Developing a Framework for a College of Business Business Ethics Initiative

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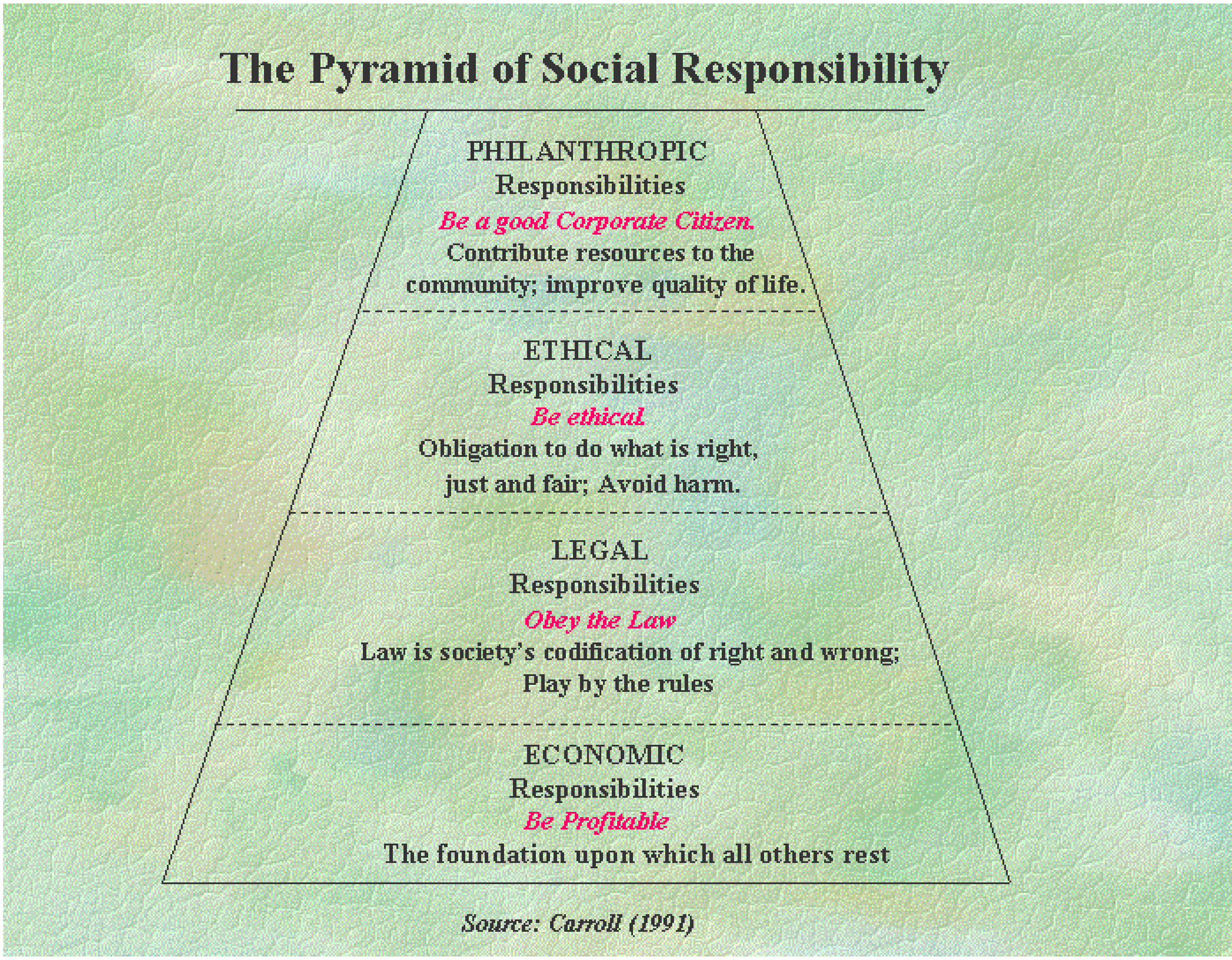
Introduction

Business ethics initiatives within the College of Business should start by understanding the AACSB International Ethics Education Task Force Report "Ethics Education in Business Schools". The report outlines 4 areas which they believe represent the domain of business ethics in Colleges of Business: 1.) Responsibility of Business in Society 2.) Ethical Leadership 3.) Ethical Decision Making 4.) Corporate Governance. Following are considerations and frameworks in thinking about each of these broad categories.

1.) Responsibility of Business in Society

Business and society recognizes businesses as an important institution in society. Business and society should be addressed from an economic, legal, ethical and philanthropic perspective, according to Archie Carroll's Pyramid of Social Responsibility.



At the lowest levels of the pyramid, businesses have a responsibility to be economically viable so that they can provide a return on investment for their owners, create jobs for the community, and contribute goods and services to the economy. The economy is influenced by the ways in which organizations relate to their stakeholders, their customers, their employees, their suppliers, their competitors, the community, and even the natural environment.

At the next level of the pyramid, companies are required to obey laws and regulations that specify what is ‘responsible business conduct’. Society enforces its expectations regarding the behavior of businesses through the legal system. If a business chooses to behave in a way that customers, special interest groups or other businesses perceive as irresponsible, these groups may ask their elected representatives to draft legislation to regulate the firms behavior, or they can use civil litigation to make the firm play by the rules. Civil litigation is the major device for resolving ethical disputes. If a firm, or individual, has been damaged by another party, they can use the court system to acquire restitution.

In the next level of the pyramid, organizations address their ethical responsibilities. Business ethics refers to the principles and standards that guide professional behavior in the world of business (ie-right or wrong behavior within an organizational culture). These principles and standards are not determined by a philosophy textbook, but by stakeholders that interface with the company, ie-customer, employees, suppliers, special interest groups, competitors, communities, etc. The most important ethical principles have been codified into laws to require conduct that conforms to societal expectations. In addition, most firms operate in industries where professional associations have articulated best practice principles for appropriate conduct.

At the top of the pyramid are philanthropic responsibilities which promote human welfare and goodwill. Voluntary contributions of money, time and other resources help to contribute to communities and improve the quality of life for the business and its stakeholders. While the philanthropic dimension may be voluntary, communities and society expect business to “give back” and help solve many of the social problems in our society. Business students learn about the role of business in giving back through service learning projects and club activities in support of social causes.

Potential Courses with Social Responsibility Content:

Business Core: Accounting, Marketing, Management, Finance, MIS

Elective Courses: Human Resource Management, Sales Management, Marketing Strategy, Management Policy, Supply Chain Management, Consumer Behavior.

2.) Ethical Leadership

To move from just being an ethical person in everyday life experiences to being an ethical leader in a corporation requires an understanding of the ethical decision-making process. Leadership also requires an understanding of the firm's vision and values, as well as the challenges of responsibility and risk in achieving organizational objectives.

Lapses in ethical leadership do occur even in people who possess strong ethical character, especially if they view the organization's ethical culture as being outside of the realm of decision making that exists in the home, family, and community. This phenomenon has been observed in countless cases of so-called good community citizens engaging in ethical misconduct that sometimes lead to corporate ethical disasters. An ethical individual can be a cautious and conforming participant in a corporate culture that tolerates unethical conduct. Consider that many executives facing ethical disasters were viewed as outstanding community leaders in their personal lives, yet became embroiled in scandals at their companies.

In the long run, if a company's leader fails to satisfy stakeholders, he or she will not retain a leadership position. A leader must not only have the respect of stakeholders but must also provide a standard of ethical conduct to them.

Archie Carroll, University of Georgia business professor, crafted "7 habits of highly moral leaders" based on the idea of the Stephen Covey's *The 7 Habits of Highly Effective People.* We have adapted Carroll's "7 Habits of Highly Moral Leaders" to create our own "7 Habits of Strong Ethical Leaders" (Table 1). In particular, we believe that ethical leadership is based on holistic thinking that embraces the complex and challenging issues companies face on a daily basis. Ethical leaders need both knowledge and experience to make the right decision. Strong ethical leaders have both the courage and the most complete information to make decisions that will be the best in the long run. Strong ethical leaders must stick to their principles and, if necessary, be ready to leave the organization if its corporate governance system is so flawed that it is impossible to make the right choice.

Ethical Leaders Have Strong Personal Character. There is general agreement that ethical leadership is highly unlikely without a strong personal character. The question is how to teach or develop a moral person in a corporate environment. Thomas I. White, a leading authority on character development, believes the focus should be on "ethical reasoning" rather than on being a "moral person." According to White, the ability to resolve the complex ethical dilemmas encountered in a corporate culture requires intellectual skills to resolve ethical dilemmas.

A fundamental problem in traditional character development is that specific values and virtues are used to teach a belief or philosophy. This approach may be inappropriate for a business environment when cultural diversity and privacy must be respected. On the other hand, teaching individuals who want to do the right thing not only corporate values and ethical codes and equipping them with the intellectual skills to address the complexities of ethical issues is the correct approach.

Ethical Leaders Have a Passion to "Do Right." Archie Carroll describes this passion as "the glue that holds ethical concepts together." Some leaders develop this trait early in life, while others develop it over time through experience, reason, or spiritual growth. They often cite familiar arguments for "doing right": to keep society from disintegrating; to alleviate human suffering; to advance human prosperity; to resolve conflicts of interest fairly and logically; to praise the good and punish the guilty; or just because something "is the right thing to do." Having a passion to do right indicates a personal characteristic of not only recognizing the importance of ethical behavior but the willingness to face challenges and make tough choices.

Ethical Leaders Are Proactive. Ethical leaders do not hang around waiting for ethical problems to arise. They anticipate, plan, and act proactively to avoid potential ethical crises. One way to be proactive is to take a leadership role in developing effective programs that provide employees with guidance and support for making more ethical choices even in the face of considerable pressure to do otherwise. Ethical leaders who are proactive understand social needs and apply or even develop "the best practices" of ethical leadership that exist in their industry.

Ethical Leaders Consider Stakeholders' Interests. Ethical leaders consider the interests of and implications for all stakeholders, not just those that have an economic impact on the firm. This requires acknowledging and monitoring the concerns of all legitimate stakeholders, actively communicating and cooperating with them, employing processes that are respectful of them, recognizing interdependencies among them, avoiding activities that would harm their human rights, and recognizing the potential conflicts between leaders' "own role as corporate stakeholders and their legal and moral responsibilities for the interests of other stakeholders." Ethical leaders have the responsibility to balance stakeholder interests to ensure that the organization maximizes its role as a responsible corporate citizen.

Ethical Leaders Are Role Models for the Organization's Values. If leaders do not actively serve as role models for the organization's core values, then those values become nothing more than "lip service." According to behavioral scientist Brent Smith, as role models leaders are the primary influence on individual ethical behavior. Leaders whose decisions and actions are contrary to the firm's values, send a signal that the firm's values are trivial or irrelevant. Firms such as Enron and WorldCom articulated core values that were only used as "window dressing." On the other hand, when leaders model the firm's core values at every turn, the results can be powerful.

Table 1 7 Habits of Strong Ethical Leaders

1. Ethical leaders have strong personal character.
2. Ethical leaders have a passion to "do right."
3. Ethical leaders are proactive.
4. Ethical leaders consider stakeholders interests.
5. Ethical leaders are role models for the organization's values.
6. Ethical leaders are transparent and actively involved in organizational decision making.
7. Ethical leaders are competent managers who take a holistic view of the firm's ethical culture.

Adapted from: Archie B. Carroll, "Ethical Leadership: From Moral Managers to Moral Leaders," in *Rights, Relationships and Responsibilities*, O.C. Ferrell, Sheb True, and Lou Pelton, eds, Vol. 1, (Kennesaw, GA: Kennesaw State University, 2003), pp. 7-17.

Business ethics consulting companies are reacting to the mushrooming attention many firms are paying to business ethics, but most of this is driven by Sarbanes-Oxley. Very little of this new interest in business ethics is related to the emergence of ethical leadership at the top. There is more of a “scared rabbit” syndrome among top executives looking to dodge, hide, and protect themselves from the wolves—otherwise known as the SEC. Without a change of corporate culture, consulting companies will install ethics programs and nothing more which might be equated to a minimalist burglar alarm system that organizational members learn to set when needed. Only through committed strong leadership that is implemented into strategic planning and effective corporate governance can effective ethical leadership be a driving force in creating an ethical organizational culture.

Potential Courses with Ethical Leadership Content:

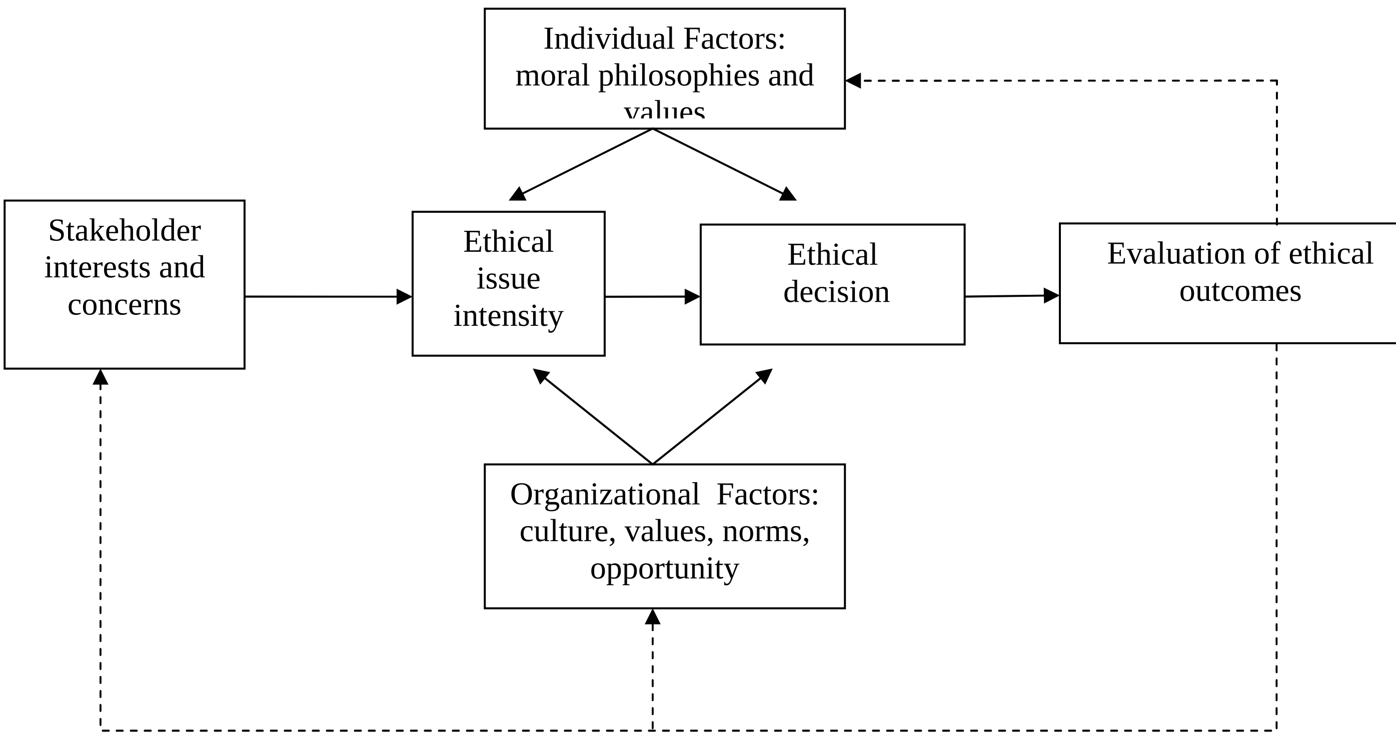
Business Core: Management, Marketing, Accounting, MIS, Finance, Business Law

Elective Courses: Sales Management, Corporate Finance, Human Resource Management, Organizational Behavior, Auditing, Forensic Accounting

3.) Ethical Decision Making

Ethical decision making involves both a descriptive understanding of how decisions are made as well as frameworks for understanding the intellectual decision making process. Figure 1 provides a descriptive model of how ethical decisions are made in organizations. The model evaluates the process not the outcomes of organizational decision making. It is important for students to learn that organizational ethical decision making is very different from personal, individual ethical decision.

FIGURE 1 Framework for Understanding Organizational Ethical Decision Making



Source: O.C. Ferrell, 2005 ©

The first step in Figure 1 is recognizing stakeholder interests and concerns. Stakeholders, obviously, are individuals, groups, and even communities that can directly or indirectly affect a firm’s activities. Although most corporations have emphasized shareholders as the most important stakeholder group, the failure to consider all significant stakeholders can lead to ethical lapses. Some executives believe that if their companies that adopt a market-orientation and focus only on customers and shareholders, everything else will adequate. Unfortunately, failure to recognize the needs and potential impact of employees, suppliers, regulators, special-interest groups, communities, and the media, can lead to unfortunate consequences.

Thus organizations need to identify and prioritize stakeholders and their respective concerns about organizational activities, and gather information to respond to significant individuals, groups, and communities. These groups apply their own values and standards to their perception of many diverse issues. They supply resources—e.g., capital, labor, expertise, infrastructure, sales, etc.—that are more or less critical to a firm’s long-term survival, and their ability to withdraw—or threaten to withdraw—these resources gives them power.

One approach to stakeholders is to deal proactively with their concerns and ethical issues and stimulate a sense of bonding with the firm. When a company listens to their concerns and tries to resolve issues, the result is tangible benefits that can translate into customer loyalty, employee commitment, supplier partnerships, and improved corporate reputation. This requires going beyond basic regulatory requirements and making a difference by genuinely listening to stakeholders and addressing their concerns. Such a stakeholder orientation secures continued support and stakeholder identification that promotes the success of the firm.

The purpose of understanding stakeholder concerns and risks is to pinpoint issues that could trigger the ethical decision-making process. If ethical issues are perceived as being related to the importance of stakeholders' interaction with the firm, a sound framework will exist for assessing the importance or relevance of a perceived issue—the intensity of the issue—and the next step in Figure 1. The intensity of a particular issue is likely to vary over time and among individuals and is influenced by the organization's culture, the specific characteristics of the situation, and any personal pressures weighing on the decision. Different people perceive issues with varying intensity due to of their own personal moral development and philosophies and because of the influence of organizational culture and coworkers.

Understanding individuals' moral philosophies and reasoning processes is one approach that is often cited for recognizing and resolving ethical issues. However, the role of individuals and their values is one of the most difficult challenges in understanding ethical decision making. Although most of us would like to place the primary responsibility for decisions on individuals, years of research suggest that organizational factors have greater dominance in determining ethical decisions at work. Nonetheless, individual factors are clearly important in evaluating and resolving ethical issues, and familiarity with theoretical frameworks from the field of moral philosophy is helpful in understanding ethical decision making in business. Two significant factors in business ethics are an individual's personal moral philosophy and stage of personal moral development. Through socialization, individuals develop their own ethical principles or rules to decide what is right or wrong, and with knowledge and experience, they advance in their level of moral development. This socialization occurs from family, friends, formal education, religion, and other philosophical frameworks that an individual may embrace.

Although individuals must make ethical choices, they often do so in committees, group meetings, and through discussion with colleagues. Ethical decisions in the workplace are guided by the organization's culture and the influence of coworkers, superiors, and subordinates. A significant element of organizational culture is a firm's ethical climate—its character or conscience. Whereas a firm's overall culture establishes ideals that guide a wide range of behaviors for members of the organization, its ethical climate focuses specifically on issues of right and wrong. Codes of conduct and ethics policies, top management's actions on ethical issues, the values and moral development and philosophies of coworkers, and the opportunity for misconduct all contribute to an organization's ethical climate. In fact, the ethical climate actually determines whether certain dilemmas are perceived as having a level of ethical intensity that requires a decision.

Together, organizational culture and the influence of coworkers may create conditions that limit or permit misconduct. If these conditions act to provide rewards—such as financial gain, recognition, promotion, or simply the good feeling from a job well done—for unethical conduct, the opportunity for further unethical conduct may exist. For example, a company policy that does not provide for punishment of employees who violate a rule (e.g., not to accept large gifts from client) effectively provides an opportunity for that behavior because it allows individuals to break the rule without fear of consequences. Thus, organizational policies, processes, and other factors may contribute to the opportunity to act unethically.

Such opportunities often relates to employees' immediate job context—where they work, with whom they work, and the nature of the work. The specific work situation includes the motivational "carrots and sticks" that managers can use to influence employee behavior. Pay raises, bonuses, and public recognition are carrots, or positive reinforcement, whereas reprimands, pay penalties, demotions, and even firings act as sticks, the negative reinforcement. For example, a salesperson that is publicly recognized and given a large bonus for making a valuable sale that he obtained through unethical tactics will probably be motivated to use unethical sales tactics in the future, even if such behavior goes against his personal value system.

Potential Courses with Ethical Decision Making Content:

Business Core: Marketing and Management

Elective Courses: Human Resource Management, Marketing Strategy, Management Policy, Consumer Behavior and Business Communication

4.) Corporate Governance

Corporate governance is a formal system of accountability and control for organizational decisions and resources. Accountability relates to how well the content of workplace decisions is aligned with a firms stated strategic direction. Control involves the process of auditing and improving organizational decisions and actions. The philosophy that a board or firm holds regarding accountability and control directly affects how corporate governance works. The major categories to consider in corporate governance discussions include:

-Sarbanes-Oxley Act

-Federal Sentencing Guidelines for Organizations & recent amendments

-shareholder rights

-executive compensation

-mergers and acquisitions

-composition and structures of boards of directors

-auditing and control

-risk management

-CEO selection and executive succession plans

These issues normally involve strategic-level decisions and actions taken by boards of directors, business owners, executives, and other people with high levels of authority and accountability. The Federal Sentencing Guidelines for Organizations (2005) holds boards of directors responsible not only for financial audits, but for ethics programs and monitoring systems in the organization. Through the SEC and the Sentencing Commission, corporate governance is continually refined and regulated. All of this legislation attempts to get companies to act responsibly and create effective ethics programs.

Changes in technology, consumer activism, government attention, and other factors have raised questions about such issues as executive pay, risk and control, accountability, strategic directions, shareholder rights, and other decisions made for the organization.

Accountability for organizational decisions and resources begins with a strategic mission and vision that informs all levels of employees and stakeholders. From this strategic direction, it is possible to account for and assess decisions made on behalf of the organization. Thus, corporate governance is about the process and content of decision making in business organizations.

Potential Courses with Corporate Governance Content:

Business Core: Accounting, Finance, Business Law, MIS

Elective Courses: Organizational Behavior, Taxation and Auditing