Essential Guide to Business Ethics

From DeltaNet International

Business ethics defined

Acting in an ethical manner means knowing right from wrong and choosing to do the right thing for the right thing's sake (even when no-one is watching). True outside of work as in a professional setting, an ethical person will decide to do the right thing even if it means losing out or taking the harder, longer path to success – after all, it's better to do the right thing and fail than to succeed via unethical practices.

We can think about business ethics as the moral principles that underline all aspects of an organisation's operation. They will influence its interactions and transactions, both externally and internally, and they will shape its values, targets, and activities.

Business ethics concentrate on the ethical principles, and the moral or ethical problems, that can arise inside a business environment. Often when we're at work, it's easy to see right from wrong (e.g., stealing from the company or providing staff with unsafe working conditions). However, sometimes, business ethics exist inside a grey area, and that's when things can become tricky.

After all, if a company makes fantastic profits one year, should they pass savings onto their customers, or continue to rise their prices to make more profit and help secure the company's future? If another company 'entertains' a group of prospective clients with box-tickets to the tennis and an all-expenses paid meal, how closely does this brush-up against bribery and corruption? Or should an organisation that sponsors an awards event be eligible to win a prize at the ceremony?

Speaking on the matter, our MD Darren Hockley said: "It's true that business contains grey areas for many people. We're confronted with a wide range of ethical dilemmas on a daily basis, combined with the pressure to meet targets, make profits, and keep our stakeholders happy.
"But this is exactly why it's so important for leaders to set the right tone from the top – even about things that may appear small or inconsequential. It's in these little, everyday decisions that we have the power not to let unethical practices take hold and grow, which can be very damaging for the organisation in the long run.

> **"Instead, leaders might look to develop a corporate culture which fosters and strengthens people's moral compasses and set about encouraging an open and trustworthy management-style that allows for discussion about any grey zones."**

Why have a code of ethics?

A code of ethics sets the ground-rules for decision making for the people who work with or for your business. Essentially, it's a form of self-regulation that employees and third parties agree to abide by for as long as they represent the company.

Having a code of ethics is a little bit like giving employees a roadmap; the code offers guidance and reassurance on which route to take when faced with an ethical dilemma. It acts as the ethical foundation upon which employees of the business can base their decisions, helping them to make the right choices every day..

Of course, no policy can cover every eventuality (and which examples of ethical behaviour you choose to cover in your code will depend upon the specific ethical risks your company faces). Nevertheless, having a code of ethics is a useful touchstone for employees to have. Through familiarity, it frames and shapes ethical, informed decision-making – even in instances it doesn't directly exemplify.

Creating a code of ethics as a business leader is your chance to define your own standards of what is considered acceptable conduct, in line with the core ethical values and fundamental beliefs of the business. These are the impressions that you want consumers, customers, and other key stakeholders to take from the company, so it will also function as a kind of reputation-management tool.

Remember, your code should be relevant, relatable, and should resonate with the stakeholders and communities in which you are operating. To achieve this, it's vital that your leadership team understand and demonstrate behaviours in line with your code of ethics on a daily basis and that they can share examples of ethical dilemmas they've dealt with in the past

By following the code and modelling the highest ethical standards themselves, business leaders set the right tone from the top, helping to build trust between employees, the leadership team, and your clients, simply by doing what you say you will do. In return, your employees (who are often customer facing) are much more likely to learn by watching than by being 'told what to do'.

Remember, the assessment employees make regarding the ethical character of those they work with and for helps everyone in the company understand how their day-to-day decisions contribute to the shared values of the business. In turn, this helps to build a culture that respects people, protects the organisation's reputation, and contributes to the common good.

Where Ethics Meets Compliance

It's a question often asked in the business world: 'what is the difference between compliance and ethics?'.

It's a tricky question since many companies align the two with departments or job roles devoted to 'compliance and ethics', whilst others choose to purposely separate these fields, keeping compliance (as it refers to laws and regulations) firmly partitioned from ethics (which goes beyond what the law requires, and has no universal rules).

Still, it helps to think of the fields of ethics and compliance as complementary - though not interchangeable - forces. It makes sense that ethics should always be an integral part of compliance, helping to push it beyond a mere box-ticking exercise into something more overarching and, ultimately, much more effective (namely, a culture of compliance wherein ethical standards are valued).

After all, acting in accordance with high standards of ethics, e.g., being trustworthy, honest, respectful, and behaving with integrity, naturally leads to high levels of compliance. Indeed, demanding compliance without instilling these values would be a mistake and doing so can take a significant toll on businesses and the effectiveness of their compliance programs.

Disconnecting the act of compliance from the company's core ethical values removes its moral and cultural context, and this can make compliance training feel arbitrary, patronising - even demoralising - for employees. Of course, a disengaged, disillusioned workforce only increases the chance of non-compliance, additional training, and ultimately, increased regulatory costs.

> " Remember, in an ethical workplace, we don't follow the rules simply because we are told to, we do it because it's the right thing to do. And this is so much more powerful. "

Characteristics of an Ethical Culture

Inside an ethical business culture, employees are taught that doing the right thing matters. Here, leaders do not value profit, gain, power, or pleasure above what is ethically responsible, but consciously choose the right path. They lead by example and encourage this tone from the top to trickle down across all areas of the business.

Here, an ethical climate is communicated through the organisation's core values and mission statement. In all ways, members of staff know and understand that doing what is right is expected of them; it is coded, if you will, into the structure of the business. Each employee understands his or her part in contributing to the company's ethical mission and can speak openly with management about any ethical dilemmas they encounter. Ethics transcend self-interest, and so, inside this ethical business, all staff members take accountability for their own decisions and are encouraged to own up honestly if things go wrong.

Integrity is an important characteristic of this ethical culture, and employees are offered compliance and regulatory training, not as a 'once and done' box-ticking exercise, but as a continual process of learning, risk management, and upskilling designed for everyone's benefit.

Additionally, employees are treated fairly here; managers communicate with them openly and honestly, their work environment is safe and clean, and they are compensated fairly for their work, skillset, and years of service. Customers and vendors are offered competitive pricing and are paid on time.

An ethical workplace is a respectful workplace, and here, each employee's opinions are heard and valued equally. Employee's personal time and space is respected too, and loyal relationships with the company are mutually beneficial, never one-sided. The business also shows respect for its customers by listening to feedback, assessing needs, and making changes where possible. Due to this, vendors and customers remain loyal to the organisation, knowing it to be a flexible and reliable company.

An ethical business stays loyal to its partnerships even when times get tough. It respects the community in which it operates and the general public it comes into contact with. Staff are encouraged to be environmentally responsible, just as the wider business makes decisions and purchases that are as green as possible, protecting our environment and public health.

Putting ethical design into practice: areas to consider

Below we'll look at some of common ethical issues you may encounter when operating a business, large or small.

Whilst not exhaustive, it's nevertheless useful to investigate these more frequently-occurring ethical dilemmas, and consider how our own cultures of ethics respond to and mitigate them.

Workplace discrimination and harassment

We recently conducted a study which analysed Ministry of Justice (MOJ) data concerning employment tribunals in the UK over the last 5 years. Worryingly, the results uncovered a 25% increase in the total number of claims brought against employers, and, in terms of case-type, the top three increases were all discrimination-based.

To mitigate this risk, it's important that all staff members are provided with continued learning to ensure they understand and can act accordingly with harassment and discrimination laws. Managers should be trained to monitor employee relationships and to stay informed in order to prevent any small infractions from becoming a larger problem. Infractions – depending on how serious – should either be treated with further education or disciplinary action (as laid out in your company's code of conduct).

On this note, it's important that the organisation does have clear company policies in place for dealing with complaints about discrimination and harassment at work – and that these policies protect the complainant, shielding them from retaliation and enabling them to speak openly and safely.

It goes without saying that workplace discrimination (negative treatment based on a protected characteristic, e.g., age, disability, gender, marital status, pregnancy, race, sexual orientation, or religion) and harassment (behaviour which is seen as offensive by the recipient, including unwanted conduct which has the effect of creating an intimidating or hostile environment, or violating a person's dignity) are deeply unethical practices. Both these actions are often based on groundless prejudices and the exist to purposefully treat certain staff members unfairly, putting them at a disadvantage.

Cases of workplace discrimination and harassment impact businesses by breeding ill-feelings, increasing staff turnover, reducing productivity, and, often, by ending in legal action and even compensation pay-outs.

Accounting Principles

Whether you employ a professional accountant, or simply keep your company's books in order yourself, accounting ethics is an important topic for businesses to address. Employees with access to company accounts are at risk of abusing this information if they don't act with due care, integrity, confidentiality, and professionalism. Additionally, financial professionals should stay up-to-date with the latest accounting news and data privacy standards as both an ethical and a professional value.
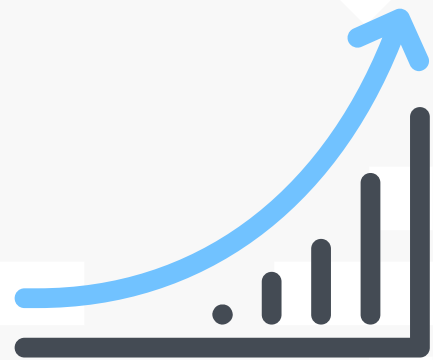
Falsifying financial documents, or withholding information (e.g., in order to pay less tax) is a serious offence by both ethical and judicial standards - and these actions can easily land your business in hot water in the form of lost customers, damaged business relationships, sullied reputation, fines, and even imprisonment.

Ethics when it comes to accounting practices is two-fold: involving adherence to regulatory guidelines as well as the careful assessment of unique situations, where professional judgment will be necessary. Having a code of ethics which clearly demonstrates ethical frameworks of independence, integrity, confidentiality and professional competence can help financial professionals make the right decisions day to day.

Data privacy

Data privacy is an ethical issue involving transparency, consent and the individual's right to privacy - all central characteristics of the Data Protection Act 2018 and GDPR.
It's important, as an organisation, to be aware about the ways in which you collect, share, and use your employees' and/or customers' data (which, for most organisations, will be digitally) and to have clear processes and guidelines in place for any employees that handle data.

Data protection refresher training should be offered regularly, bolstered by a strong internal ethics policy that ensures you are:

Processing data in a manner which is lawful, fair, and transparent and which maintains the data subject's rights.

⬇

Processing data only for the purpose it was collected – if your purposes change over time, or you have a new purpose which you did not originally anticipate, you may need to seek new consent for processing data.

⬇

Limiting the storage of data only to that which is strictly necessary and relevant. In the case that excessive data is (or has been) collected, the data should not be used and should be deleted securely.

⬇

Maintaining data records which are accurate and up-to-date. Where any personal data is found to be inaccurate, reasonable steps must be taken to ensure that such inaccurate data is deleted or rectified without delay.

⬇

Storing personal data only for as long as is necessary. Under GDPR, organisations must not keep hold of personal data 'just in case'.

⬇

Processing and storing data with integrity. Every reasonable measure should be taken to maintain the security and confidentiality of data and to prevent unlawful processing, loss, destruction, or damage of data.

⬇

Maintain a culture of accountability. Data controllers are responsible for and must be able to demonstrate compliance with, data protection laws.

Conflicts of interest

Conflicts of interest arise when someone's personal and/or financial activities have the potential to influence, or are perceived to influence, their decisions and actions.

A simple example might be a hiring manager whose close friend applies for a job at their organisation. In this case, the hiring manager could be perceived to be providing him or her with an unfair advantage over other candidates. This is because, as a friend, the hiring manager will already like and trust this person (as we tend to when it comes to our friends!) and, of course, we want to hire people we can count on.

It's important to remember that whether or not the manager in question intends to treat their friend any differently doesn't matter. The fact they are perceived to be in a position that could influence the outcome of who gets the job is enough to make this a conflict of interest. As such, one of the main problems with conflicts of interest in the workplace is the imbalance they create when it comes to the office dynamic – and the tension and suspicion that occur as a result. All of which can be decidedly damaging in the long term.

To help you avoid and deal with any conflicts of interest that's arise in your business, you might want to consider the following:

Provide methods for disclosure - your conflict of interest policy should detail ways for employees to be upfront and disclose potential conflicts of interests at the offset. It's good practice to provide more than one way for employees to report conflicts of interest, so you might think about using an online tool as well as a written form.

Your conflict of interest policy should also make provisions for those who want to report behavior that could adversely affect your business and its reputation. The person reporting the suspected behavior should have the right to anonymity and must also be free from any repercussions for speaking out.

Provide types and examples of conflict of interests - make sure you detail what constitutes a conflict of interest specifically in your policy and list different situations considered to be a conflict of interest, giving examples in practice. It's a good idea to follow up each example with an explanation as to why the behavior is unacceptable, providing your employees with a basis for understanding and cooperation.

Define who the policy applies to - in order to be fair, your conflict of interest policy needs to be specific and ought to include everyone working in and for the company.

Assign a person to 'own' your conflict of interest policy - HR is normally the best place to oversee your conflict of interest policy as they will be up-to-date with current employee-related legislation and best practice.

Social Media use

Whether used for work purposes or for fun during when off-duty, social media use is a growing area of concern in the field of business ethics. The anonymity and perceived informality of these platforms can spell big problems for businesses that don't offer social media awareness training to their staff and that don't have social media policies in place. Consequently, issues can arise including (but not limited to) the misuse of copyrighted content (or using content without permission), misuse of work time, misuse of company resources, risk to company systems and data, disparagement and/or harassment, and disclosure/exploitation of confidential information.

Whilst it may seem odd to involve the business in employees' personal time spent on social media, their presence on such platforms could cause ethical and security problems if guidance in this area isn't offered and regularly reinforced.

There are countless examples out there of employees unwittingly doing damage to their company's reputation, losing customers, and falling victim to cyber-attacks whilst using social media (sometimes whilst using work devices). As such, it's important that companies do create a clear, consistently enforced, social media policy for employees to follow (and be sure to have employees read and agree to your organisation's social media policy during the onboarding process).

Social media also rapidly evolves, so offer regular refresher training in this area to keep both the company's and your employees' data safe.

> Many employees cause damage to their company's reputation unknowingly through the use of social media

Hiring practices

Lastly (although certainly not least), it's important to consider the issue of ethics when recruiting for new staff. Of course, a candidate's ethics don't have much to do with their skillset or experience, and it's for this reason that strong ethics are arguably the number one most overlooked quality during the hiring process (even though most companies would say they highly value integrity, honesty, respect, etc.).

Hiring a team of ethical staff who share common ethical values with the organisation is crucial to the harmony and, therefore, the long-term success of the business. It can be useful, in this respect, to ask candidates situational questions that call upon them to make judgement-calls or principle-based decisions concerning various ethical dilemmas your business is especially interested in. For instance, you might ask how they would handle a situation where they observed a co-worker, employee, or even a manager stealing, or what they understand by the phrase 'equal opportunity'.

Ensuring your hiring managers are trained in this area is another important aspect when it comes to ethical hiring practices. Are they comfortable asking questions about ethics? Do they understand the company's core ethical values? Can they explain how business ethics is vital to the ongoing success of the company? Your interviewer needs to be comfortable with these areas and know how to handle any questions about them on behalf of the company.