receiving high government fines and provide a benchmark with which performance can be measured.

Seventy-three percent of participants from the 2003 NBES responded that their organizations had written standards of business conduct. The presence of written ethics standards was much higher in larger (88%) versus smaller (58%) organizations. When examining the work sectors (government, non-profit and for-profit) by organization size, only small, for-profit organizations reported a very low presence of written standards. These findings begin to demonstrate the large gap that exists between large and

small organizations.

The next piece of evidence that shows this difference is found in the presence of ethics training related to an organization's written standards. The Code is a means to make employees aware of an organization's values and principles. Training is a way for leadership to raise awareness of ethical issues, to respond to questions and concerns from employees and to reinforce the commitment to behave in accordance with the core values.

Though 73% of respondents said their organizations had written standards, only 54% of participants said their organizations provided ethics training. This question is more optimistic when only examining the organizations with written standards. Further analysis in the NBES showed that of those 73%, 67% actually said their organization provided ethics training. So, organizations that had

written standards reported a higher percentage of training than did the sample as a whole. This is a continued step in the right direction for the overall ethics field but we cannot overlook the negative trend with small organizations. The smaller, for-profit organizations had the lowest reported level of ethics training (35%).

To this point, the Code and training are means for an organization to raise employee awareness of how to behave in an ethical manner, but awareness is only half the battle. Leadership must provide a means to both enforce the ethics standards and give employees the ability to anonymously report ethics concerns. Establishing an ethics office or hotline, which provides employees with the capability of anonymous reporting, is an excellent way to address this requirement.

Only 43% of respondents from the NBES said their organizations had an ethics office or telephone advice line to which they could turn for advice about ethics issues or concerns. Once again, smaller organizations were much less likely to have an ethics office or advice line (26%) than the larger organizations (58%). When broken down by sector, the group that was least likely to have these elements was the small, for-profit organizations.

Overall, 63% of participants in the NBES claimed their organizations provided them with a means to report ethical misconduct anonymously. When analyzed based on organization size, the larger organizations were much more likely (77%) to have a mechanism for anonymous reporting than the smaller organizations (47%). To continue the earlier trend, the smaller, for-profit organizations were the least likely to possess a mechanism for anonymous reporting.

This article has examined ethical program elements as stand-alone elements. In order for an ethics program to be very effective, it should contain at least these four components. An organization must have employees who are aware and knowledgeable about ethical behavior,

Conflicts of Interest, Continued from Page 7

apply in the foreign country. Not knowing the country-specific gift rules could put the employee and the employer at risk of a violation of U.S. and foreign laws.

A U.S. government employee inquires about job openings at a company that does business with the government employee's agency.

The key issue in this example is whether or not the U.S. government employee has recused himself or herself from matters involving the company with which the government employee is seeking employment. The Federal government, and many states, have so-called "revolving door" laws that restrict the activities of certain employees when they leave government employment. The intention of these laws is to prevent former government employees from using their previous position to benefit themselves or others. In some cases, the employment restrictions on the former government employee are in place for the life of the employee. In other instances, the employee will have no restrictions. Companies that hire government employees need to be aware of the "revolving door" laws that apply to candidates. When in doubt, consult with the legal department or human resources.

There are many other situations where an employee risks creating an actual or perceived conflict of interest, where a reasonable person might conclude that the employee has a divided loyalty:

- A manager hires a family member for a key position
- A family member functionally reports to another family member in the same department
- An employee selects a supplier in which the employee has an ownership interest
- An employee takes a second job working for a competitor
- An employee uses the employer's proprietary information for his or her own business venture

While these examples are not all-inclusive, they demonstrate the wide range of situations employees and companies face. Steering clear of conflicts of interest helps ensure fair treatment to all stakeholders of the organization. ❖

Are Unethical Decisions More a Function of the Individual Decision Maker or the Decision Maker's Environment?

Isn't it true that although you can teach ethics, it is really up to the individual to choose whether or not they want to use them?

By Frank Navran

Let us begin by accepting two opening premises:

1. We can teach ethics, and
2. Decision makers operate within a context — often an organizational context.

Simply stated, decisions, irrespective of context, are the responsibility of the decision maker. The decision maker operates in an environment that may be more or less conducive to making ethical decisions. Historically, we seem to agree that environment is no excuse from making unethical choices. We each bear the personal responsibility to know - and then choose to do - the right thing.

On balance, we, collectively, as society, are requiring organizations to do more to facilitate the ethical conduct of their employees. Organizations have some obligation to communicate ethical standards, create systems that encourage and reward ethical conduct and to monitor and address unethical conduct.

That may shape the environment to make ethical choices easier - but in the end it is each of us who remain responsible for our choices. If our organization creates an untenable context within which ethical conduct is not possible - we need to make our choice - and sometimes that choice is to move on. It is often easier to choose the unethical alternative, but that does not make it "right". It is not always easy to choose the ethical alternative - but it is never "wrong".

In sum, no matter how or where you learned ethics or the context in which you find yourself - the ethical consequences of your choices belong to you. ❖

Why Small Organizations Need Our Help, Continued from Page 13

who are able to obtain advice and information about ethical behavior and who have the ability to report misconduct anonymously.

Unfortunately, only 27% of all respondents said their organizations had all four of the program elements, though 44% claimed they had at least two of the four. To complete the earlier pattern, 42% of larger organizations, as compared to a mere 12% of smaller organizations, had all four components in their ethics programs.

The statistics from NBES clearly show a large difference between small and large organizations. What NBES did not do is tell us why. Why is it that smaller organizations, specifically smaller, for-profits, are not as current as larger organizations when it comes to their ethics programs? As was mentioned earlier, this issue might be attributed to the greater amount of focus larger organizations receive and the lack of resources available

to smaller organizations. The media is always focusing on the larger organizations such as Enron or WorldCom. Seeing Goliath fall is much more newsworthy than seeing David fall. To add to this problem, the larger organizations have more money to spend on building an ethics program. There is not a large enough market in the small business sector for consultants to work in. Finally, smaller organizations tend to be regulated by their informal standards because they do not employ enough people to warrant a formalized system.

Now is the time for the ethics community to focus on the needs of smaller businesses because they have been widely neglected in the field of ethics. NBES is only the first step in helping small organizations. The survey illustrated how much of a gap exists between large and small organizations. We must direct more of our research efforts towards this problem. ❖

The Role of Leadership in Organizational Integrity, Continued from Page 6

leadership, however, cannot be maintained for long without developing resentment and cynicism.

It is helpful to think of the ethical leader as exercising authority within five modes or levels of intervention into the judgments and actions of followers:

- *Inspiration* — Setting the example so that other committed members will contribute their fullest capabilities to achieve organizational purposes. (the lowest degree of intervention)
- *Facilitation* — Supporting other committed members, and guiding them where necessary, so that they are able to contribute their capabilities as fully as possible.
- *Persuasion* — Appealing to reason to convince other members to contribute toward achieving organizational purposes.
- *Manipulation* — Offering incentives other than the intrinsic value of contributing to the achievement of organizational purposes, where commitment is lacking.
- *Coercion* — Forcing other members to contribute some degree of their capability where they have little or no commitment to do so on their own. (The highest degree of intervention).

It is also helpful to consider the components of ethical leadership together with the modes of intervention.

Integrating Components and Modes. The leader must employ the authority granted him or her by the organization to achieve the purposes of the organization, all the while recognizing that the knowledge needed to exercise this authority resides throughout the organization and its environment.

He or she must ensure that the purposes of the organization are known and shared, that it has the capacity to support its members' exercising their capabilities, and that communication between managers and other employees is open and honest.

The mode of intervention selected will depend upon the health of the

Values Word Search Puzzle

Forty words related to values and ethical concepts are concealed in the scrambled letters below. The words may appear vertically, horizontally or diagonally. The words may appear in their normal form or in reverse order. For example, thoughtfulness could appear as THOUGHTFULNESS or SSENLUFTHGUOHT. Circle as many of the 40 words as you find.

- | | | | |
|-------------|-------------|-----------------|---------------|
| Acceptance | Equality | Liberty | Sincerity |
| Allegiance | Ethics | Love | Stewardship |
| Authentic | Fairness | Loyalty | Tolerance |
| Citizenship | Faith | Mercy | Trust |
| Commitment | Forgiveness | Peace | Truth |
| Concern | Genuine | Perseverance | Understanding |
| Courage | Goodness | Prudence | Values |
| Dedication | Hope | Reason | Virtue |
| Duty | Joy | Resourcefulness | Wisdom |
| Empathy | Justice | Respect | Work |

There is a 41st bonus word related to values and ethics that does not appear on the list above.



The answer key for this puzzle is available at www.ethics.org/puzzle_answer.html

The Role of Leadership in Organizational Integrity and Five Modes of Organizational Leadership, Continued from Page 14

organization and the pressures in its environment.

- The ideal is to inspire others as a steward of the vision, values, and excellence of the organization, as reflected in its culture.
- Often persuasion and facilitation are required of otherwise capable and committed members, where they are unsure of their own capability.
- Sometimes even manipulation and

coercion are appropriate, where the organization is not healthy and the pressures are intense.

The modes of ethical leadership intervention depend in large part on the organizational culture. If the culture allows the organization to learn and grow within its environment, leadership may be largely inspirational.

If the culture does not support organizational learning and growth within that

environment, then manipulative, even coercive, leadership would be necessary. Somewhere in between is leadership that is facilitative or persuasive. In any event, leaders must make their roles as integrity champions larger than life. Otherwise they and their examples will be lost in the pressures of day-to-day life. They must speak in terms of vision, values, and integrity. And, when the leader is

— Continued on Page 16 —

not involved in a part of the organization's business, he or she must know who speaks for values and integrity.

Moreover, the style of ethical leadership will vary with the degree to which it reflects the Organizational Culture and the urgency of its situation in the environment.

- In its least demanding sense, ethical leadership is a stewardship that preserves the aspirations and culture of the organization.
- In its most demanding sense, it scans the community and develops and communicates organizational aspirations: the organization's core purpose, core values, and vision of a desired future and persuades, manipulates, and coerces its stakeholders to comply until the culture has adapted.
- In between these extremes, ethical leadership balances (1) achieving the organizational aspirations that are realistically attainable at this time with (2) developing the organizational culture over time.

The table in the appendix (Styles of Ethical Leadership) suggests that different styles of leadership are necessary to maintain or implement change in the organizational culture that is optimal for it to survive and thrive within the organization's context.

The specific culture required, and the challenges it must face, will be suggested by the nature of its essential social responsibility and dynamics of its larger community.

**See this article on the ERC website for a list of works that contributed to the development of the Organizational Integrity approach. ❖*

The Ethics Resource Center (ERC) is a non-profit, nonpartisan organization whose vision is a world where individuals and organizations act with integrity.

Established in 1922, the ERC works with businesses, nonprofit organizations, schools and governments to create ethical work environments through education, research, training and global partnerships.

Ethics Today Online, an electronic newsletter, is a forum for exploring a broad range of business ethics, global ethics and character development issues. It is published monthly by the ERC and sent free to registered subscribers. Read current and back issues of Ethics Today Online or add your name to the email list at www.ethics.org/to-day.

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