Building an effective business ethics process
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Ethics

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BUILDING AN EFFECTIVE BUSINESS ETHICS PROCESS

In any organization, a good business ethics process is the first and most important line of defense against unethical or illegal activities. Stated simply, controls and auditing efforts are much more effective when the ethics and integrity of the organization and its management can be affirmed.

Good managers are sensitive to the costs associated with a poor ethical climate. By any measure, loss of confidence in the organization is the single greatest cost of unethical behavior. Internal costs, by some estimates, run as high as $5,000 per employee.

Some of the drivers of these costs are: deterioration of relationships, often resulting in a damaged business reputation; declining employee productivity due to self-protective behavior; displaced employee creativity; ineffective information flows throughout the organization; declining employee loyalty and high employee turnover and absenteeism; internal theft and defalcations.

A good business ethics process contains four key components:

Ethics process management. Managers do more than just set the tone at the top—they manage, monitor, and improve the organization's ethical performance on a continuing basis. They also build incentives that advance good business practices without sacrificing the organization's economic performance.

Ethics code and mission. Employees take ownership of the ethics code and mission, which convey the organization's ethical values in clear and concise language, provide direction about how to implement the code, and help individuals resolve ethical conflicts in everyday business practice.

Ethics training and awareness. Ethics training and awareness programs are delivered to all employees to make them sensitive to their ethical roles in the organization, improve their decision-making capabilities in the presence of ethical dilemmas, and help to establish goal congruence between employees and the organization.

Upstream communication. A formal upstream communications process is established to enable employees to obtain guidance when faced with ethical dilemmas, report wrongdoing, and make suggestions about how to improve the business ethics process. The communications process provides anonymity to employees and security against negative repercussions from its use. It is accessible by all employees, and allegations are investigated and resolved in a timely manner.

THE ROLE OF FINANCIAL MANAGEMENT

Financial managers who choose to be proactive on the ethics front should be looking for ways to monitor and improve their organization's business ethics process.

As a starting point, senior financial executives, such as the CFO or corporate controller, may find it valuable to engage outside professionals—ethics experts, auditors, or consultants—to provide an objective assessment about their company's business ethics process with respect to the existence and effectiveness of key components. As a result of growing demand for these services, professional auditing firms are well equipped to review an organization's ethics practices using evaluation tools, interview and survey methodologies, industry standards and best practices, and ethics process performance measures. In addition, internal auditors can assess, review, and report on the ethical compliance activities within their organization.

Financial management should attempt to gauge the ethical and legal vulnerabilities that can exist within core business processes. A systemic assessment of these vulnerabilities could be performed periodically by management accountants in concert with the company's auditors, general counsel, and ethics officer with a confidential report of ethics-related business risks being communicated to top management or the board. Then financial management should work closely with the board to mitigate or monitor these vulnerabilities.

Because the tone at the top is critical to an effective business ethics process, financial management should assess the effectiveness of downstream communications that pertain to ethics policies and procedure, including the ethics code, ethics mission statement, and training programs. The goal of this assessment is to determine if internal communications that relate to the company's ethics convey the organization's core business values in a clear, consistent, and effective manner.

One of the most effective ways to learn about organizational wrongdoing is to have a formal process for capturing complaints by employees, customers, vendors, and other key constituents. Internal and third-party hotline services have emerged to provide a means to communicate ethical or legal violations anonymously to company management or an ombudsman. But the mere existence of a hotline does not guarantee that the allegation will be disclosed to the appropriate management personnel or the board. Thus it is incumbent on management to understand if its organization's upstream communication process is effective at detecting and deterring wrongdoing.

Management accountants and financial managers are in a unique position to promote and advance an effective business ethics process that not only empowers people to resolve ethical conflicts and problems but develops an ethical sensitivity in employees.

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