

**NACM - CREDIT AND FINANCIAL DEVELOPMENT DIVISION**

**Business Ethics 101**

# Leader Handbook

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Business Ethics 101

Business ethics . . . . . . Is that a phrase like . . Military Intelligence? . . . Does corporate America understand Ethics?

Webster says, “Ethics deals with what is good and bad and with moral duty and obligation – principles of moral conduct governing an individual or business.

Moral – the principles of right and wrong in behavior – involving and depending on one’s conscience and ethical judgment.

MORAL – ETHICAL – VIRTUOUS – RIGHTEOUS – NOBLE . . . . not the usual verbiage used to describe the philosophy of business today.

What are Ethics? Where do they come from? Why are they important to me? How do they affect my life? Why do they have an effect on my job? Who decides what is ethical?

The public is bombarded by the media today. The news is presented to the nation with the media’s ethical values. . . such as they are. Was that person, company, or decision fair? Just? Responsible?

Our government has tried to legislate ethics and morality with new laws and sentencing guidelines.

Ethics or ethical standards, actions and ideas reflect what is basically right and good for people and society as a whole.

Where do ethics and ethical values come from?

Influences in our lives from:

Family

Peers

Life Experience

Environment

Moral values are part of every living person. They are developed by each individual through the influences that are present in their lives, family values, peer pressures, life experiences and environment. These values are combined with decision-making theories or doctrines to establish the ethical values of each individual. These doctrines are:

Rule-Bound The Golden Rule rules

Do unto others as you would have them do unto you!

Utilitarian Actions have consequences

You reap what you sow! That will come back to haunt you!

Loyalist There is someone or something that is first in

importance for Everyone!

Where your treasure is there will be your heart also!

Prudent The long-term advantages outweigh the short-term.

Tis the part of a wise man to keep himself today for tomorrow, and

not venture all his eggs in one basket.

Save for a rainy day!

Virtuous My reputation, my image, to others is the most

important

Have regard for your name for it will stay with you longer than a

great store of gold.

Intuitive How I feel at the time rules

It is the heart always that sees before the head can see.

If it feels good, do it!

Empathetic The feelings of others are most important

I am my brother’s keeper!

Darwinian Survival is most important

Self-preservation is the first principle of our nature.

Irrational barriers and ancient prejudices fall quickly when the

question of survival itself is at stake.

All these doctrines or value judgment theories have an effect on decisions you make. . .any time. . . about anything.

These attitudes will be reflected in a corporation or company’s ethical behavior patterns as well. They will affect how that corporation perceives others and how they are perceived. We expect certain ethical behavior from a business. Its policies and procedures will determine whether the corporation has chosen to be ethical in operation, attitude, and motivation.

It is expected that business will exhibit:

Fairness Employee situations

Quality Customer relations

Dependability Supplier relationships

Trustworthiness Leadership patterns

Responsibility Community standards

Ethics are built on four fundamental values:

Respect Understanding

Caring Fairness

It will be difficult for any company to build business policy on moral values. Traditionally, business operation has been built on PROFIT, plain and simple! If we don’t make money, why do it?

Mergers, LBO’s, buyouts, all make ethical business operation difficult. Small, family-owned, businesses have more reason to operate ethically because there is a personal interest present in everyone for the welfare of the business and the employees. Can corporate America use that same responsible attitude to base its operations on?

Most business leaders believe that ethical conduct and decisions will ultimately lead the business to more profit, better employee performance, and a commitment to contribute to the community as a whole.

**How Do Ethics Affect Business Operations?**

*Opportunity for audience engagement:* By a show of hands, how many of you have a code of ethics?

Management is the key to making ethics a part of corporate operation. Ethical standards and policies and procedures in business operation would have a trickle down effect. That effect would be apparent in all phases of business operation and philosophy. Figurehead management, outrageous expenses and bankers hours would disappear with an ethical management focus.

A Code of Business Ethics for any company will have an effect on the business in direct proportion to the commitment the employees and management have to that code and its enforcement, the willingness of each individual to make what is “right” the basis for every thought and action. . . every day,. . . in every way.

The effect of that kind of commitment should be, more efficient operation. Employees could be expected to demonstrate a desire to invest themselves and their time and talents more willingly in the day-to-day operation of the business. This would be done with the knowledge that they would share in the end results of their efforts along with the company and its management.

**What Would Be The Results Of Ethics In Business?**

The majority of businesses uphold ethical standards in their operations. They provide a safe workplace for their employees and a sound product for society. They obey the laws that govern how business is done in our nation.

In today’s business world, we have had real-life examples of what can happen to companies that do not follow the guidelines set forth. As a result, Corporate America realizes they must have policies in place to assure long-term viability and continued growth. When companies “do the right thing,” the results have an effect on everyone they deal with. This includes their employees, customers, vendors, and ultimately, their own company.

Employees will reflect the ethical attitude of the corporation when they believe that they and their welfare are of an utmost importance to their company. Their pride and self-assurance will be apparent within the workforce. Customers and clients want to deal with a company that displays a high standard of ethics within their business operations, as this gives them a feeling of security about their business transactions.

Likewise, vendors and suppliers are more willing to invest their time, products and resources into a customer who has a focus on ethics within their business operations. As a result, each of these parties share in the end result, which is growth of the company.

**How Does It Work?**

As stated earlier, ethics must start with your top management team and be enforced through policies and procedures. Once these policies and procedures are in place, it would be the responsibility of management to demonstrate the importance of an ethical operation. The new ethical focus would be evidenced by their actions and attitudes. These would have a trickle-down effect to the employees, suppliers and community. It won’t happen overnight, but it will happen.

Teamwork becomes the foundation of ethical business operations at the grass roots level, giving every employee decision-making opportunities and stakes in the outcome of their decisions. Teamwork, committees, advisory boards, etc. can be the instrument that puts the new focus into action. This is important because those who do the day-to-day work are the ones who not only see problems, but also have ideas for viable solutions to these problems.

Employees from each level of authority in the workplace may see a problem from a different perspective. Getting people involved from these varied levels of authority or personal involvement in the decision-making process may give a new perspective to management. It is a revolving view of business, a look at the whole problem and perhaps from another angle.

It is a common practice in business today for large corporations to have or form advisory boards made up of their employees, and possibly even vendors, and customers. These representatives give other perspectives of the things that are “right” or “wrong” in the business and how it is operated.

These groups are able to help create solutions for many situations that occur in the business operation. These decision, ideas and suggestions will contribute to the development and implementation of the “ethical” policies and procedures that drive the company by virtue of their form and existence.

**Keys to Ethical Action**

Now, let’s look at some of the key components leading to Ethical Action.

One idea is to set incentive standards that reward for performance that helps the company be more effective and efficient. Can you think of some examples of this? (Suggestion boxes, etc., with potential rewards, such as a gift card or company logowear for ideas that are implemented).

Give special recognition to employees who perform well above the average on their job. One possibility might be to develop an award or title for these recipients, such as a memento that is passed around or a small award they can keep.

Allow employee input when setting standards for job performance in the workplace. How many of your companies allow employees to have a part in setting their own goals for the year?

Be realistic in expectations when setting goals and standards for middle management to achieve efficient and effective company operations. But, don’t sandbag either. It should be somewhat challenging yet attainable.

Remember, as the standards of quality are increased, the company must be willing to pay more for a quality-capable workforce. This can require additional resources.

**Government Regulations**

**Federal Sentencing Guidelines**

Even before Watergate, there was a move for more legislation to encourage, even force, business to operate ethically. As credit professionals, we have seen the inception of the Fair Debt Collection Practices Act, the Equal Credit Opportunity Act, and the Anti-Trust Laws – The Sherman Act, The Clayton Act, The Robinson-Patman Act, and the Federal Trade Commission Act. Federal sentencing guidelines have been in place for some time. In 1991, the Federal Sentencing Guidelines were amended to add sentencing for companies based on a point system, allowing certain factors to lessen penalties.

These guidelines for organizations provide incentives for corporations to consider more fully the advantages of internal compliance programs, ethical business policies and procedures.

The items considered by The Sentencing Commission to determine if a corporation used due diligence are:

1. Did the company have standards and policies for its employees to use to make daily business decisions?
2. Did the standards produce a mode of operation that was capable of educing criminal conduct?
3. Did management personnel have the responsibility of overseeing the compliance program?
4. Did the company delegate responsibility of oversight to those who don’t have the propensity to engage in illegal activities?
5. Did the employees receive the information in an easy to understand format?
6. Did the company try to achieve compliance with its own standards and procedures?
7. Did the company show consistency in its enforcement of the compliance program?
8. If an offense occurred, did the corporation move quickly to make modifications in the compliance program so that the offense wouldn’t occur in the future?
9. Did the corporation have a program in place that is appropriate for its size?
10. Did the program cover areas where the company is the most vulnerable to infractions?
11. Did the company show diligence in reporting any infraction to the proper authority and cooperate with the investigating agency?

**Areas of Risk**

1. Documents and Records
   1. Preparation
   2. Guidelines for uses
   3. Retention
2. Conflicts of Interest
   1. Employees and management
   2. Customers or industry
3. Insider information
   1. Stock
   2. Prices
   3. Quotations
   4. Products
   5. Warranties
4. Gifts and Gratuities
5. Expense Reporting
6. Use of Confidential Information
7. Computer
   1. Programs
   2. Passwords
8. Price Fixing
9. Unfair Methods of Competition
   1. Untruths about a competitor
   2. Untruths about a competing product
10. Workplace Safety
11. Environmental Controls
12. Product Safety
13. Consumer Protection
14. Political Contributions
15. Securities and Investments
16. Fair Employment Practice

All these areas demand an ethical guideline for decisions that determine how they will be handled.

Each of these areas has a cause and an effect. What is good for the community is the attitude that should prevail. Good for the community is good for the business.

**Making It Work**

1. COMPLIANCE – The Company and the employee must comply with the rules, the laws, and the policies and procedures of the company. The traditions, customs, and morals of the community must be adhered to as well as an overriding concern for fairness.
2. CONTRIBUTIONS – Business has a fiduciary responsibility to make a contribution to society. Quality products, outstanding services, good working environment, and opportunity for all employees is not negotiable. There must be something contributed to the community through the general activities of the company and its employees.
3. CONSEQUENCES – There are consequences for all things we do and say. There must be consequences for the company and its employees as well when they do not comply with the ethical standards that dictate good taste and community contribution.

**The Pursuit of Excellence**

Everything we have talked about to this point leads us to one aspiration: excellence. Excellence in our relationships, our goals and objectives, our activities, our performance, and our decisions.

When excellence is the objective, you follow several steps to reach that point:

1. Do things the right way the first time. Don’t take short cuts and hope for the best.
2. If you become aware of a problem, it’s yours. Own it. Don’t pass it on to someone else just because you may not think it is “your job.” The glory of the solution will also be yours.
3. Don’t make excuses. Instead, make decisions. Make things happen.
4. Don’t go around an issue that has an ethical problem. Skirting the issue won’t solve the problem. Face it now or face it later. It’s yours, so “just do it.”
5. Every obstacle is really an opportunity for you to stretch and grow yourself and attain successes. An obstacle is what you see when you take your eyes off the goal you originally had. Keep your eyes on the goals! And hold out for the successes.

**Ethical Problem Solving**

Let’s look at some ethical problems and decide how we would handle them. Here are some guidelines for deciding if an issue has an ethical basis for a decision.

# How To Define An Ethical Issue

1. What is the problem? (Someone give us an example of what you think might be an ethical issue).
2. Is it an ethical problem?
3. What is the ethical basis of the problem?
   1. A legal issue, such as fraud, etc.
   2. Conflict of interest
   3. A question of rights
   4. A question of fairness
4. Whose problem is it?
   1. The company
   2. The employee
   3. The industry
   4. The community
5. Who is affected?

# How To Create An Ethical Solution

1. Limit the solutions or alternatives
2. Test the solution
   1. Is it legal?
   2. Is it moral?
   3. Does it go against tradition?
   4. Is it realistic?
3. Determine how will the solution affect the company or employee and their image

# Ethical Dilemma Quiz

Are these situations ethical?

1. A situation occurs that make a fellow employee look very incompetent. The employee is terminated. You find information that the employee was not at fault. The boss hires an old friend to fill the position.
2. There is an employee in the department that is very difficult to work with. The supervisor gives the employee a “Politically Correct” recommendation and that employee is promoted and moved to another department.
3. Your supervisor decides to terminate an employee in the department. You are requested to write a derogatory evaluation to help support the decision to terminate the employee. You write the evaluation.
4. One of your employees has made an error in judgment that has been costly to the company in dollars and image. You know that the employee has promise. You are told that the employee is to be terminated.

**Ethical Company Performance**

I have found that my company is involved in a situation that is illegal and unethical. Would I:

\_\_\_\_\_\_\_\_\_\_ Go to my immediate supervisor

\_\_\_\_\_\_\_\_\_\_ Go to the department head

\_\_\_\_\_\_\_\_\_\_ Go to the president of the company

\_\_\_\_\_\_\_\_\_\_ Go to the government regulatory agency

\_\_\_\_\_\_\_\_\_\_ Go to the Press

\_\_\_\_\_\_\_\_\_\_ Quit

\_\_\_\_\_\_\_\_\_\_ Ignore the situation

\_\_\_\_\_\_\_\_\_\_ Take advantage of the situation

What talents do I have that could be used in dealing with the situation?

\_\_\_\_\_\_\_\_\_\_ Speaking

\_\_\_\_\_\_\_\_\_\_ Writing

\_\_\_\_\_\_\_\_\_\_ Loyalty

\_\_\_\_\_\_\_\_\_\_ Mediation Training

\_\_\_\_\_\_\_\_\_\_ Negotiation Training

\_\_\_\_\_\_\_\_\_\_ Power

This is a confidential quiz. Please fill out the form, fold it, and pass it to the center of the aisle. DO NOT PUT YOUR NAME OR COMPANY NAME ON THE PAPER.

## **SEMINAR DISCUSSION QUESTIONS**

1. If you had an opportunity to acquire a large contract for your company by doing something “just a little” illegal or unethical, or you would be required to terminate 50% of your employees, what would you do?
2. If you could enhance the performance of your company by taking advantage of a loophole in the law (knowing you would probably never get caught) would you?
3. You, in your capacity as a credit professional, have an account that you would love to get rid of. They are a pain to deal with, but they do purchase substantially and pay fairly well. The customer has called your boss several times and complained about your inefficient handling of the account. A competitor calls for a reference. Would you stretch the truth so that customer would begin to purchase from another source, allowing you to decrease his line and close the account?
4. You know that a warehouse employee is using drugs on personal time. The company policy forbids the use of controlled substances. . . period. Would you inform your boss or someone of authority in your company?
5. Your co-worker is having an affair with the boss. The boss’s wife asks you if the affair is a fact.
6. There is a troublemaker in your department. A transfer can be engineered and no one will know the truth.
7. You have interviewed several people for an opening, one of which had a physical handicap. You would like to hire the handicapped person. Your boss says, absolutely not!
8. You know that the manufacturing part of your company has numerous OSHA violations. Management is not really aware of all the infractions, but is not open to input from anyone below management level.
9. There is a black employee, who has been very ill and missed substantial time at work. The illness is over and the employee is on the mend. The boss has always wanted you to replace the black employee because he is a racist. He instructs you to terminate the employee for missing so much work. You are instructed to fill the position with a white person.
10. Your best friend has violated company policy in a very dangerous and damaging way. Will you adhere to the company ethics policy and report the incident?
11. If you would never be caught, would you solve a problem with an unethical or unlawful solution?

## **Attitude Review**

Prior to this seminar, I felt that most methods for solving a problem were acceptable because:

After listening to the information shared today and watching the video, my views are:

I feel business ethics will \_\_\_\_\_ will not \_\_\_\_\_ have a major impact on my decision-making in the future.