V Skills

Skills for a secure future

Certified Compliance Officer Sample Material

V-Skills Certifications

A Government of India

&

Government of NCT Delhi Initiative

V-Skills

Skills for a secure future

1. BUSINESS ETHICS AND VALUES

1.1. Stories and Business Ethics

Business ethics begins with stories. Stories illustrate and reinforce the sense of values, justice and fairness. Czarniawska: four types of dramatic story in the European classical tradition, which all represent different kinds of business ethics issues: -

- ✓ **Romances:** the quest of a single individual to achieve some noble goal that is only achievable because human beings have an innate goodness. Such heroes become metaphors for their particular brand of ethical management.
- ✓ **Tragedies:** about people who try to behave well, by challenging fate, but come to personal grief. E.g. whistleblowers who reveal corporate wrongdoing but in doing so lose their families, their homes, etc Metonyms are used.
- ✓ **Comedies:** stories about how human imperfections and weaknesses make the achievement of a happy ending difficult. The use of synecdoche
- ✓ **Satires:** work ironically. By contrasting people's behavior with their words, or by defining the context in which the words are said, it is made clear that people mean the opposite of what they said.

The italized words are also defined:

- ✓ **Metaphor:** makes comparisons by referring to one thing as a different thing. E.g. calling employees in an organization's 'assets'.
- ✓ **Metonymy:** uses an attribute of something to represent the thing itself. Chairpersons sit in a chair when they hold a board meeting. The chair is their attribute, so they become known as chairs. In tragedy a single attribute can undermine a person's integrity; a good person is often brought low because of a part of their behavior or character.
- ✓ **Synecdoche:** uses a part of something to represent the whole. Business people wear suits and so that particular aspect of them comes to represent them and their role (e.g. are the suits arriving to check us out). -Irony: speaking or writing in such a way as to imply the opposite of what is being said.

There is in business ethics a narrow point of balance between -Romance and satire: heroes of romances can easily become the subject of satirist's scorn -Tragedy and comedy

If we can understand how the plots of these stories can lead to either good or bad outcomes, we can develop an intuitive knowledge of how to encourage more happy endings than bad ones.

One of the long running business ethics stories concerns a moral decision that faces profit seeking organizations. It is a conflict between public duty and self-interest.

1.2. The Business Case For Business Ethics

Should private, profit seeking organizations behave in a socially responsible and moral way, beyond the requirement of the law, because it is the right thing to do or because it pays them to do so? Bad behavior can be bad for business, resulting in a poor image. Conversely, if a company is associated with good behavior, using renewable resources, not employing child labor and providing good training and development opportunities for its staff, it should be good for sales. However, benefits of good behavior are not guaranteed. Bad corporate behavior will only diminish reputation, and good behavior boosts it, if it becomes known. There are measures of social, ethical and environmental performance, but these are mostly designed to meet the needs of the ethical investment community rather than consumers and purchasers.

There are a number of standard measures or more properly indices available for assessing the social and environmental performance of corporations:

FTSE4Good: calculated from a number of factors that cover three areas of o working towards environmental sustainability Developing positive relationships with stakeholders o Upholding and supporting universal human rights

Dow Jones sustainability indices (DJSI): tracks the financial performance of companies that have committed to long-term sustainability.

SERM rating agency: SERM rates companies on a scale of AAA+ to E according to how well the companies manage their environmental and socio-ethical risks. Twenty-five dimensions are used in three fields: environment, health and safety and socio-ethical.

Ethical Investment Research Service (EIRIS): carries out research on companies world-wide and provides information for those who wish to invest ethically.

Does business ethic pay? Webley & More: there is no single and definitive measure of ethical performance, which is a problem. They chose proxy or surrogate measures that are indicative of whether a company is behaving in an ethical and environmentally protective way but not conclusive proof that they are. Measures:

- ✓ Whether a company has a published code of ethics that has been revised within the past five years
- ✓ Companies' SERM rating
- ✓ Companies' ratings on Management Today's 'Britain's most admired companies' survey that is carried out by Michael Brown of Nottingham Business School Companies that have 1, score better on both 2 and 3.Measuring financial performance is easier:

Market value added (MVA): difference between what investors have put into a company over a number of years and what they would get from it if they sold it at current prices

Economic value added (EVA): the amount by which investors' current income from the company is greater or less than the return they would get if they had invested the money in something else of equal risk = opportunity cost of placing money in a particular company.

Price-earnings ratio (P/E ratio): the market value of a share in a company divided by the shareholder's earnings.

Return on capital employed (ROCE): a measure of the return that the capital invested in a company makes for its owners.

The first and second sets of measures can be combined, researching the relationship between ethical standing and financial performance.

The results indicate that companies that have a code of ethics (better SRM rating and 'most admired company table score) achieve better MVA and EVA.

Other findings suggest that far from good social performance leading to improved financial effects the cause and effect relationship worked the other way around. Companies that do well financially find themselves with some money that they can spend on good works and improving their social and environmental performance as social performance improves, turnover declines. Social performance endangers financial performance, but does not of itself support that companies flush with profits are inclined to spend some of the profits on social performance.

There is an association between good social performance or ethical business practices and good financial returns. It is not clear however, that it is the good social performance that increases profits. It may be the other way round.

So, it is not clear that there is a business case for business ethics, although on the defensive principle there is one for managing the financial risk of unethical or improper organizational behavior. It is necessary to turn to other ways of deciding whether companies and organizations should act ethically and responsibly: whose interest should companies and organizations exist to serve?

Stakeholder theory: As different people may be affected differently by the same action then it is important to take these various impacts, some good and some bad, into account.

Know who the characters in the story are. For any organization there are a number of definable groups who have an interest, or a stake, in the actions of that organization. The question is what constitutes that stake. The issue is threefold:

What responsibilities/duties (if any) does an organization owe to its stakeholders? The fact that a stakeholder group may have a legitimate interest does not, of itself, mean that the organization owes anything to it. At one extreme of the spectrum an organization may be obliged to do what the stakeholder group requires. At the other extreme end the organization might owe the stakeholder group nothing.

How should an organization decide between its obligations to two or more stakeholders if they demand incompatible things from an organization? What criteria should the organization use when deciding which stakeholder group whishes it should prioritize? Often those who scream the loudest are prioritized.

What legitimate interests justify a group of people being regarded as a stakeholder in an organization? Often a stakeholder is seen as any group that is affected by an organization's actions. But this would give a commercial company's competitors a voice in its activities because their performance would be affected by the organization's performance, which would not seem fair.

1.3. Business and Organizational Ethics

The subject matter of business ethics is an attempt to answer these three questions. There are four different 'answers', or perspectives, that are given in modern western capitalist societies. Organization: any configuration of people and other resources that has been created to coordinate a series of work activities, with a view to achieving stated outcomes, of objectives.

Four broad theories of the firm, and the assumptions and implications of these perspectives for prioritizing the various stakeholder's needs and for the exercise of moral agency

- ✓ The classical-liberal-economic approach
- ✓ The corporatist approach (rijnlands: particular german approach to a market-based, capitalist oriented economy)
- ✓ The pluralist perspective
- ✓ The critical perspective
- ✓ Within these four categories different assumptions are made about the relationship between
- ✓ Organizations and the state
- ✓ Organizations and their employees
- ✓ Organizations and their various stakeholder groups (beyond the employee group)

The classical-liberal-economic approach; This theory of the firm places the organization within and economic system that is made up of a myriad interconnecting but legally separate parts, and where relationships between these many parts are defined in terms of free exchange. Money acts as the facilitator of exchange. The argument is that, with no individual person or company able to affect price, the resulting transactions, and the prices that draw both suppliers and customers into the marketplace, reflect people's wishes 'free' markets. Advocates of this theory: Milton Friedman, Friedrick von Hayek and Ayn Rand. Individual choice, free of government coercion, is seen as the only ethical influence in shaping economic and social development. The last writer, Rand, is very influential but less well known. Randianism

Moral agency within organizations is the ability of individuals to exercise moral judgment and behavior in an autonomous fashion, unfettered by fear for their employment and/or promotional prospects. Rejects government in anything other than its minimalist form, i.e. that which can be justified to protect individual rights, such as the police, the law courts and national defense. All other functions can and should be operated by 'the people', preferably via market mediation, and paid for. Rand credited with developing the philosophical position that is known as objectivism. Objectivism has three key elements:

- ✓ Reason is man's only means of knowledge, i.e. the facts of reality are only knowable through a process of objective reason that begins with sensory perception and follows the law of logic. Objectivism rejects the existence of god, because it lacks empirical support.
- ✓ Rational self-interest is the objective moral code. Altruism (the greatest good is service to others) is rejected as an unhelpful and illogical human attribute. Individuals are required to pursue their own happiness, so long as it does not negatively affect anyone else's.
- ✓ Laissez-faire capitalism is the objective social system. Laissez faire means unrestricted. Laissez faire capitalism refers to a preparedness to let markets 'sort themselves out'. The belief is that a market will self-correct in time.

The attachment of modern-day libertarian economists to a myopic focus upon competition can be critics for ignoring two other significant elements of economic systems, which are:

Command: the extent to which power, coercion and hierarchy affect economic relationships
Change: the way that capitalism effects change and are itself affected by change.

These three central elements of capitalism, competition, command and change, have ethical and moral implications and it is argued here that they are interconnected, not subject to easy and simplistic separation.

Within the simple competitive model of economic behavior, managers are expected to behave in ways that reflect what is known as economic rationality. This normative theory is open to challenge in terms of its descriptive rigor, hence the existence of alternative theories of the firm.

In this classical liberal perspective espoused by Anglo-American corporations the sphere of inclusion in decision making is mostly an exclusive shareholder orientation. This is 'short-term' focused.

The corporatist approach: This approach does not deny the primacy of competitive market forces, but an exclusive equity shareholder perspective is eschewed in favor of a broader-based set of perspectives in some of the organization's decision making. These additional perspectives are those of employee representatives, debt financers, and in some cases state interests. This broadening of the decision making base offers a longer-term view to certain aspects of corporate decision making. This approach is common in Germany, Sweden and Japan.

Whether the corporatist approach is preferred by some because it offers a greater likelihood of economic, and thus political, stability, with the greater apparent value placed upon the interests of individual citizens/employees merely an ancillary benefit, or whether the rationale for employing this approach is reversed (i.e. the ethics of the corporatist approach are argued to be the main reasons for its adoption), is not critical for the discussion. What is relevant is that both the classical-liberal-economic (individual choice) and the corporatist (social cohesion) approaches can cite ethical justifications for their superiority as economic and social systems.

The pluralist perspectives: There are two main pluralist perspectives (on a pluralist continuum, but these two are not the extremes!):

Type A pluralism: sees broad stakeholder interest being represented by elected or appointed members of corporate boards. Development of corporatist perspective, but with the stakeholder groups being drawn more widely. In type A pluralism, stakeholder groups are required to do more than argue their particular, vested-interest, case. They are expected to be representative of societal interest. In classical-libertarian-economic perspectives individual's decisions are deemed to give expression to society's preferences; within type A pluralism, societal preferences are given voice by the presence of stakeholder groups on company boards or committees.

Type B pluralism: does not dispute the possibility of stakeholder groups being physically represented within corporate decision making processes, but this is neither a prerequisite, nor part of the basic arguments. Economic rationality is seen as being moderated by concerns for, and recognition of, wider social implications of corporate decision, with these factors being weighed by individual decision makers. Type B pluralism argues for recognition of the realities of everyday market conditions, but also a more socialized set of assumptions of human behavior. Whilst a market-based economy is seen as the foundation upon which organizational coordination takes place, structural issues and problems within markets are recognized, i.e. power imbalances between competitors, information asymmetry between producers and customers, and the capricious nature of capital. Greater responsibility, ethicality and humanity are required of corporate decision makers. Etzioni describes a deontological approach: an approach that believes that moral reasoning and action should be guided by universal principles that hold irrespective of the context in which an ethical dilemma might exist. People need to develop a sense of shared identity, and have significant involvement in the community.

The critical perspective: The critical perspective is composed of many different theories about human and collective behavior, including the politics of organizations. All about research and theories which have been developed to explain actual behavior within organizations Organizational life is far more complex and messy than classical-liberal economics would prefer to work with. Two major kinds: -

Behavioral theories are amoral in their stance in that, unlike the liberal-economic, corporatist and pluralist perspectives, they do not put forward a preferred ethical foundation for their theorizing. They act as organizational windows through which we can observe the ways in which employees at all levels in organizations appear to react, and behave, when faced with ethically complex situations.

Critical theorists however, have an avowed commitment to societal change, for the emancipation of employees, from the shackles of capitalism. They make different analyses, and there is no consensus on the preferred replacement of market-based societies.
Boundaries of jurisdiction or spheres of justice

The fear of market-based relationships as the bedrock (grondslag) upon which all societal and interpersonal relationships are based is articulated by a number of writers. As a way of handling this problem, some writers argued that societal life should be seen as a series of spheres, which contain and constrain differing elements of societal existence. One of these spheres is the economic, in which markets are recognized as the most effective mediating mechanism, and competition the most defensible form of organizational coordination. The relevance of contract and competition as mediating elements is largely constrained within this sphere. Within spheres representing non-economic interpersonal relationships we find notions of trust, care, welfare, sharing, friendship, and leisure and possibly even altruism.

From a moral perspective one of the problems with dividing the human world into separate spheres is that it might suggest the spheres are independent to the point of allowing differing forms of behavior to prevail within each. Therefore, the spheres should not be seen as totally autonomous and independent. But there may be boundary conflict. The dynamic of change is recognized, is debated and matures through processes that are demanding but which, it must be stressed, are subject to 'social capture by active groups and voices if participation is shirked by the general polity.

Social capture is a term used to describe a mechanism (e.g. a committee, regulatory body or political process) which is established to oversee a particular facet of social life, but which becomes dominated or heavily influenced by, the very sectional interest mechanisms it was intended to monitor or control.

One of the principal virtues of competitive markets, as the mechanisms by which business and social interaction is mediated, is that the 'invisible hand of the market is amoral, i.e. value neutral. The writer Plant argued that from a market perspective, at least three principles would favor a market for example human body parts:

- ✓ There is a clear demand
- ✓ The current donor system is failing to meet demand
- ✓ Ownership of the human organs is clear and would not be undertaken by the donor if it were not in their personal interest.

Another writer, Titmuss, investigated whether private blood banks should be introduced. He discussed four economic and financial criteria:

- ✓ Economic efficiency
- ✓ Administrative efficiency -Price
- ✓ the cost per unit to the patient
- ✓ Purity, potency and safety – or quality per unit
- ✓ On all four units, the commercialized blood market fails.
- ✓ This chapter laid out arguments for claiming that the market is:
- ✓ The only defensible economic and social system for protecting the freedom of the individual to exercise personal choice, which allows the development of economic and societal relationships that are free from government coercion and intervention This is the liberal-economic perspective.
- ✓ Something that is preferable to alternative economic systems, but which needs to be carefully watched and, if necessary, modified from time to time to ensure that the economic system is compatible with broader societal aims. This incorporates the corporatist and pluralist perspectives.
- ✓ An intrinsically corrupting system that pits human beings against each other with only an elite few dictating the life chances of many. This is the critical perspective.
- ✓ Descriptive, normative and reflective approaches

Two ways of discussing ethical matters, normatively and descriptively are often proposed.
Normative discussion: concerned with rules and principles that ought to govern our thoughts and actions. Prescriptive claims, and how can they be shown to be legitimate or valid.
Descriptive discussion: focuses on how things are rather than how they should be. Gives account of the values and ethics of a particular group and tries to explain how they have emerged. Analyze value systems to look for norms and the tensions between them. Is more analytical rather than prescriptive. This book is descriptive.

Ethics involves learning what is right or wrong, and then doing the right thing, but "the right thing" is not nearly as straightforward as conveyed in a great deal of business ethics literature.

Many ethicists assert there's always a right thing to do based on moral principle, and others believe the right thing to do depend on the situation, ultimately it's up to the individual. Many philosophers consider ethics to be the "science of conduct." Philosophers have been discussing ethics for at least 2500 years, since the time of Socrates and Plato. Many ethicists consider emerging ethical beliefs to be "state of the art" legal matters, i.e., what becomes an ethical guideline today is often translated to a law, regulation or rule tomorrow.

Values, which guide how we ought to behave, are considered moral values, e.g., values such as respect, honesty, fairness, responsibility, etc. Statements around how these values are applied are sometimes called moral or ethical principles.

Business ethics is the concept, which means various things to various people, but generally, coming to know what it right or wrong in the workplace and doing what's right. This is in regard to effects of products and services and in relationships with stakeholders. In times of fundamental change, values that were previously taken for granted are now strongly questioned. Many of these values are no longer followed. Consequently, there is no clear moral compass to guide leaders through complex dilemmas about what is right or wrong.

Attention to ethics in the workplace sensitizes leaders and staff to how they should act. Perhaps most important, attention to ethics in the workplaces helps ensure that when leaders and managers are struggling in times of crises and confusion, they retain a strong moral compass. However, attention to business ethics provides numerous other benefits, as well, these benefits are listed later.

Note that many people react that business ethics, with its continuing attention to “doing the right thing,” only asserts the obvious, “be good,” “don't lie,” etc., and so these people don't take business ethics seriously. For many of us, these principles of the obvious can go right out the door during times of stress. Consequently, business ethics can be strong preventative medicine. Anyway, there are many other benefits of managing ethics in the workplace.

Business ethics has come to be considered a management discipline, especially since the birth of the social responsibility movement in the 1960s. In that decade, social awareness movements raised expectations of businesses to use their massive financial and social influence to address social problems such as poverty, crime, environmental protection, equal rights, public health and improving education. An increasing number of people asserted that because businesses were making a profit from using our country's resources, these businesses owed it to our country to work to improve society. Many researchers, business schools and managers have recognized this broader constituency, and in their planning and operations have replaced the word "stockholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.

Business ethics in the workplace is about prioritizing moral values for the workplace and ensuring behaviors are aligned with those values, its values management. Yet, myths abound about business ethics. Some of these myths arise from general confusion about the notion of ethics. Other myths arise from narrow or simplistic views of ethical dilemmas.

The following 10 myths about business are; more a matter of religion than management; our employees are ethical so we don't need attention to business ethics; business ethics is a discipline best led by philosophers, academics and theologians; business ethics is superfluous (it only asserts the obvious: "do good!"); business ethics is a matter of the good guys preaching to the bad guys; business ethics in the new policeperson on the block; ethics can't be managed; business ethics and social responsibility are the same thing; our organization is not in trouble with the law; so we're ethical and managing ethics in the workplace has little practical relevance.

Many people are used to reading or hearing of the moral benefits of attention to business ethics. However, there are other types of benefits, as well. The following list describes various types of benefits from managing ethics in the workplace.

Attention to business ethics has substantially improved society. Ethics programs help maintain a moral course in turbulent times. Ethics programs cultivate strong teamwork and productivity. Ethics programs support employee growth and meaning. Ethics programs are an insurance policy; they help ensure takeholder," meaning to include employees, customers, suppliers and fines. Ethics programs help manage values associated with quality management, strategic planning and diversity management. Ethics programs promote a strong public image. Overall benefits of ethics programs. Last and most formal attention to ethics in the workplace is the right thing to do.

There are 6 Key roles and responsibilities in Ethics Management. Depending on the size of the organization, certain roles may prove useful in managing ethics in the workplace. These can be full-time roles or part-time functions assumed by someone already in the organization. Small organizations certainly will not have the resources to implement each the following roles using different people in the organization. However, the following functions points out responsibilities that should be included somewhere in the organization. First, the organization's chief executive must fully support the program. If the chief executive isn't fully behind the program, employees will certainly notice and this apparent hypocrisy may cause such cynicism that the organization may be worse off than having no formal ethics program at all. Next, consider establishing an ethics committee at the board level. The committee would be charged to oversee development and operation of the ethics management program. Next, consider establishing an ethics management committee. It would be charged with implementing and administrating an ethics management program, including administrating and training about policies and procedures, and resolving ethical dilemmas. The committee should be comprised of senior officers. Then, consider assigning and developing an ethics officer. This role is becoming more common, particularly in larger and more progressive organizations. The ethics officer is usually trained about matters of ethics in the workplace, particularly about resolving ethical dilemmas. You might consider establishing an ombudsperson. The ombudsperson is responsible to help coordinate development of the policies and procedures to institutionalize moral values in the workplace. This position usually is directly responsible for resolving ethical dilemmas by interpreting policies and procedures. Finally, note that one person must ultimately be responsible for managing the ethics management program.