Skillsoft®

Global Compliance Solutions

Understanding Business Ethics and Integrity

A Consumer's Perspective

What are business ethics and integrity?

If you asked a person if ethics and integrity were things he or she valued in a company, chances are the response would be a clear "yes." However, if you then ask that person to define business ethics and integrity, you might not get such a direct answer. Common responses might include generic statements about "doing the right thing" or "following the law," but describing what business ethics and integrity are would be difficult. Even without a solid definition, customers still say that these two things matter to them.

One of the most comprehensive studies on consumers' opinions concerning the importance of business ethics showed that 68% of respondents claimed that a company's reputation influenced a decision to buy a product or a service. And 51% of the surveyed population believed that they could make a difference in a company's behavior based on their buying habits.[1] The fact that over half of the respondents expressed a belief that they can influence the behavior of a company reveals that consumers expect companies to pay attention to their values and preferences.

The Stanford Encyclopedia of Philosophy defines business ethics as Simply put,

> "a form of applied ethics or professional ethics that examines the ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations."[2]

business ethics describes how an organization as a whole makes decisions and conducts itself. Consumers have become increasingly concerned with how an organization interacts with its customers, suppliers, and community – so much so that many consumers will no longer support a brand if they disagree with a message or stance the company adopts. The opposite is also true; many businesses have successfully drawn a loyal following because of the positive messages they associate with their products and services.

Effect of Ethical Culture on Misconduct[3]

Levels of Ethical Cultures
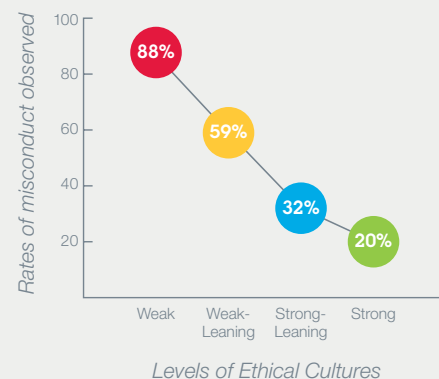
MORE THAN 1 in 5
U.S. WORKERS WHO REPORTED MISCONDUCT EXPERIENCED RETALIATION.

THAT IS ABOUT **6.2** MILLION AMERICANS.

FOR AN ETHICAL CULTURE TO EXIST, EMPLOYEES MUST FEEL COMFORTABLE IN REPORTING MISCONDUCT AND NOT FEAR A BACKLASH.

[1] *Ethical Consumerism by Charlotte Hines and Ashely Ames. Ipsos MORI. 2000.*

[2] *Business Ethics by Alexei Marcoux. The Stanford Encyclopedia of Philosophy(Fall 2008 Edition). Stanford University. August 29 2008.*

[3] *National Business Ethics Survey of the US Workforce. Ethics Resource Center. 2014.*

Principles of an ethical organization

Developing a culture that is grounded in ethical conduct is a challenge in many ways, not the least of which is that the lines between ethical and unethical behavior are not always clear. However, most ethical organizations share four key principles:

1. Honesty – Honesty is the cornerstone of ethical behavior. The rejection of deception, especially to cover mistakes or improve perceptions, is essential for developing trust. An organization that is honest not only can capitalize on its mistakes as a source of improvement, but can also to showcase positive achievements.

2. Accountability – Recognizing a mistake is the first step in correcting a problem, but taking ownership of the issue reassures the customer that the company stands behind its actions. Internally, accountability ties all employees to the objectives of the organization and builds trust, cooperation, and dedication.

3. Respect – Executives and managers that establish respect as a core value of an organization understand the role it plays in the lives of customers, employees, and communities. In respecting the customer, an organization must place the value on the person over

the quick buck, which in turn improves the quality of the product. However, a company that does not respect its employees is likely to fail at respecting the customer at large.

4. Leadership – Adoption of an ethical approach is important at all levels of an organization and is critical at the top. Strong leadership provides employees with a compelling source of direction for ethical conduct. By modeling positive behaviors, leaders within the organization can powerfully reinforce the value of ethical conduct.

Why consumers have so much sway

Over the past decade, particularly given the rise of social media, consumers have assumed a significant role in the "policing" of business. The explosion of online review sites, blogs, and other outlets has empowered customers like never before to publicize both good and bad behavior of companies. Additionally, the increased attention on certain laws, such as anti-corruption legislation, has left businesses feeling the pressure to "prove" to the general public that they are acting lawfully and in the interest of their customers.

How, in light of these pressures, can a company demonstrate its commitment to acting with ethics and integrity?

While there is no magic bullet, some general steps around transparency, training, and tone can help to build and improve a corporate image.

The three cornerstones of ethical companies
Transparency

Transparency generally refers to the degree to which the activities and practices of an organization are observable by those external to the company. The three primary dimensions of corporate transparency include: information disclosure, clarity, and accuracy.[4] In other words, transparency is a function of the clarity and accuracy of the information a company makes available to those who hold an interest, including customers.

Transparency is increasingly becoming more important for businesses, especially large, multi-national companies. According to Howard Schultz, CEO of Starbucks, "the

[4] Organizational Transparency: A New Perspective on Managing Trust in Organization-Stakeholder Relationships by Andrew Schnackenberg and Edward Tomlinson. Journal of Management. March 10, 2014.

[5] The Openness Revolution. The Economist. December 13, 2014.

currency of leadership is transparency."[5] Various non-government organizations, including Global Witness and Transparency International, aim to draw attention to issues that capture consumers' interest, including the exploitation of natural resources, human rights abuses, and corruption. The openness of a company with respect to these issues is key – opacity creates the impression that there is something negative to hide. For example, companies that receive the most favorable scores in the Transparency International (TI) study, "Report on Corporate Transparency," are also rated as less corrupt in another TI report, the "Corruptions Perceptions Index."[6] The inverse is also true, where a lack of transparency correlates with a higher perception of corruption.[7]

Transparency increases customers' confidence in a company brand. For instance, clear policies on the handling of personal information can help the public understand the safeguards put in place to protect the security and use of that data. When customers feel they are fully informed about how an organization will use their information and that they can retain control of that use, they are more likely to do business with that company.

Tone

Tone centers on how people communicate and what they say. It is also reflected in the actions that people take. If an employee is told by their manager that the company values ethical behavior only to see the manager engage in theft or fraud, the message will be lost.

Tone is also generally established when employees are rewarded for doing the right thing and wrongdoing is addressed swiftly and consistently. Essential to this process is encouraging reports of misconduct and protecting whistleblowers from retaliation. In the National Business Ethics Survey, misconduct fell from 65% to 63% in 2013, but retaliation rates are still as high as 21%. This suggests that rates of misconduct and retaliation are still at troubling levels globally and are issues that deserve attention in most corporate cultures.[8]

Alignment in tone across all levels of the organization inspires confidence in employees because there is a unified message and consistent enforcement of rules and policies.

Training

Remember that employees are consumers too, and the challenge of articulating a working definition of ethics and integrity isn't checked at the workplace door. Training, therefore, is crucial to ensure that the values of the company align with employees' attitudes and approaches. Training provides an avenue for delivering resources that set expectations, establish procedures, and convey the attitude of the business. Employees are representatives of the company as a whole, and their daily interactions with customers, suppliers, and other co-workers are the manifestation of the values of the company. Successful companies regard training as a not-to-be-missed opportunity to maximize the contributions each employee can make to the business objectives and overall success of the organization.

Establishing a learning culture – one that is nimble, responsive, dynamic, and forward-looking – capitalizes on the role of training and its place in the overall business strategy. In a learning culture, employees continually develop new skills and constantly align their behavior with the values of the organization. Accountability is considered a measure of success, and innovation is the result.

How does a learning culture reinforce the ethical approach?

An organization that successfully adopts a culture of learning is best positioned to adapt quickly and improve continuously.

A learning culture…
- demonstrates that the company is always seeking to improve and respond to issues in a constructive way.
- encourages employees to challenge their own assumptions, to ask questions, and seek better ways of doing things.
- is one where employees are not penalized for trying new things, suggesting improvements, etc.
- helps to establish employee accountability and create trust between all levels of the organization
- continues to improve by analyzing both its successes and failures and channeling that understanding into innovation.

[6] Transparency in Corporate Reporting: Assessing the World's Largest Companies. Transparency International. 2014.
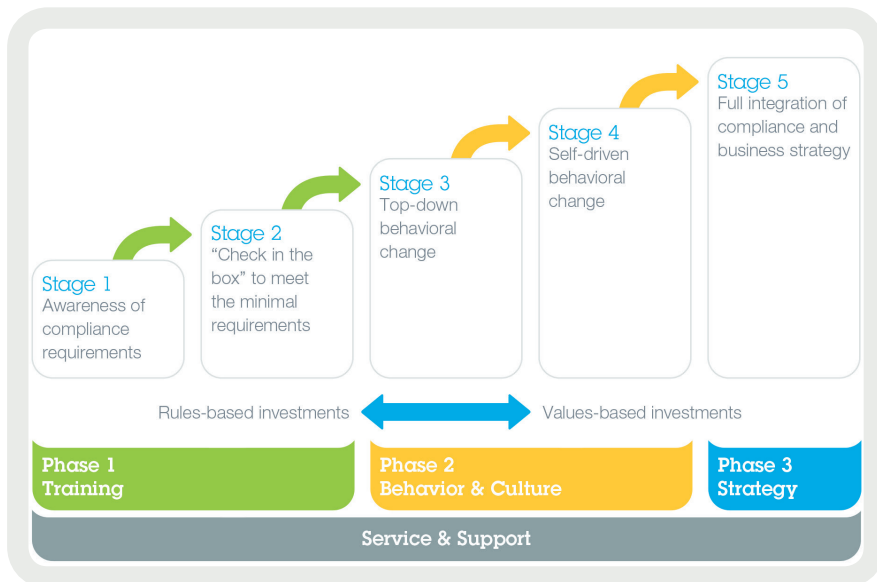
[7] Corruption Perceptions Index 2014. Transparency International. 2014.

[8] National Business Ethics Survey of the U.S. Workforce. Ethics Resource Center. 2014.

Fundamental to this process is operating within an ethical framework. Therefore, comprehensive compliance training remains a key part of the overall business strategy by aligning employees across all levels of the organization to the same high standard of ethical behavior.

Leveraging over 20 years of experience, Skillsoft combines a proven learning strategy with a scalable implementation methodology that is suited to companies of all sizes and geographic footprint. To learn more about how Skillsoft approaches compliance, read "Integrating Compliance with Business Strategy: The Skillsoft Compliance Maturity Model™."

The Skillsoft Compliance Maturity Model™

Stage 1
Awareness of compliance requirements

Stage 2
"Check in the box" to meet the minimal requirements

Stage 3
Top-down behavioral change

Stage 4
Self-driven behavioral change

Stage 5
Full integration of compliance and business strategy

Rules-based investments ⟷ Values-based investments

**Phase 1
Training**

**Phase 2
Behavior & Culture**

**Phase 3
Strategy**

Service & Support

For more information or to learn more,
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