In recent conversations with industry groups, I have noticed an increased interest in the topic of business ethics. Some of this is undoubtedly due to the corporate scandals that dominated headlines in the last few years, but I think there was already a growing desire to reduce unethical behavior by understanding how and why it occurs.

For many organizations, the biggest challenge in addressing unethical behavior is figuring out how to begin the conversation. I believe it is important to provide a framework that provides individuals with opportunities to contribute to the discussion. That means turning a conversation about ethics into a conversation about decision-making.

Unethical behavior at work is almost always preceded by a series of decisions. It very rarely occurs as an immediate and automatic response to a situation. Many factors shape the decisions we make on the job. My own observations and experiences suggest that there are four main factors that shape individual decision-making at work. They are a company’s culture, its code of ethics, its communication system, and, finally, its compensation structure.

**Culture.** Perhaps the largest influence on employee decision-making is an organization’s culture—the core beliefs shared by members of an organization. These beliefs provide answers to questions about the main goals of the business and the proper means for achieving those goals. Included among these answers are guidelines for interacting with others inside and outside the organization. In a very important way, then, culture provides implicit guidelines for ethical decision-making.

**Code of ethics.** As firms grow, these guidelines are made more explicit in a code of ethics or a statement of values. Not surprisingly, the content of such codes varies widely. Some are simply a list of “dos” and “don’ts” while others address important values more generally. From an ethical standpoint, among the important questions to consider are:

1. Did organizational members at all levels have input in creating or revising the code?
2. Does the code truly reflect the organization’s values?
3. Does the code have enough detail to provide guidance on important decisions?
4. Does the code include some mention of the process for handling suspected violations?

**Communication.** Three aspects of a firm's communication system deserve attention by those interested in ethical decision-making.

First, how do leaders communicate the firm's ethical expectations to others in the organization? It might be through employee handbooks, codes of ethics, training programs, or informal conversations. Of course, the message is also delivered through the behavioral examples of leaders.

Second, what opportunities do employees have to initiate conversations about ethical issues to those at higher levels? Many companies have created ethics offices and hotlines to encourage employees to discuss their concerns. Some type of system to encourage upward communication is crucial.

Third, are employees encouraged to talk about ethical issues within their own departments and across the organization? Integrating ethics into everyday conversations goes a long way toward improving ethical decision-making. Those who frequently think and talk about ethical issues are bound to choose right over wrong more often than those who only consider ethics in times of crisis.

**Compensation.** A final explanation for unethical behavior is an incentive system that inadvertently rewards unethical behavior. For example, a few years ago, Sears created an incentive plan for mechanics that rewarded them based on the number of repairs they completed. Not surprisingly, many mechanics performed unnecessary repairs and passed the cost along to consumers. Ultimately, the company paid huge fines and revised its reward system. Similar examples abound in many organizations, where the focus remains on numerical outcomes without regard for the means used to achieve those outcomes.

What actions are rewarded, financially and otherwise, in your firm? Think beyond quotas and incentives to the criteria used for promotion and job assignments. Are there clear standards for advancing in the organization?

Do these standards reflect the values espoused by the organization? While any of the four major topics addressed above can serve as a starting point for a discussion on ethics, they should not be treated independently. For example, changing a firm's culture often necessitates modifications to its compensation plan and system of communication.

Updating a code the right way means involving employees from all over the organization. If their participation has not previously been welcomed, additional work will need to be done before changes can occur.

**NUMBERS SAY**

**ETHICS EXPLOSION**

More than 90% of firms with over 500 employees have some kind of code of ethics.

PHOTOS (COLOR)

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