



Research and Publications

Ethics Matters:

How to Implement Values-Driven Management

Table of Contents

- [Introduction](#)
- 1. The Drivers
- 2. Why Values?
- 3. Texas Instruments: From Volumes to Three Words
- 4. [Self-Assessment](#)
- 5. Pacific Bell: A Diagnostic Assessment Done Right
- 6. [Commitment from the Top](#)
- 7. Computer Rescue Squad: A "Sizzling Hot" Entrepreneur Speaks
- 8. [Codes of Ethics](#)
- 9. Boston University and Hawaii's Bishop Estate: Boards Need Codes of Conduct Too
- 10. Communication Vehicles
- 11. [Olin: The E Zone](#)
- 12. [Training](#)
- 13. Pension Benefit Guaranty Corporation: How to Start an Ethics Training Program
- 14. Resources for Assistance
- 15. Astra USA: Implementing Resources the Astra Way
- 16. Organizational Ownership
- 17. [Orange and Rockland: The Challenge of Inclusion](#)
- 18. Consistent Standards and Enforcement
- 19. The Boston Globe: Muddled Standards, Muddled Management
- 20. Audits and Evaluations
- 21. [International Olympic Committee: Tarnished Gold?](#)
- 22. Revision and Reform
- 23. [Guardsmark and Ira Lipman: Living Values, Constantly Renewed](#)
- 24. Are You Finished?
[Epilogue](#)

INTRODUCTION

Not just rotten apples

There's a need for systems not because business people are inherently less ethical than others, but rather because these procedures are critical for developing a moral corporate culture within which individuals can act ethically. We have found that the root of unethical behavior is quite often systemic and not simply the result of rotten apples in the corporate barrel. Ethical people can be brought down by serving in a bad organization, just as people with questionable integrity can be uplifted, or at least neutralized, by serving in an organization with clear values. For that reason, managers should carefully examine their organizational cultures to see if the structures and procedures, which systematically bind and move their employees, encourage or inhibit ethical behavior. If they do not, they must act to change or supplement them. This book provides the how-to.

Not apple pie

Introducing the concept of values to an organization and its management processes is not without danger. Before reading further, two cautions are in order.

First, the process is open-ended, and in a real sense, never satisfied. As Frank Daly, corporate director of ethics and business conduct at Northrop Grumman Corporation has explained, "Once introduced, you either 'go with the flow' or eventually your program will wither. With respect to content first, companies that begin a serious discussion about ethics soon find that the 'genie is out of the bottle.' When ethics is introduced as serious and articulated in a company, efforts to limit it to one or other area of concern quickly become futile." In other words, don't stick your toe in the water unless you plan to swim.

Second, adding values to an organization implies a culture change. Mere policies and procedures alone will not bring about change. Just as the individual ingredients of a cake, lined up on a counter, do not constitute an edible dessert, policies and procedures that are devoid of values constituting an organizational vision will not achieve the desired outcome. So although we lay out a ten-point program that we believe is a good description of how to get from here to there, it is not enough. The values come first.

CHAPTER 4 - Self Assessment

You can't plot a course without knowing where you're starting from. Therefore a diagnostic assessment, self-assessment or liability inventory, is a first step in determining what, if any, cultural assets and organizational risks may be present and require attention.

The initial impetus for an assessment can come from any direction. Senior managers may have attended a conference where they heard a speech about the newest developments in compliance and business conduct programs and wondered, "Where are we?" A new senior executive from another company or industry may have had experience in an organization in which values were well integrated and sees an opportunity to make his mark on his new employer. A savvy member of the board of directors may ask for a report about the status of the company's ethics initiatives. Or, an ethical crisis or government investigation may precipitate an in-depth review of the company's programs (or lack thereof).

It may well be that there is nothing in particular to trigger the need for self-assessment. The company is doing nicely, employees are seemingly content and growth is steady. This is an opportune time to take stock of how the company measures up.

We suggest that a diagnostic assessment be conducted by asking who, what, how and why.

CHAPTER 6 - Commitment from the Top

An important element

"Commitment from the top" sounds easy to achieve. But in fact it does not automatically happen. Often senior management just "doesn't get it" and efforts from below fall on deaf ears. The Center for Business Ethics receives many calls asking how to gain senior management support. Strategies are suggested, but these ultimately must fall on receptive ears to be successful. And to get a professed commitment from senior management is not enough unless this commitment is continually demonstrated.

One of the most respected senior managers we know was a chief executive officer with an uncanny ability to laugh at himself, admit mistakes, and to praise others who did the right thing, even as he confessed to falling short. He endeared himself to every employee and his reputation spread throughout the company. By his everyday actions and words, he encouraged others to strive to higher standards, to continue to do the right thing. His values were a part of his persona and they quickly became part of the company's personality, remaining there long after he left for another assignment.

This particular executive exemplified "commitment from the top" and we shall keep his identity anonymous in the hope that every manager who reads this book might check the mirror to see if this description fits him or her.

CHAPTER 8 - Codes of Ethics

A blueprint for building a values-based culture within an organization must include a written ethics code that contains at least a sufficient level of guidance for employees and others who may read it. These written codes perform many functions and therefore should be drafted as carefully as an important letter to shareholders. These documents are communication vehicles and reflect the covenant that an organization has made to uphold its most important values, dealing with such matters as its commitment to employees, its standards for doing business and its relationship with the community.

Most codes reflect the understanding that above all, employees want their questions answered. For that reason some insert questions and answers throughout the code to break up the page and provide a point of interest. Others place the questions and answers at the end of the code. While many questions are standard (What do I do if one of my co-workers is telling offensive jokes? Can I accept a box of chocolates from one of my suppliers?), we especially like the thought given to nonspecific questions that candidly express what employees might not dare ask their managers.

CHAPTER 11 - Olin: The E Zone

The E Zone, with a population of 7,500, is not on any map, in the phone book or on the Web. According to Olin, it's "that place inside all of us where we make decisions about what's right and what isn't. It's that part of us that knows what to do. It's the little voice that speaks to us, even when we are under pressure or are tempted not to listen."

The E Zone is unusual language to communicate ethics and values but it works. The goal of the Olin program is to empower all of its employees "to visit the E Zone regularly" and to "turn up the volume on that tiny little voice."

One way that Olin turns up the volume on ethics is to vary the communication and tailor it to the audience. While Olin is focused on its employees, it also incorporates its ethics message in its relationships with competitors, customers, communities, suppliers and shareholders. For example, the ethics considerations when thinking about competitors include prices, representations, competitive intelligence, teaming arrangements and trade associations. Shareholders have expectations about the validity of financial numbers as they relate to their capital investment, earnings and dividends. (We're beginning to see what Gebing means when he says that ethics is in everything we do!)

CHAPTER 12 - Training

Why offer training in values or ethics at all? At one recent seminar of corporate executives, a participant came up to us after the session. He was perturbed. "Does corporate America understand that, in essence, it is taking up the job of teaching values to our citizens?" he asked. We replied in the affirmative, suggesting that many thoughtful executives are doing just that because they have concluded they are filling a void. Too many employees are not receiving any grounding in values from their home, their church, their school or their community experience.

"But that's shocking," he said. "This is a sociological sea change. Has anyone written about it?"

We assured him that there were many good books in the business ethics field that had addressed this, and that we were also writing about it in our latest book. But it was clear to us that he was surprised at the widespread scope of ethics training going on in corporate America, and dismayed by the necessity for it.

Effective training in values assists employees in two categories of decision-making. First, by raising their level of awareness about ethical issues and reinforcing the company's viewpoint on important values, it is more likely that employees will do the right thing. Helped by the training they have received and the reinforcement that the organization will stand behind them if they pursue the right course, most employees will do so. Without such training, even if their initial instinct is to act ethically, employees may wonder what the company would rather have them do.

Second, training in values helps employees make the right choice when they are confronted with conflicting values, and honestly don't know for sure what their decision should be. Because effective training includes an opportunity for disagreement, dialogue and debate, employees can develop the decision-making skills that require them to consider choices and evaluate the best course of action.

CHAPTER 17 - Orange and Rockland: The Challenge of Inclusion

Many companies have done a good job in establishing the basics of a values-based ethics program. Few, however, have given as much thought to including everyone in a leadership capacity as has Orange and Rockland Utilities, Inc., the New York utility serving thousands of electric and gas customers in New York, New Jersey and Pennsylvania.

O&R's focus on organizational ownership of its ethics program was born of necessity, when a scandal scarred its long-service, union employees and exposed some corrupt senior executives. Rank and file employees were not implicated in wrongdoing, but they bore the burden of their company's tarnished reputation. While they had once been proud to wear the O&R uniform, carrying on the tradition of community service and neighborliness begun by generations before them, suddenly they were embarrassed, angry and betrayed by the company they loved.

Employees - whether managers or represented workers - don't check their values or aspirations at the workplace door. The work of building an ethical culture meets the need of many individuals to pursue something other than just secular, materialistic activities. It may be what Professor Robert Coles of Harvard calls the intersection of secular thinking with the constant search for moral, if not spiritual, sanction. Perhaps the pursuit of values in every facet of our life is what being human is all about. What a tribute to an

organization like Orange and Rockland for an employee to discover - and express the fact - that his higher aspirations can be fulfilled in part at work. But Ferraro is not alone in his quest.

Chapter 21 - Olympic Games: Tarnished Gold?

Executives and managers sometimes ask, "How can you tell if a values initiative or ethics program is worth the time and effort? Can you measure the bottom line results?"

We tell the truth and say that auditing and assessing the benefits of an ethics program is sometimes difficult. But we have any number of illuminating stories about organizations that make no effort to instill values or a code of behavior into their operations, that ignore warning signs of potential problems, and that conduct no audits or assessments of their operations.

The lessons of the scandal are simple. A code of conduct without audits or assessments is meaningless. If the IOC is to keep its nonprofit status and its volunteer members unpaid, its leaders need to think about whether the intent to do good works is sufficient to counteract the lure of perks and the temptations of outright personal gain available to IOC members.

An ethical framework that includes audits and assessment is even more critical in the case of an organization like the IOC because of the difficulties of policing the body that controls the Olympics and billions of dollars. As a "private" international organization, the IOC was exempt from laws that govern corruption in international transactions. But as nine-time Olympic gold medal winner Carl Lewis said, "I don't know of any organization that has more power or makes more money that is less regulated in the entire world than the IOC."

CHAPTER 23 - Guardsmark and Ira Lipman: Living Values, Constantly Renewed

The story of the development of values-based management at some companies is usually a story of an ethical crisis followed by a thoughtful response. Occasionally the story is one of ethical awakening, when a senior manager is inspired by current events and the example of the best practices set by his corporate peers.

The story of Guardsmark, the fifth largest security firm in the country, and its founder, Ira A. Lipman, offers a kaleidoscope of images. With every turn of the lens, these images coalesce into a unified story of clear moral values -- developed by family, nurtured and honed across a lifetime of work dedicated to protecting human life and physical assets, exemplified in public service. "Truth, courage and judgment are the hallmarks of our service," is Guardsmark's description. Those three values apply equally to Ira Lipman. As he renewed these values by actions in his own life, so too, his company renews its values in a unique process.

EPILOGUE

This book, and others like it, illustrates that the business ethics movement has come a long way from compliance programs to a process of instilling values into organizations. An ailing patient, sorely in need of a healthy dose of ethical values, has been prescribed a wide range of cures, from codes of conduct and ethics audits, to widespread training and the continual reevaluation of programs and procedures. But in the past twenty-five years the focus on curing ethical malaise has mainly concentrated on reaching employees in far-flung facilities - the troops, not the generals.

While these efforts are obviously important, we also have to concentrate on the top levels of corporate governance. We have hinted at this by selecting several stories in this book, where the issue of values resides at the board level. In our view, this is the right moment for such a focus. Attention to corporate governance is not new. For example, the National Association of Corporate Directors was founded at the same time (1976) as Bentley College's Center for Business Ethics. What is new, however, is the convergence of the two fields of corporate governance and business ethics. As the new millennium approaches, we have a clear message: incorporating integrity at the top of business institutions is critical for continued economic success.

As former chancellor William T. Allen of the influential Delaware chancery court said, "Governance contributes legitimacy to an enterprise." We say, "Attention to ethics contributes legitimacy to governance." We think the real success of efforts to implement values-driven management will occur when we are able to integrate considerations of ethics and values up in an organization, at the top levels of our global business institutions. Therefore encouraging a commitment to business ethics by those who govern institutions should be our charge. And to be perfectly frank, instilling values at that level can not be implemented by a ten-point program.

A few ideas

We believe that we will not begin to instill values in the process of making corporate policy decisions until the group of business ethics advocates goes beyond academics and the current practitioners. Those who should think about ethics are the most influential individuals in the world: policy-makers, opinion leaders, the media, boards of directors, senior corporate leaders, leaders of business organizations and trade associations, lawyers, accountants, investment bankers, international economic experts, elected officials and global leaders. By any definition, they comprise the "International Club of Thinkers and Doers." Members of this Club, while often invisible to the man in the street, have considerable influence on one another.

Ethical capital required

Michael Milken, perhaps an unlikely character to be quoted near the end of a business ethics book, has said that a favorable fundamental shift has occurred in the business world as control of capital has moved from private institutions to public markets, democratizing the availability of financing to individuals with ideas, rather than individuals with a pedigree. But public markets, he thinks, also look for the presence of "social capital" (such as education, police protection, religious freedom, community bonds, property rights, and financial reporting standards) before they invest. In his opinion inadequate social capital is the weak link that limits a country's prosperity.

We agree and take his argument one step further. In our view, ethical capital is also a prerequisite for global economic success. Ethical capital includes universal agreement among a country's opinion leaders about fundamental values; evidence of a commitment to those values by "members of the club;" healthy debate and dialogue about complex, unresolved ethical issues; a willingness by all parties to work together to resolve disagreements by persuasion and negotiation; and a free and responsible press to investigate and report on activities of the country's major social and business institutions.

As international organizations, government and global companies work together to develop fundamental principles of ethical capital while shunning investment in those countries that disdain their efforts, we expect the flow of capital, job creation and financial prosperity will underscore the importance of a values-driven economy.

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