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Corporate code of ethics

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Corporate Codes of Ethics

Corporate codes of ethics should set out rules for employees to govern their behaviour at work rather than specify a set of virtues which employees are expected to develop or cultivate in their working life, or prescribe a set of values to be expressed or realised in the corporation's culture.

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I argue that corporations should be regarded as intentional agents that are morally responsible for their behaviour. The cumulative behaviours of the employees constitutes the behaviour of the corporation, so in order to have influence over the behaviour of a corporation one need to have influence over the behaviour of the individuals who act on behalf of the corporation. I therefore argue that corporate codes of ethics should set out rules for employees to govern their behaviour at work. The alternatives might be to specify a set of virtues that employees are expected to develop or cultivate in their working life or prescribe a set of values to be expressed or realised in the corporation's culture. I do not think either would provide sufficient direction to employees on how to act in their professional roles. Virtue ethics do not tell us how to deal with ethical dilemmas, they only tell us what kind of people we should be. Value ethics may be important for creating and maintaining a cohesive corporate culture but are too vague to give directions on how to act when faced with specific problems. Moreover, memberships in collectives (e.g. being employed by a corporation) may influence people's ability to respond to incidents that occur and to acknowledge the power and responsibility associated with their professional role.

Full Paper

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I argue that corporate codes of ethics should set out rules for employees to govern their behaviour at work and that they be formulated so that they give a true reflection of the expressed standards and objectives of the corporation. I believe that the behaviour of the corporation is the cumulative behaviours of its employees – or anybody who acts on behalf of the corporation – and typically reflects the corporation's identity, as a unique agent, as well as the corporate culture. I argue that corporations should be regarded as intentional agents that are morally responsible for their behaviour. Therefore, in order to ensure corporate behaviour that is consistent with its expressed standards and objectives the corporation should set out rules for employees to govern their behaviour at work.

The alternatives might be that instead of setting out rules, corporate codes of ethics would specify a set of virtues that employees are expected to develop or cultivate in their working life or prescribe a set of values to be expressed or realised in the corporation's culture. In this essay I will argue that although values and virtues may be useful in guiding the agent in his/her/its own endeavours, neither are sufficient for

ensuring the behaviour of *other* agents. It is my belief that both values and virtues have the potential to motivate and become powerful driving forces for actions. However, they do not necessarily offer clear direction and may therefore allow for individual interpretations - and indeed misinterpretations. A driving force without direction may not ensure actions that lead to particular outcomes. I argue that rules provide direction. It is my belief that understanding (or even sharing) the values or virtues of another agent is not a sufficient condition for knowing *what* acts to perform and/or *how* to perform them.

Business ethics is a branch of applied ethics, also known as 'practical ethics', which may be thought of as the use of ethical theories for solving practical problems. There are several theories on ethics that may facilitate the development of policies and codes of ethics, although the theories in themselves might not be directly applicable to practical problems. I argue that in order to establish realistic modes of behaviour for those who act on behalf of the corporation codes of ethics ought to be formulated so that they can be of practical use for solving specific problems.

In my opinion, corporations that only specify a set of virtues or values without rules to offer directions on how to act are leaving their employees with no more than ethical theories that might not be directly applicable to practical problems. Virtue ethics do not tell us how to deal with ethical dilemmas, they only tell us what kind of people we should be. Value ethics may be important for creating and maintaining a cohesive corporate culture but are too vague to give directions on how to act when faced with specific problems. Ethical theories may, however, facilitate the development of ethical rules, but it should not be left to the employees to make interpretations according to

their own individual moral standards. Modes of behaviour for those who act on behalf of the corporation ought to be declared not just implied.

According to Murphy (1998), over ninety percent of large U.S.-based firms have written codes of ethics that are detailed discussions of the corporation's ethical policy and commonly addresses practical issues (p.4). In addition, Murphy reports that more than fifty percent have formal written statements in which they set out their corporate values (Murphy, 1998, p.2). This may suggest that many U.S.-based firms not only attempt to supply their employees with practical ethics, but also attempt to outline the values and/or virtues that give direction to those rules and from which they stem.

Most people trust their own judgement, and therefore they think that rules are more suitable for others than for themselves (Goldman, 2002, p.35). Trusting one's own judgement is important when acting in one's own interest, but when acting on behalf of others it might be wise not to be overconfident that one's own judgement will be the best guide on how to act. Moreover, research show that when people become members of a collective (e.g. in a professional role) they are more likely to conform to group norms rather than trusting their own judgements. People are believed to conform because they want to be correct in their judgements and they assume that when others agree on something, it means that they are right (Brehm et al, 1999, p.213).

Without rules or clear instructions outlining what is expected in terms of assignments or specific responsibilities employees may not necessarily be acting according to the standards and objectives of the corporation (even when they think they do). Therefore, I argue that rules are the best tools for influencing the behaviour of employees because rules have the potential to guarantee particular acts without demanding that values or virtues be shared.

I argue that individual employees who perform acts on behalf of the corporation should only have an indirect moral responsibility for those acts (as a general rule). In their professional roles individual employees are typically expected to act on behalf of the corporation that may not always be in accordance with their own independent moral standards. Moreover, employees may not always be fully aware of the impact their individual behaviour may have on the cumulative behaviours of the corporation. Corporations are collectives of whom employees are members and as such they may not feel responsible for the overall behaviour of the corporation and may not even acknowledge responsibility for their own individual behaviour (e.g. "I was merely doing my job" or "I was only following orders").

In order to be employed by a corporation a person will typically enter some sort of agreement to fill a certain role and to act in accordance with a prescribed set of behaviours that is associated with that position in exchange for a set salary and/or other benefits. Such agreements typically involve some measure of rights and obligations for all parties involved. Although the corporation may divide responsibility by assigning 'specific' responsibilities to employees with regards to certain jobs and/or certain people, I argue that the corporation still has the overall responsibility for the behaviour of the corporation.

I believe, however, that there are situations in which corporations may be justified in holding employees directly responsible for corporate acts. Such cases may include acts that were performed contradictory to corporate instructions and/or against the law. There are also certain positions within corporations that demand of the employee that he or she be held responsible for his or her acts. However, for such positions it should be clearly expressed and included in the particular job description, and sometimes even required by law of which the employees are aware. Common

examples might be the board of directors or the C.E.O., but there are other examples as well. An editor for a newspaper may be held responsible for what is written in the paper. There may also be cases in which corporations are required by law to identify a physical person or persons within the organisation that are responsible for the lives and well-being of staff (typically the personnel officer, and in some cases the C.E.O.).

According to French (1984), the extent to which moral, as well as legal, responsibility can be ascribed to someone depends on *what* that someone could have done in a particular situation (p.67). "It is important to know what a person's power was with respect to some event for which he is being held to account" (French, 1984, p.67). I would go even further and suggest that the extent to which responsibility can be ascribed to someone may depend on what power he or she *believed they had* in a particular situation.

In a dramatic series of experiments on obedience, Stanley Milgram put volunteers into a situation in which an experimenter commanded them to administer painful electric shocks to someone whom they believed to be another participant (Brehm et al, 1999, p.235). Results showed that sixty-five percent of the volunteers obeyed the commands to the point that had the shocks been real the person receiving them would have died. The remarkable thing about these findings is that whilst a lab-coated experimenter may not fit the profile of a someone who is a powerful figure of authority, "his physical presence and his apparent legitimacy played major roles in drawing obedience" (Brehm et al, 1999, p.235). Milgram also found that virtually all volunteers were tormented by the experience "Many of them pleaded with the experimenter to let them stop. When refused, they went on. But in the process, they

trembled, stuttered, groaned, perspired, bit their lips, and dug their fingernails into their flesh" (Brehm et al, 1999, p.235).

Another study found that hospital nurses were prepared to obey unreasonable orders from a doctor when told to administer a potentially harmful drug to a specific patient even though the order violated hospital regulations (Brehm et al, 1999, p.237). Ninety-five percent of the nurses that were asked had to be stopped as they prepared to obey the doctor's orders (Brehm et al, 1999, p.237). As in the case of Milgrams study, these hospital nurses clearly did not believe they had the power not to obey. It is also worth noting that the doctors giving the orders did so over the phone, using a fictitious name, which suggests that the power of apparent legitimacy required no verification, nor was physical presence necessary in order to draw obedience (Brehm et al, 1999, p.237).

In my opinion, corporations need to be aware that membership in a collective may have an impact on the behaviour of individual employees. I therefore argue that corporations need to make sure employees feel empowered in their professional roles and aware of their responsibilities. I argue that rules will provide a better support for individual employees thus preventing blind and potentially unsound obedience from occurring or conformity to norms that are not consistent with the standards and objectives of the corporation.

It is not uncommon for people to have membership in several different collectives and each of those may offer the individual different roles that are likely to influence his or her behaviour. For example, most people will (at least at some point in their lives) have had membership in one, or more family collective. Although each family member is likely to have some influence over the collective as a whole and over

other members, the extent to which family members are able to act according to their own individual judgements will typically depend on his or her particular role. Parents are generally the ones most likely to establish group norms whereas children generally are the ones most likely to conform to those norms. They are also the ones most likely to follow rules in cases when rules are applied within the family collective.

I believe that most people are capable of handling different roles due to memberships in different collectives, both simultaneously and over time. Those who assume the role of being a parent will no doubt have had the experience of being in the role of a child. I doubt that following rules as part of a particular role will diminish a person's ability for using his or her own individual judgement in his or her other roles. However, I argue that if a person was required to *share* particular values or develop a particular *character* in order to be a member in one collective, then that would inevitably have an influence on, and possibly diminish his or her abilities for assuming and/or maintaining roles in other collectives. Whilst arguing that corporate codes of ethics should be formulated into rules to govern the behaviour of those who act on behalf of the corporation I do not believe rules are suitable, or even possible, in all other areas.

In my opinion it is not possible to always ascribe responsibility for situations that occur even though we are expected to, or expect others to act on them. Some responsibilities are believed to be universal, i.e. they are held by all in society, and owed to all human beings (Petersen, 2002, p.21). This vague notion of universal responsibility includes to care about others and to show honesty, fairness, sense of justice and beneficence (Petersen, 2002, p.22). According to Goodin (2002), "What is no one's responsibility is everyone's. If it is right that something be done, and no one in

particular has been assigned responsibility for doing it, then we are all responsible for seeing to it that it be done" (cited in Peterson, p.22). This vague notion of universal responsibility may appear far more attractive than do specific responsibilities that are co-ordinated and parcelled out as formal rules or interrelated roles, etc (Peterson, 2002, p.27) The flip side, of course, is that what is everyone's responsibility is no one's. Moreover, the ability to choose our responses may also include the choice of not responding at all.

I believe that the extent to which individuals are likely to acknowledge responsibility for their own behaviour, or indeed the behaviour of a collective may depend on their membership and/or how they perceive their own role in that collective. One person may be the member of several collectives: family, work place, peer-groups, the local community, as well as a number of random collectives that may be created and dissolved without any particular agreement. Different roles may be associated with different types and/or various degrees of responsibility.

In 1964 Kitty Genovese was stabbed and sexually assaulted outside her apartment building while thirty-eight eyewitnesses chose not to respond to her calling for help during the forty-five minutes it took before she died (Brehm et al, 1999, p.352). Each witness could see that many other witnesses were looking and therefore they may all have assumed that someone else would, or should, take responsibility and call the police (Brehm et al, 1999, p.352). One might argue that since no one in particular had been assigned responsibility for calling the police, it should have been the responsibility of each and every one of these witnesses to make the call or seeing to it that it be done. As it turned out, no one did. What was no one's responsibility and therefore should have been everyone's was instead mistakenly dismissed as being someone else's.

Research done in the aftermath of the tragedy found evidence for what today is known as the 'bystander effect', which is the discovery that individual human beings respond differently to emergency situations when they are on their own than they do when they are among other people (Brehm et al, 1999, p.352). These findings may support the argument that it is a function of the human nature that when individuals become members of a collective they may not always be aware of how their individual behaviour (or non-behaviour) contributes to the cumulative behaviours of the collective. The chilling conclusion from the research conducted after the murder of Kitty Genovese suggests that she would have had a better chance of receiving help, and might even be alive today, if there had been only one witness to the attack rather than almost forty (Brehm et al, 1999, p.352).

It is unlikely that this incident could have been anticipated. It is also unlikely that the creation of this random collective could have been anticipated. Therefore it may not come as a surprise that the collective lacked internal organisation and that no member had been assigned a specific role or responsibility on how to deal with the incident. Corporations, by contrast, are seldom regarded as random collections of people who just happen to be together in the same place at the same time. I argue that the creation of a corporation is always intended, and that most incidents that occur may be, if not intended, at least anticipated. Therefore, I argue that corporations both have the capacity and the obligation to ensure that its members, i.e. its employees, are given practical guidelines on how to respond to incidents that occur.

Individuals may face moral dilemmas in their role as employees that are not always the straightforward ones of choosing between right and wrong, but often the much more complicated dilemmas of choosing between right and right (Handy, 1994,

p.83). Individual employees who operate according to purely personal ethical standards may affect the stability and predictability of the corporation, not necessarily because they behave unethically, but because their behaviour may not be in accordance with the ethical standards and/or the strategic direction of the corporation. An individual act that is harmless may have cumulatively harmful results (Goldman, 2002, p.5). Moreover, behaviour that would be morally permissible for individuals may not always be morally permissible for corporations, and vice versa.

I agree with Drucker (1984) "because the corporation is an institution it must have a basic policy. For it must subordinate individual ambitions and decisions to the *needs* of the corporation's welfare and survival. That means that it must have a set of principles and a rule of conduct which limit and direct individual actions and behaviour" (cited in French, p.43).

One of the criticisms of rule-based ethics is that they are not practical because to apply them in any particular situation requires virtues. My response would be to state that virtues are not required for *applying* rules (although they may provide them with meaning and motivation). Virtues may, however, be essential when *formulating* rules. In order to decide how employees should behave when acting on behalf of the corporation, it may be essential to first decide on a set of virtues to define the character of the corporation or a system of values that my guide corporate acts. But regardless of the terms by which corporations chose to formulate their own ethical standards, they will need to be translated into rules in order to be communicated to their employees thus ensuring corporate acts that are consistent with corporate standards.

I have no doubt that formulating a set of rules can be hard work. It may also appear impractical and perhaps even unnecessary to someone that already knows how

to act (e.g. the person or persons formulating them and/or the person or persons deciding on them). It may therefore seem a lot more practical and far less time-consuming to simply point to a list of virtues or values, or even worse: to tell employees to use their common sense! However, to state that it is not practical to *apply* rules is, according to my opinion, false.

Another common objection against rules, and a possible reason why corporations might argue against adopting ethical rules might be the need for flexibility due to constant changes occurring in the corporate world, which in my opinion is the precise reason why rules are necessary. Major changes such as mergers and take-overs are likely to affect the corporate identity, and certainly the corporate culture. The standards and objectives of the corporation may change or no longer apply, but even if they were to be intact employees are still likely to feel disorientated and confused due to the altered conditions in their role and/or work environment.

Even minor changes such as reorganisations within the company due to cut backs, or the introduction of a new product range may cause disorientation and confusion among employees. I argue that rules represent stability and give employees enough direction to focus on the tasks at hand, even though they may temporarily (or indeed permanently) lack clarity regarding the standards and objectives of the corporation.

It is my view that individual employees that have adopted corporate values or virtues, i.e. adjusted their own character to fit the corporation, will run the risk of becoming ‘outdated’ as a consequence of major changes in the organisation. As a result those individuals may need to be either replaced or have their character re-developed according to new ethical standards. Having a rule-based code of ethics may therefore,

especially in times of change, be a more practical option for the corporation not to mention a far less painful and/or invasive option for its employees.

Without rules to help simplify moral reasoning, errors are more likely to occur than not if all relevant factors are not taken into account (Goldman, 2002, p.4). I agree with Goldman (2002) that the skills needed for moral reasoning by far exceeds those involved in knowing a set of rules and being able to apply them to cases that fall under their stated conditions of application (p.171). The use of such skills ought to therefore primarily be directed towards areas that are likely not to be covered by rules, such as policy-making, strategic planning, product development, or other areas that may involve the covering of new grounds. However, tasks that are repetitious and likely to recur would, in my opinion, not need moral reasoning since that would be like keep re-inventing the wheel, as it were. It is therefore my belief that it would benefit both the corporation and its employees to have rules to guide corporate acts thus ensure moral behaviour that are consistent with the standards of the corporation. The process of moral reasoning without rules has been described as follows:

> "First, we must specify those factors that are morally relevant in a case. If the case is controversial, as it will be if reasoning about it is required, these factors will involve competing values or interests that must be prioritised in choosing the appropriate action. Their recognition requires both information about the context at hand and unbiased but emphatic identification with the interests of those individuals involved or affected. We must know how the situation developed, which alternative actions are available to us in it, how they are likely to realise or frustrate the competing values at stake, and how

> the individuals involved are likely to feel and react to our possible actions. The correct description of the situation and its history may, of course, itself be a matter of considerable dispute, and the specification of alternative actions may require imaginative ingenuity" (Goldman, 2002, p.168).

Moreover, moral reasoning in a collective sphere requires that acts are consistent, both with the purposes behind them and the values they express (Goldman, 2002, p.150).

Being an intentional agent is a necessary condition for engaging in moral reasoning. Corporations are collectives in which individuals become members in standardised ways, one of which is by being employed, thus people who are employed by a corporation are also members of that collective (French, 1984, p.14). A membership in a collective typically involves being in the presence of other people and it is often in the presence of others that we may be subject to conditions that may diminish individual responsibility. Moreover, "there are times when individuals, faced with an ethical dilemma, want to do the right thing based on their own values, but are overwhelmed by social forces to comply with the values of their boss or prevailing culture" (Brief et al. cited in Beu & Buckley, 2001, p.5). Therefore, I am suggesting that at least some of the reasoning that occur among individuals in corporations, in the absence of rules, might not involve all the steps and considerations needed in the process of moral reasoning as outlined by Goldman. It might not even be aimed at finding moral solutions to specific problems, but more likely be aimed towards conformity.

In this essay I have argued that corporations should be regarded as intentional agents that are morally responsible for their behaviour. The behaviour of the corporation is the cumulative behaviours of its employees, so in order to have influence over the behaviour of a corporation one need to have influence over the behaviour of the individuals who act on behalf of the corporation. Rules are, in my opinion, the best tools for trying to influence the behaviour of other agents because they provide direction thus having the potential to guarantee particular acts without demanding that values or virtues are shared.

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