THE MINISTRY OF EDUCATION OF

THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF

ECONOMICS – UNEC

SABAH CENTER

Sevinj Huseynova

Role of effective ethics program in ensuring sustainability of business

Supervisor: Shahla Gahramanova

BAKU, 2019

Acknowledgements

Firstly, I would like to express my gratitude to my supervisor Shahla Gahramanova for giving me helpful direction and kindly encouragement.

I am also deeply grateful to my family for continuous support and believing me always. Without their help, this thesis would not have completed.

Abstract

Developing an ethics program is a method used to organize responsible conduct in organizations. Although laws or regulations are the main drivers of these programs, there are other reasons to adopt and prioritize ethics programs. In order to be effective, compliance and ethics programs have to be supported by communications efforts, procedures and cultural characteristics. The research indicates that the best succession for the implementation of components of the ethics program are (1) codes of conduct, (2) an ethics office(r), (3) ethics training and communication, (4) monitoring and auditing (5) continuing efforts for improving the ethics program.

Many of the other topics deliberated in this paper such as emerging business ethical issues – bribery, fraud, insider trading, conflicts of interest, and environmental issues and so on. It is also difficult to recognize and prevent ethical problems at the workplace, however, an effective ethics program provides the guidelines to deal with such issues.

Keywords: business ethics, ethics program, ethical issues, codes of conduct

Contents

INTRODUCTION

Sustainability is a significant concept, which is widely referred to and broadly supported. However, it continues to remain difficult to implement due to its complication and the huge shifts in thinking. Sustainability efforts have been an appreciated means of emphasizing a wide-ranging vision of care and concern for intergenerational equity and ecological degradation. The Ethics and Nature Forum considers that sustainability without ethics is a blank hustle and bustle. This means that sustainability lacks a reproductive purpose and does not act as a guideline for reflection unless we take into account the values, cultural worldviews and ways of achieving durable, impartial and reciprocal relations between human beings. Sustainability leads to the idea that we have to consider future generations in our production and consumption of material goods, in our diverse relations with the natural environment, in our policy, as well as our everyday decision-making processes. These are all matters, which require continued ethical debate in order to elucidate thoughts and actions, warn us to power and privileges distortions, and work hard toward achieving collective well-being.

Today a constant and endless contest has now started crossing ethical boundaries in the era of the ruthless competition. The rivalry among the competitors has also penetrated the consumer's lives. The motivation for higher profits led them to wrong and unethical practice, which damages social values and morality. Business environment reflects the actual situation of any society and that is why the business environment must, therefore, be considered.

The topic selected is relevant, because the ethical activity considers all the aspects of the doing business, including manufacture, business processes, and the behavior of the company with its employees and societies in which it operates. The main reason for concern about business ethics is due to the economic harm to the companies by the unethical conduct of employees, also to economic, social and environmental harm imposed by companies in order to reduce expenses and increase their competitiveness.

In modern times, many organizations recognize the benefits of being ethical and understand the relationship between business ethics and financial performance. Researches as well as business cases indicate that it is commonly paid off for the establishment of an ethical reputation among workers, clients, investors and the community. Being more ethical and socially responsible in business makes great results such as an increase in investor willingness to entrust funds, increasing efficiency in day-to-day operations, better employee commitment, an improvement in customer trust and satisfaction, and better financial performance. The reputation of an organization significantly depends on its relationships with employees, investors, customers, and other parties.

The objective of this diploma paper is researching the role of implementation of an ethics program for the survival of businesses. We will discuss the importance of each element of ethics program in order to increase the productivity of employees as well as to achieve organizational goals.

This diploma paper covers three main parts: the first part presents the understanding the concept of business ethics, its evolution and defining its significance in today’s business world; in the second part, it is mainly focused on the emerging ethical issues linked with business and the responsibilities of organizations to prevent these issues in an appropriate way; the last part provides how to implement an effective ethics program, what elements are needed for it and benefits of ethics program for businesses.

1. Overview of Business Ethics

1.1 The concept and importance of ethics in business

Ethics (or moral philosophy) is a broad field of investigation that addresses an essential enquiry that we all, at least from time to time, unavoidably think about - How should I live my life? Of course, this question, naturally leads to others, such as, - What kind of person should I strive to be? ; What are the important values? ; What principles or standards should I live by? ; What considerations make my actions right or wrong? ; How should I act in a morally appropriate manner? ; Exploring these issues involves one in the study of right and wrong.

The term 'ethics', which is originated from the word 'ethos' has been determined as "an inquiry into the nature and grounds of morality in which the term morality is in the meaning of moral judgments, rules, and standards of conduct." Ethics has also been referred to as the study and philosophy of human behavior with the focus on defining what is right or wrong (Ferrell & Fraedrich, 2010).

The American Heritage Dictionary (AHD) offers these definitions of ethics:

- "a set of principles of right conduct"
- "the study of the nature of morals and of specific moral choices"
- "a system or theory of moral values"
- "the principles or standards that govern the conduct of the members of a profession." (https://ahdictionary.com/word/search.html?q=ethics)

In common, the terms 'ethics' and 'morality' are frequently considered as undifferentiated. However, a great number of academic writers have proposed clear contrasts between the two terms in order to clarify certain arguments. (e.g., Crane 2000; Parker 1998). There is the most common way to distinguish them:

"Morality focuses on standards, values, and convictions that determine the correct and wrong for individuals or communities in social processes."

“Ethics is related to the study of morality and the application of reason that define morally acceptable courses of action.” (Crane & Matten, 2016)

Each individual and society has a morality that represents a fundamental sense of right or wrong in relation to a specific activity. Ethics is an effort to systematize and streamline morality, generalizing normative rules, which are intended to address moral uncertainties. The outcomes of the codification of these rules are ethical theories such as the right theory or theory of justice.

According to this way of thinking, morality comes before ethics and ethical theory. (Figure 1.1)

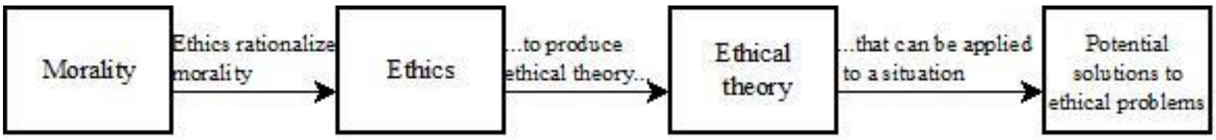

Figure 1.1 The relationship between morality, ethics and ethical theory

(Source: Crane & Matten, 2016, p 8)

It is possible for ethics to be grouped into two parts: (a) *personal ethics* and (b) *professional ethics*. Since the two ethics considerably vary from each other, the need for some kind of reconciliation or adjustment has been felt for a long time and with changes such as liberalization, socialization, and globalization, the need for better business ethics has further intensified (Maheshwari, 1997).

Personal ethics (a) is determined by a combination of family influences, peer impacts, life experiences, personal values and morals, and some situational factors. For instance, parents create ethical standards in a family and children just adopt them. It is the obligation of the elders to ensure that the younger ones conform to the family standards. Individual ethics is incredibly influenced by the ethical standards of the persons with whom the person interacts every day. A person while growing comes across several positive and negative events affecting his/her moral values. A man who is punished for his negative conduct will think of giving it up. The ethical standards of an individual are greatly affected by personal values and morals. It is very necessary to examine in this connection whether an individual gives more importance to the accumulation of wealth or healthy growth of his family. Sometimes personal ethics of people can change due to the situational factors. People may have to act against their better judgment to confront unexpected situations such as overcoming financial difficulties by stealing their employer's money.

Professional ethics is described as individual and corporate rules governing conduct in a specific professional context. When someone first goes into the world of work, he/she starts to improve his/her professional ethics. There are very a few professions and professionals that have a direct bearing on the lives of people. For instance, doctors, engineers, lawyers actually work for their clients and their work has a bearing on the lives of people associated with their clients. That is why; such these professionals have to follow a certain code of conduct as prescribed by their organization.

While personal and professional ethics vary, it can be difficult for workers if they infringe a personal ethics rule with their professional ethics. For instance, if a person is opposite to lying, but learns that he/she has to tell some fibs in the business world, in this case, he/she may struggle, because this conduct is the opposite of what he/she would demonstrate when his/her personal ethics guidelines him/her.

Based on these, we can begin to develop a concept of business ethics. Many people would concur that high standard of ethics requires both individuals and businesses to adapt to good morals. Nevertheless, some special aspects must be taken into consideration when applying ethics to business:

Firstly, businesses must gain a profit to survive. If the organization earns profit through misconduct, however, the life of the organization may be shortened. Many firms, including WorldCom, Enron and Lehman Brothers that made headlines due to wrongdoing and scandal ultimately went bankrupt or failed because of the legal and financial repercussions of their misconduct.

Second, businesses must adjust their desires to the needs and wants of society. Compromises or trade-offs are often required for maintaining this balance. That is why society has developed rules- both legal and implicit- to lead businesses in their attempts to get profits in ways that do not damage persons or society in total to address these remarkable parts of the business world.

Most definitions of business ethics are related to rules, standards, and moral principles that in regards to what is right or wrong in specific circumstances.

Business ethics comprises values, principles, and standards, which govern conduct in the business world. *Principles* are moral rules or standards of good behavior. Principles frequently become the basis for rules. Some examples of principles may include fundamentals of justice, freedom of speech, and equal rights to civil liberties. But *values* are used to develop norms that are socially enforced. The examples of values are integrity, trust, and accountability. Investors, interest groups, employees, customers, the legal system, and the community often define whether a specific action is right or wrong, ethical or unethical. These groups are not essentially "right," but their decisions effect society's approval or rejection of a business and its activities.

It seems reasonable to assume that moral right and wrong do exist in some form and where do people get their ethical principles and values? It is supposed that some are the results of lessons taught at home, in school, or in religious training and the others are the results of individual life experiences. Some people get their principles and values from messages that society sends through television, books, music, and magazines. As a result, individuals have ethical beliefs, which are coming from a wide variety of sources. However, writer and philosopher Richard W. Doss (1904-1981) has pointed out that some sources are more influential than the others are. When asked where they acquired their beliefs about an ethical issue, most people tend to determine one or more of the sources. The important sources of ethics in general and of business ethics, in particular, are the following:

One of the sources of ethical beliefs is the *authority*. This can be seen in religious ethics; nonetheless political leaders such as monarchs have been encompassed by other moral authorities (Bredeson & Goree, 2012). All the religions of the world insist on ethical behavior and conduct. Business people get inspirations from their respective religions. In modern days, religion is explained in terms of modern socio-economic problems. The Bible, Quran, and Bhagavad Gita are the prominent religious texts. According to religion, God has created the world and naturally, God gives the world, a goal or final purpose. Since the world has come from God and aiming towards God, the world has been great with positive values. Religion emphasizes that evil is a part of life and must avoid it. Religion stresses harmony, beauty, and peace of mind, health, wealth, and success. Religion stresses the important harmonies such as, natural, human, and supernatural harmony and suggests ecological balances and reduction of pollution rates. It also supports sustainable practices in business and production. Religion encompasses all the areas of human behavior like what is required, allowed, discouraged and prohibited. In modern days, religion shows sympathy to other religions and takes into consideration the welfare of humanity.

Another source of ethical beliefs is a *cultural experience*; it is the morality of an action relies on the beliefs of one's culture or nation. We are all individuals, however together we form a society. “Each society develops a various set of norms and assumptions under which to control, and different, functions, professions, and even genders within a society or organization can have different cultures themselves.” (Raatikainen, 2002) From this point of view, cultures and nations, like people, have completely different principles and values according to their different histories and experiences. A belief may work well for one culture while it may be harmful to another. There are different determinants of culture such as economic philosophy, political philosophy, social structure, religion, language, and education. Therefore, if the social structure is well organized, the cultural standards are higher. High mobility can make a better culture. If language promotes better communication, the culture is sure to be progressive. In addition, the impact of culture on businesses is too higher. Fair practices such as fair price, consumer care and good service are the results of positive cultural experience. In the context of globalization, business firms are interested in the basic values of human enrichment to protect the interest of various stockholders.

A third source of ethical beliefs is the *legal system* of a county. The legal system comprises the constitution, prevailing laws, and judiciary. The unethical practices are discouraged through the alerting of the legal system. The legal system of a country provides the guidelines for business related to location, production, pricing, conditions of employment, and consumer care. For instance, an increase in competition. The Competition Commission of India has been established for enquiring into any violation of the provisions of the Act. This Act has provided the important criteria to decide whether an enterprise has a dominant position in the market:

(a) The size of the market and its structure

(b) The economic power of the enterprise over competitors

(c) The size of the competitors and their importance

(d) Monopoly or dominant position

(e) Barriers to entry; such as regulatory barriers, economies of scale and etc. (https://indiankanoon.org/doc/1113485/)

It is vital to recognize the relationship between legal and ethical decisions. Although abstract virtues connected to the high moral ground of trustiness, fairness, honesty, and openness are regularly assumed to be obvious and accepted by all workers, business strategy decisions include complex and detailed discussions. Sometimes, a higher level of moral development of people may not prevent them from violating the law in a very sophisticated organizational framework wherever even experienced lawyers discuss the exact meaning of the law. Some approaches to business ethics assume that there is ethics training for people whose personal moral development is unsatisfactory, but that is not the case. Because organizations are culturally different and personal values must be respected, ensuring collective agreement on organizational ethics (that is, codes reasonably capable of preventing misconduct) is as important as any other effort an organization's management may undertake.

Many individuals who have incomplete business experience unexpectedly find themselves to make decisions about product quality, sales techniques, advertising, pricing, hiring practices, and pollution control. These compound business decisions cannot be guided by the values they have gained from family, school and religion. This means that the experiences and decisions of persons at home, in school and in the community can vary from their workplace experiences and decisions. That is why it is crucial for businesspeople to study business ethics.

Studying business ethics is important for a few reasons. Many individuals think that if an organization employs good people who have sound ethical values, at that point it would be considered as a "good citizen" organization. However, personal values and moral philosophies of an individual remain merely one aspect in the decision-making practice. It is obvious that moral rules can be applied to a variety of situations in life, and some individuals do not differentiate everyday ethical issues from business ones. But our concern is with the application of standards and principles in the business context. Many ethical issues do not arise very often in the business context, though they remain complex moral dilemmas in an individual's personal life. For instance, although abortion and the possibility of human cloning are moral issues in many people's lives, they are usually not an issue in most business organizations. Merely when a person’s preferences or values affect his/her work performance, a person’s ethics play a key role in the assessment of business decisions. Only being a good individual and having strong personal ethics might not be satisfactory to allow us to resolve ethical issues that arise at the workplace.

Studying business ethics contributes to the following:

- It helps to identify ethical issues when they arise and recognize the approaches available for resolving them.
- By studying business ethics, it is possible to understand how to deal with conflicts between own personal values and values of the organization.
- It also helps to learn more about the ethical decision-making process and about ways to encourage ethical behavior within the organization (Ferrell & Fraedrich & Ferrell, 2010).

‘Business ethics is basically applying the basic principles of ethics to the field of business which is the main area of making a profit. Business ethics indicates that profit can be made on sustainable basic by following certain norms and respecting others.

Short-cuts can bring benefits in the short run but the only good values bring long-run and sustainable results. In short, a good enterprise can achieve the desired aim or result if it takes care of all the stakeholders in term of their interests.

Business ethics is not just compliance with the law. So that, one firm can keep the law but it can be unmindful of fair practices. In most cases, contract labor practices have been not fair and not ethical. Exploitation can take place in one form or the other.

The business ethics programs and policies should be managed in the best possible way. The success of the ethics programs in an organization depends on the degree of commitment by the top management.

Business ethics is not just connected to an individual but to the whole organization. It is concerned with a group that involves all activities of businesses line production, selling, purchase finance, and managing.

Business ethics makes shifting the focus from shareholders to stockholders. In this meaning, it is holistic and benefits all. Business ethics is related to a code of ethics and not merely a code of conduct. In the course of time, the right code of ethics gets internalized as a normative value (Prabakaran, 2009).

1.2. Brief history of development of Business Ethics

To understand the current approach to business ethics, it is important to examine the evolution of business ethics over the years. Business ethics has moved through five distinct stages of development – (1) before 1960, (2) the 1960s, (3) the 1970s, (4) the 1980s, and (5) the 1990s—and continues to evolve in the twenty-first century.

1. Before 1960: Ethics First Introduced in Business.

Prior to 1960, the U.S went through a few agonizing phases of inquiring the concept of capitalism. The business firms were asked to check unwarranted price increases and any other practices so that ordinary people would not be affected. Inflationary trends damage savings of people and capital formation of the nation. In the 1920s, efforts were made to promote the concept of "living wage" defined as income sufficient to citizens for education, recreation, health, and retirement. A living wage is to line an impartial wage so that the employees can get basic needs and healthcare. America experienced the great depression and numerous issues like the failure of banks, business houses and unemployment dropped up. In the 1930s, a number of measures were started under the name of New Deal and this measure contained a number of ethical and welfare activities such as the generation of employment, improvement of agricultural productivity and promotion of business activities. Business firms were asked to work more closely with the government to raise family income. By the 1950s, the New Deal had developed into the Fair Deal by President Harry S. Truman. This program determined such matters as civil rights and environmental responsibility as ethical issues that businesses had to address.

Until 1960, ethical issues were often discussed only in philosophy and theology platforms. Personal ethical issues related to business were addressed in churches, mosques, and synagogues. Religious leaders were concerned about fair wages, reasonable prices, labor practices and some of them even raised questions about the moral principles of capitalism. Religious institutions started to discuss ethical issues related to business. There was a great concern for the improvement of the condition of poor people. Social ethics was offered as a course in several Catholic colleges and universities. The Protestants also developed ethics as a course in their seminaries and schools of theology and they addressed issues concerning morality and ethics in business. Protestant religion encouraged frugality, hard work, and achievement of success. Such religious traditions provided a foundation for the growth of business ethics. Each religion applied its moral concepts not only to business, but also they were extended beyond business, namely government, politics, personal life, the family, and all other aspects of life.

2. The 1960s: Growth of Social Issues in Business

During the 1960s, an anti-business attitude was developed by American society. Vested interested groups controlled the economic and political aspects of society- the so-called military-industrial complex. The ecological problems such as pollution, the disposal of toxic and nuclear wastes and other environmental issues were highlighted to the people. Consumerism- activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers had grown as a powerful movement in the U.S. In 1962, John E.

Kennedy who was an American President delivered a "Special message on protecting the consumer Interest" in which he highlighted four basic consumer rights. They are also known as the Consumers' Bill of Rights: (https://www.presidency.ucsb.edu/documents/special-message-the-congress-protecting-the-consumer-interest)

- the right to safety
- the right to be informed
- the right to choose
- the right to be heard.

In 1965, Ralph Nader who is an American political activist, author, lecturer, and attorney started the modern consumer movement. He wrote "Unsafe at any speed" which criticized the auto industry, in general, and General Motors (GM), in particular for putting profit and style ahead of lives and safety. Ralph Nader's consumer protection organization called Nader's Raiders fought successfully for legislation, which required automobile makers to equip cars with safety belts, stronger door latches, powerful wind sheets, and padded dashboards. Several consumer protection laws such as the Wholesome Meat Act of 1967, the Radiation Control for Health and Safety Act of 1968, the Clean Water Act of 1972 and the Toxic Substance Act of 1976 were passed.

After Kennedy came, President Lyndon B. Johnson with a vision to build "A Great Society" informed the business community that the U.S government's responsibility was to provide the citizens with some degree of economic stability, equality, and social justice. He also noted that activities that could destabilize the economy or discriminate against any class of citizens would be considered unethical and unlawful (https://www.whitehouse.gov/about-the-white-house/presidents/lyndon-b-johnson/).

3. The 1970s: Business Ethics as an Emerging Area of Concern

During this period, Business ethics began to develop as a field of study and the concept of social responsibility had become popular. Paul Samuelson, a well-known American economist, advocated effective implementation of social responsibility in business. He proposed that the idea of giving back to society was based on sound moral principles. Detailed discussions were conducted all through the world on the significance of social responsibility and detailed plans were worked out on the extension of social responsibility to the various stakeholders.

A number of centers dealing with issues of business ethics were established. Interdisciplinary meetings were conducted by bringing professors, philosophers, theologians and business people. Then President Jimmy Carter introduced the Foreign Corrupt Practices Act of 1977 in terms of which bribing to officials of other countries was considered illegal and unethical. Political scandals over the globe opened the eyes of the public on the importance of ethics in public administration. A variety of unethical issues such as bribery, deceptive advertising, price collusion, the safety of the product and environmental issues were recognized by the end of the 1970s. However, only limited efforts were made to provide some guidelines for the business people to make ethical decisions. Many variables that affect this process in business were not identified.

4. The1980s: Period of Consolidation

In the 1980s, the academic circle accepted business ethics as a field of study. Many institutions with diverse interests came forward to promote the study of ethics. Many colleges offered ethics as a subject and more than 40,000 students enrolled for courses in ethics. Business ethics centers provided publications, courses, conferences, and seminars on ethical issues. Many leading companies such as General Electric, General Motors, Caterpillar, and S. C. Johnson & Son, Inc. promoted ethical committees to address ethical issues.

In 1986, "The Defense Industry Initiative on Business Ethics and Conduct" usually recognized as the Defense Industry Initiative (DII) was improved. In response, 18 of the nation's top defense companies voluntarily created the DII and drafted core principles to manage business ethics and conduct. There are the following core principles of The DII:

- The code of conduct must be easy to understand and implement
- A continuous ethical training must be provided to employees of member companies
- Defense contractors have to generate an environment where workers can feel relaxed in reporting infringements without being afraid of any punishments
- An effective internal reporting and voluntary disclosure plans must be developed by the member companies
- The member companies should maintain the defense industry's integrity
- The member companies have to adopt a philosophy of public accountability (https://www.dii.org/about/dii-principles)

5. 1990-Modern times: A new Focus on Business Ethics

The concept of globalization has developed rapidly during modern times. Social concerns such as using child labor, discrimination against someone at the workplace and inequitable practices in trade are paid adequate attention. A lot of business organizations have been looking for new ways and methods of helping customers. The failure of enormous companies such as Enron and WorldCom have set off alarm bells among a number of huge corporations. Some shared values like honesty, equality, and integrity is a trend over the globe. When these values are applied to international business, they become a universal set of business ethics. The Caux Round Table (CRT) offered thirteen business principles for ethical conduct. The Sarbanes-Oxley (SOX) Act of 2002 came into force with the following basic provisions:

- To establish a Public Accounting Oversight Board administered by the Securities and Exchange Commission
- CEOs and CFOs should verify the financial statements of their companies
- Independent members should establish effective audit committees
- The code of ethics is appropriate to all
- Auditing and consulting should be implemented by separate bodies
- Wrongdoing actions of top management have to be reported to the Board of Directors (BoD)
- To protect whistle-blowers
- To apply the ten-year penalty of punishment for mail or wire fraud
- The accounting firms should replace individual auditors from one account to another
- The financial securities specialists have to confirm that their recommendations are based on objective reports

There are the following benefits of the Sarbanes-Oxley (SOX) Act of 2002:

- More responsibility from top managers and board of directors
- Growth in the confidence of investors
- Guidelines for CEO compensation
- Protection of workers retirement schemes
- More information from stock analysts and rating agencies
- More accountability for auditors and senior managers

The changing socio-economic conditions give an opportunity for the development of ethical principles and practices.

1960s	1970s	1980s	1990s	2000s
Environmental issues	Employee militancy	Bribes and illegal contracting practices	Sweatshops and unsafe working conditions in third-world countries	Cybercrime
Civil rights issues	Human rights issues	Influence peddling	Rising corporate liability for personal damages (for example, cigarette companies)	Financial misconduct
Increased employee-employer tension	Covering up rather than correcting issues	Deceptive advertising	Financial mismanagement and fraud	Global issues, Chinese product safety
Changing work ethic	Disadvantaged consumers	Financial fraud (for example, savings and loan scandal)	Organizational ethical misconduct	Sustainability
Rising drug use	Transparency issues			Intellectual property theft

Table 1.2 Timeline of Ethical and Socially Responsible Concerns. (Source: Ferrell & Fraedrich, 2010)

2. Need for Managing ethics as a Program

Today more practical information on the ethics management is needed by leaders and managers. The management of ethics at the workplace provides great moral and practical advantages to both leaders and managers. It is especially true that understanding and managing extremely different values in the work environment is essential today. Organizations can manage ethics within their workplaces by setting up a business ethics program. (Shaikh, 2010)

Executive Secretary of the Association for Practical and Professional Ethics (APPE), Brian Schrag elucidates; "In general, ethics programs, which frequently use codes and policies as guidelines for decisions and behavior, usually deliver corporate values and can comprise extensive training and evaluation in accordance with the organizations"

The chapter provides to recognize ethical issues that arise in business and to identify the responsibilities of organizations for preventing these problems as a moral agent.

2.1 Common types of ethical issues related to business

Expanding business and growing staff lead to eventually new challenges for organizations. As we know, the basic purpose of any organizations is to make and maximize their profits. The people working within the organization are ready to compromise even one's ethics for achieving their personal benefits. It should be mentioned that the success of a business greatly depends on these people. Putting one's own interest ahead of organization, unethical behavior, lying to employees or stakeholders make ethical issues for organizations.

An ethical issue is a problem that involves debate or examination to make a decision. An ethical dilemma is a situation that involves selecting among unethical decisions. Ethical problems often arise from the lacking integrity of organization and problems related to the organizational relationship.

It is really challenging to recognize ethical issues and to prevent them at the workplace. However, the National Business Ethics Survey (NBES) identify the specific ethical issues by employees. These problems are as following:

- Abusive behavior
- Discrimination
- Sexual harassment
- Lying
- Conflicts of interest
- Bribery
- Corporate intelligence
- Environmental issues
- Fraud
- Insider trading
- Intellectual property rights
- Privacy issues
- Financial misconduct

The Ethics & Compliance Initiative (ECI) named three types of ethical issues as interpersonal misconduct: abusive behavior, sexual harassment and discrimination.

» Abusive or Intimidating Behavior

Physical pressures, profaneness, being annoying, yelling, insulting, cruelty, false accusations, disregarding someone, and slow-wittedness can be considered as abusive or intimidating behavior. It is the most common ethical issue for workforces. The meaning of the words above can be understood differently by persons. For instance, while one person may identify as yelling, the other may identify as normal speech.

Bullying is unethical behavior that people constantly and purposely use words or actions against someone to bring about suffering and danger to their safety. Those who have greater impact or control over somebody else, typically do those actions that they want to make another person less powerful or helpless. The actions related to bullying are represented in Table 2.1

Bullying at the workplace is widespread and it can result in lower confidence, increased illness absence, low efficiency, high staff turnover, and eventually expensive legal costs (Douglas, 2011).

1. Spreading rumors to damage others
2. Blocking others' communication in the workplace
3. Flaunting status or authority to take advantage of others
4. Discrediting others' ideas and opinions
5. Use of e-mails to demean others
6. Failing to communicate or return communication
7. Insults, yelling, and shouting
8. Using terminology to discriminate by gender, race, or age
9. Using eye or body language to hurt others or their reputation
10. Taking credit for others' work or ideas

Table 2.1 Actions Associated with Bullies (Source: Cathi McMahan, "Are You A Bully?" Inside Seven, California Department of Transportation Newsletter, June 1999, page 6.)

» Discrimination

Discrimination, which happens when a person is discriminated against by another person or a group of people because of several factors such as gender, disability, nationality, age and etc., is unethical action.

Two types of discrimination are usually encountered in the workplace: direct and indirect.

Direct discrimination often occurs in order to individuals make unjust assumptions by just looking at someone's physical appearance. For instance, the HR manager refuses to hire somebody due to their age for the reason that he/she thinks that they are very old to acquire new competencies.

Indirect discrimination occurs when policy or behavior of the organization may appear to treat all employees equally; however, it essentially makes difficulties for somebody else. For instance, working 12-hour shifts obligation may seem to treat everybody similarly, but it can pose some problems for workers who have family or care responsibilities.

According to the 16th article of Labor Code of the Republic of Azerbaijan during hiring or firing of employment, no discrimination shall be permitted and employees or other physical persons that permit the discrimination shall bear the applicable responsibility in the manner established by the Legislation.

» Sexual harassment

Sexual harassment can be characterized as any repeated, unwelcome sexual behavior that committed upon one person by another. It may seem in the form of verbal, written, visual, and physical and can happen between people with different genders or the same gender:

- commentaries concerning an individual's personal life
- sexually suggestive behavior, like staring
- brushing up against somebody, touching, cuddling or kissing
- sexually suggestive jokes
- showing unpleasant photos, videos, screen savers or objects
- repetitive suggestions to go out
- sexually suggestive e-mails, text messages or posts on social networking sites.

- sexual assault (https://www.humanrightscommission.vic.gov.au/discrimination/sexual-harassment)

According to the 2018 National Survey on sexual harassment in Australian workplaces, one in three people (33%) having experienced sexual harassment at the workplace between 2013-2018. The survey indicated that women (23%) were more sexually harassed at the workplace than men (16%) were.

Global Business Ethics Survey (GBES) reported about frequency, severity and perpetrators of these three types of interpersonal misconduct in the workplace with the overall rates in December 2018. (Table 2.2) In addition, three factors - poor leadership, performance without concern and organizational change have been identified as particular risk for interpersonal misconduct in this survey.

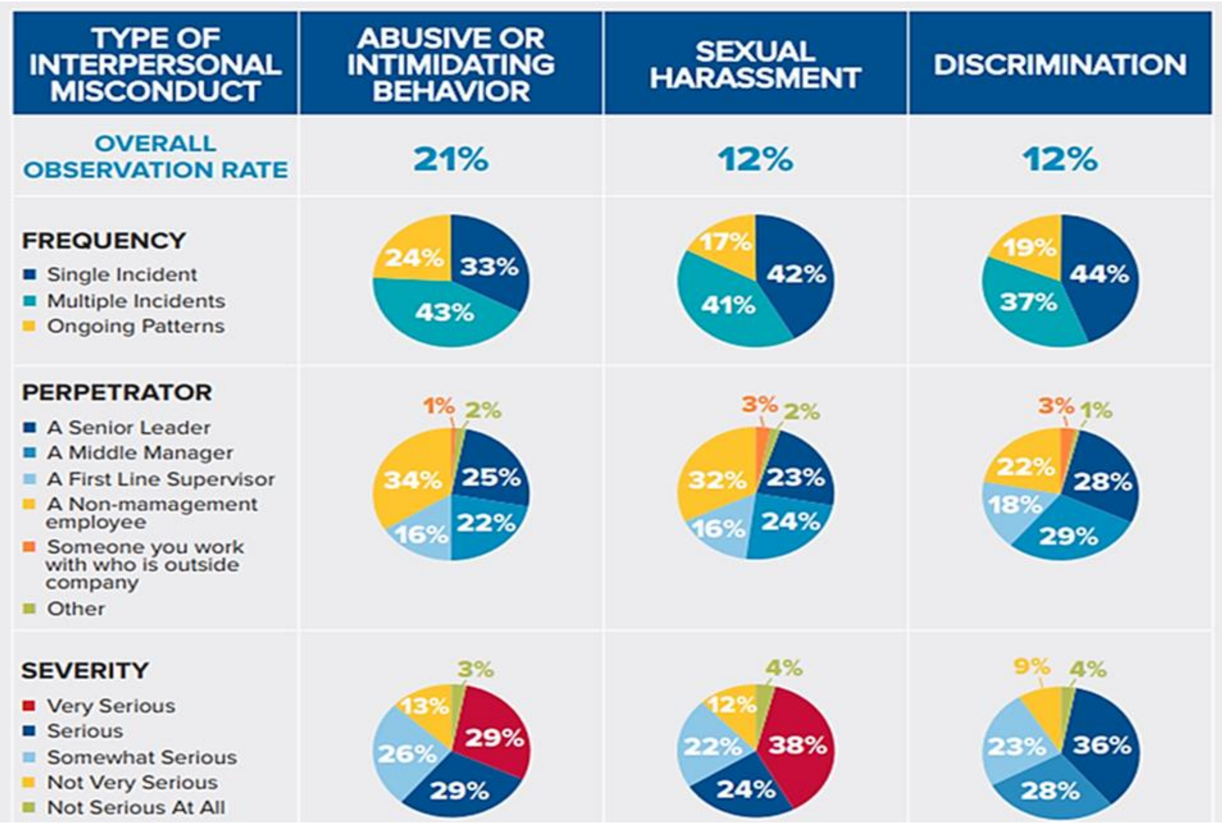

Table2.2 (Source: www.ethics.org)

» Lying

Lying is related to distorting the truth and against the honesty, which is the main principle of business ethics. Many workers lie in order to help for achieving performance goals. For instance, they may need to lie about their products when a client will receive a purchase. Commission lying and omission lying are the main types of lying in general (Witt, 2008).

Lying by commission is creating a belief by words that deliberately cheat the receiver of the message. Puffery in advertising of the products or companies can be the example of commission lying. For instance, displaying a photo of the product, which doesn't reflect the real product, is frequently happening in business.

Lying by omission is deliberately not notifying the channel member for any changes, risks, notification about safety or negative matters associated with the product, service or company that importantly influences consciousness, intention or conduct. The drug Vioxx can be the example of lying omission. Because the manufacturer of this drug allegedly did not give information to consumers about the degree and existence of side effects, one of which is death. As a result, lying can be the focus of litigation if it harms others.

» Conflicts of Interest

A conflict of interest in the workplace exists when an individual acts in his or her own interests in order to obtain personal gain. Namely, an employee does not take consideration of the interest of the company in making a decision. There are negative effects to the company such as damaging the reputation and losing business. An employee conflict of interest may be classified as the following ways:

- Relational (family): e.g., hiring or promoting an unqualified relative
- Relational (romantic): e.g., a worker who has a romantic relationship with his/her manager acquires favorable treatment due to their relationship
- Financial: e.g., offering discounts to clients in exchange for gift cards
- Confidential: e.g., an employee who has access to confidential information in business reveals it to competitors.

» Bribery or kickbacks

Bribery is the proposal, acceptance or agreeing to receive of something of any item of value (usually money) in exchange for impact on a government or public official or employee. Generally, bribes can be in the form of gifts or money payments in return to special treatment, like rewards of government agreements. The property, different goods, services, privileges, and favors may be described as other forms of bribes.

A kickback is a form of a bribe that is paid to somebody unlawfully in exchange for hidden help or work. The distinction between kickback and other types of bribes seems to be that there is implicated agreement among the agents of the two parties, instead of one party extracting the bribe from the another. The aim of the kickback is typically to inspire the other party to collaborate in the illicit scheme.

According to the 13th article of Law of the Republic of Azerbaijan on Rules of Ethics Conduct of Civil Servants, a civil servant official must refuse being offered an illegal material and non-material gifts, privileges or concessions for reasons not depending on him/her.

» Corporate intelligence

Corporate intelligence (CI) is broadly defined as the gathering and analysis of information about marketplaces, customers, competitors, and technologies. Corporate intelligence, which can be used in staying competitive, encompasses a detailed discovery of information from corporate records, regulatory filings, judicial documents, and press releases, along with any other background information about a company or its officials.

Today it is easy to thieving of trade secrets such as manufacturing schematics, secret formulas, merger or acquisition plans, and marketing strategies by means of computers, LANs (local area networks), and the Internet. In 2009, NewRiver Inc. accused the investment research firm Morningstar Inc., of using Internet spying to copy information off of a patented system for handling mutual fund prospectuses. Morningstar Inc. did not deny that they had accessed the system but sued it was only for “benchmarking purposes,” and added that they had not entered any password-protected areas of the site. As a result of the lack of security one can use some different techniques to get access to a company’s valuable information. Some techniques for getting an access to vital corporate information may include the followings:

- Hacking - getting of illegal access to data in a system or computer
- Social engineering - deceiving of people into revealing their passwords or other valuable corporate information
- Dumpster diving - searching valuable information in someone else's trash
- Whacking - wireless hacking
- Phone eavesdropping - illegal intervention of a discussion, communication or digital transmission

» Environmental issues

Environmental issues still remain as one of the most popular problems over the globe. Businesses traditionally demonstrate terrible indifference to the environment. Let's look at how the environment is related to business ethics.

A number of attitudes generally in our society and particularly in business have led to or made an increase in unwarranted environmental issues. One of them is the tendency people have considered the natural world as a "free and limitless good'' (Shaw, 2011). In other words, natural resources such as air, water, land, and the others were realized as accessible for businesses to use them. In this context, contamination and the reduction of natural resources are the aspects of the same problem: Both involve the use of scarce natural resources. Shaw also deliberates the significance of business ethics to animals because the organizations do animal testing or kill animals for food.

The Kyoto Protocol is an example of increasing concern of global warming and is an international treaty on the reduction of carbon dioxide and other greenhouse gases. The aim is to stabilize greenhouse-gas levels to avoid dangerous climatic changes.

» Fraud

Fraud is deceiving, manipulating or hiding the facts with the purpose of making a wrong impression. Fraud is considered as crime and it can result in imprisonment, penalties, or both of them. The furthermost common dishonest actions that workers report about their colleagues are thieving office supplies, suing to have worked additional hours, and taking cash or products. Nowadays, accounting fraud is the most popular ethical issue, but fraud is also related to marketing and customer matters as well.

Accounting fraud typically encompasses an organization's financial reports where firms provide vital information on which investors or others base decisions, which may cover millions of dollars. If the reports include wrong information and data, whether purposely or not, at that point, criminal punishments and litigations can result. There are many accounting scandals in the history, which have resulted in the loss of billions of dollars, the collapse of companies and even affected people's lives. Big companies like Enron, WorldCom, Tyco, Lehman Brothers, and Waste Management Inc. have been faced with the accounting fraud.

Marketing fraud involves an unlawful practice committed by an individual or company in the process of producing, allocating, pricing, and promoting goods or services. The main purpose of marketing fraud is making false impression or deceiving claims. Deceptive marketing communications, especially lying, are the potentially significant problem that can destroy people's trust and it may also cost customers hard-earned money. Nowadays, marketing fraud can found easily in commercials.

Consumer fraud occurs when consumers effort to defraud businesses in order to their own gain. Consumers participate in numerous other forms of fraud in contradiction of businesses, comprising price tag shifting, lying in order to attain age-related or other discounts, item changing, and taking advantage of liberal return policies by returning used items, particularly worn with the price tags still attached. Businesses operating with the philosophy of "the customer is always right" have found that some consumers will benefit from this promise and have changed return policies to prevent unjustified use.

<u>*» Financial Misconduct*</u>

In the 2008–2009 financial crisis and recession, the lack of recognizing and management of ethical risks played an important role. The global recession has been partly caused by the fact that the financial sector is not responsible for the decision to use risky and sophisticated financial instruments. Regulation loopholes and failures on the part of regulators have been exploited. Corporate cultures have been built on rewards that create value for stakeholders rather than risks. Regrettably, a majority of stakeholders, comprising the community, regulators and mass media, don’t always realize the nature of the financial risks engaged in by banks and other institutes to make profits.

Early problems of ethics arose when issuing subprime loans by obtaining loans from borrowers when the borrower did not pay the debt. The development of "Liar loans" soon resulted in more sales and more personal indemnity for lenders. In order to qualify for and protect loans, lender companies would give an incentive to subprime borrowers to provide false information about their application and in order to increase the amount of the loan, some evaluators provided inflated home values. In other cases, consumers were requested to falsify their earnings to make the loan more appealing. There was a very wide possibility of misconduct.

» Insider Trading

Insider trading means the practice of buying or selling securities of a publicly traded company holding material information which is not publicly available. Material information relates to any information that could have a considerable impact on an investor's decision whether to purchase or sell the security. Non-public information means the information is not legally available in the public field and only a few people have information directly linked with it. An example of an insider could be a company manager or a government official, who has admittance to an economic report before it becomes available to the public. One common misunderstanding is that all trading of insider is unlawful, but in reality, insider trading can take place in two ways: legal and illegal

Legal Insider Trading – It is legally allowed to purchase and sell shares of the company and subsidiaries, which employ them. Nevertheless, these transactions must be registered appropriately with an advance filing by the Securities and Exchange Commission (SEC).

Illegal Insider Trading - The most unpopular way of insider trading is the illicit usage of material information for profit, in which information is not publicly available. It can be done by anybody, including managers of the company, family members, friends or just a normal person walking on the streets, unless the information is not known to the public. For instance, let’s assume that the chief executive officer of a publicly-traded company unintentionally reveals his/her company's monthly incomes while getting a haircut. If this information is taken and handled by the hairdresser, it is regarded as illegal insider trade and the SEC can intervene.

By examining the volumes for trading in a particular stock, the SEC can monitor illegal insider trade. Volumes often rise after material news is made available to the public, and this may act as a warning flag when no such information is made available and volumes are raised dramatically. The SEC then examines exactly who is responsible for the unusual trade and define it was illegal or was not (https://www.investopedia.com/ask/answers/what-exactly-is-insider-trading/).

» Intellectual Property Rights

Intellectual Property Rights (IPR) includes the lawful protection of intellectual properties like music, books, and films. The creators of intellectual property were protected by laws like the 1976 Copyright Act, the 1998 Digital Millennium Copyright Act, and the 1999 Digital Theft Deterrence and Copyright Damages Improvement Act. At the same time, ethical issues for websites are still expanding due to technological advancements.

A decision of the Federal Office for Copyright (FCO) was the basis of intellectual property legislation in the digital world. The FCO decided to prohibit web users from crossing barriers to material released online by copyright holders, with only two exceptions allowed. The first one was the software which does not allow users to find obscene or controversial content on the Web, and the second exception was for individuals wanting to avoid the malfunctioning security features of the software or other copyrighted items that they have acquired. This decision shows that copyright holders are usually being favored in issues relating to the digital copyright. Many lawsuits have been made in connection with this matter and some have had costly consequences. MP3.com has paid $ 53.4 million to Universal Music Group to stop the conflict over the major copyright infringement record label.

» Privacy Issues

Consumer advocates are still warning consumers of new privacy risks, particularly in the medical care and Internet industry. With the number of internet users increases, the concerns about its use are also growing. Some privacy concerns to be solved by businesses comprise the control of the worker’s use of existing technology and consumer privacy. Recent research indicates that consumers are still suspicious, even if companies utilize discounts or personalized services. Nevertheless, some consumers are still ready to provide own information, in spite of the possible risks.

Today, a challenge for businesses is to address their business needs while safeguarding employee privacy needs. There are some legal protections of a worker's right to privacy, which enables the company a lot of flexibility in developing privacy policies related to workers when they are on the company and use the company's equipment. The greater use of electronic communication at work and technological developments that enable the monitoring and supervision of workers have opened up new opportunities for companies to collect employee data. From telephone taping to GPS Satellite Tracking, workers use technologies in order to achieve productivity and safeguard their resources.

The privacy of consumers has two dimensions: consumer awareness about the collection of information and an increasing deficiency of consumer control over how businesses use the personally identifiable data collected by them. For instance, many people do not know that Google Inc. reserves the right to track a link from a search whenever it is being clicked. It is possible to track online buys and even random Internet surfing without the knowledge of a consumer. A survey carried out by the Progress and Freedom Foundation indicated that 96% of popular business websites gather visitors' personal information.

The challenge of identifying an ethical business issue

The majority of moral issues are made apparent by stakeholder concerns regarding an activity, event or the outcome of a business decision. Mass media, groups of special interests and people frequently discuss the ethicality of a decision by using blogs, podcasts or other media. An alternative method of defining whether a particular behavior or situation has an ethical part is by asking other people in the workplace how they feel about it and whether they see it as an ethical challenge. Trade and self-regulatory business associations like the Better Business Bureau regularly give guidance to businesses in determining ethical issues. In conclusion, it is significant to decide whether a particular activity policy has been adopted by the organization. An activity approved by a majority of the organization's members may be ethical if it is an ordinary case in the industry. An action, issue or situation, which can resist open debate between numerous stakeholders within or out of the organization, cannot create ethical problems.

2.2 Responsibilities of organizations as a moral agent

Any business is managed through hundreds of decisions and all decision-making processes are subject to ethical issues. So that, ethical dilemmas and conflicts form part of these processes. There arises an ongoing conflict among the objectives of an organization and several problems regarding its daily management. Any organization's success is measured according to its incomes, profits, cost reduction, quality, quantity, productivity etc. These objectives may conflict directly with the organization's social commitment that is measured by stakeholder responsibilities, both inside and outside the organization. For example, cost reduction can be used as a tool for increasing income and profit. In the course of achieving this goal, some employees may need to be laid off by the organization. This leads to a conflict between the organizational objective and the obligation of business units towards the stakeholders, in this situation, dismissed employees. Of course, these issues will vary from organization to organization, from individuals to individuals, and the issues raised in each case can be interpreted differently. It is important that the organization ought to retain its competitive advantage in the market to survive itself. The organization should produce products and services that are profitable, safe and quality at a reasonable price. During that process, the organization should secure that the stakeholders' interests do not suffer adversely. This means that the organization needs a fine balance act (Fernando, 2010).

A number of ethical issues in business are composite and need to be agreed on appropriate action by organizations. Boards of directors and top managers should provide the leadership and a system for resolving these matters.

Increasingly, companies are seen not only as profitable entities, but also as moral agents responsible for their actions towards their workers, clients, suppliers and investors. For the reason that companies are chartered as citizens of a state/nation, they normally have the identical rights and responsibilities as people. The companies are held accountable by legislation and judicial precedents for the behavior of their workers and their decisions and the results of those decisions. News media publicity on particular issues like employee benefits, management compensation, deficiencies in products, financial reporting and competitive practices contribute to a company's reputation as a moral agent.

Considered as moral agents, organizations must comply with laws and regulations that determine acceptable business behavior. Nevertheless, it is significant to recognize that they aren't human beings who may think about moral issues. Since organizations are not human, legislation and regulations are needed to provide formal structural restrictions and guidance on ethical matters. Although people can try to follow their individual values and moral philosophy, they should act in the best interest of the company as employees. Therefore, the person as a moral agent has a moral responsibility beyond that of the company for the reason that the person can think responsibly about composite ethical matters rather than the company (Ferrell & Fraedrich, 2010).

Business Ethics Leadership Alliance (BELA) reported the root causes of misconduct at the workplace based on survey 2018. (Figure 2.3)

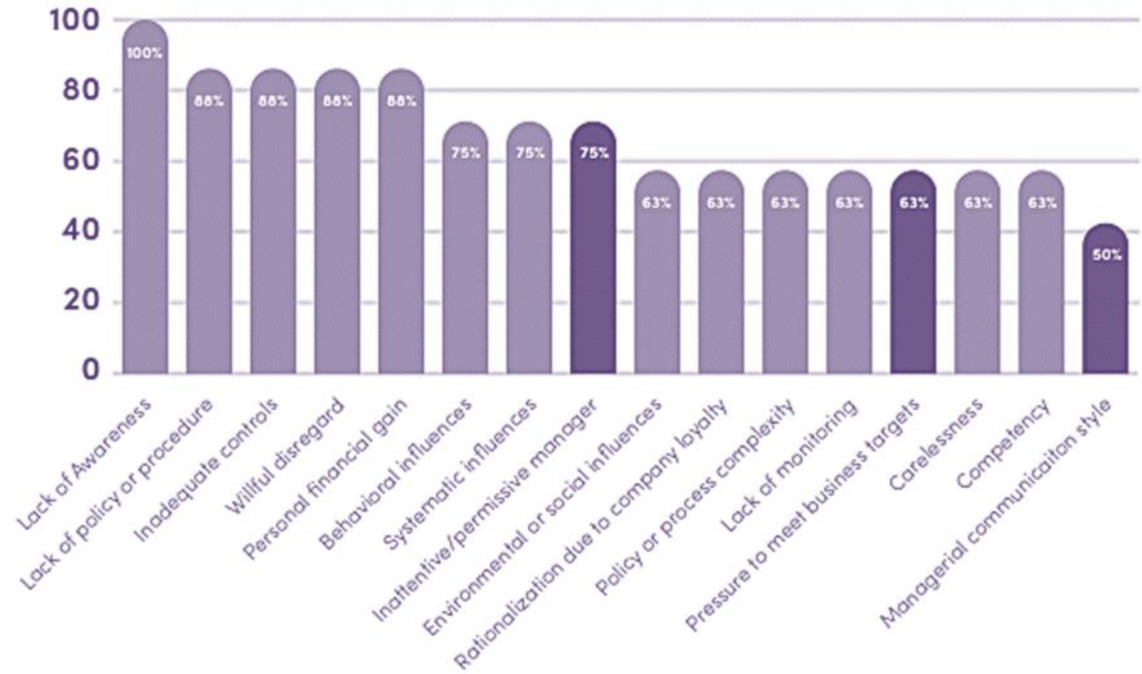

Figure 2.3. Root causes of misconduct (Source: Root Cause Analysis: A 2018 BELA Research Report)

Although evidently not a human being, a company can be regarded as a social moral agent established to perform certain functions within a society, and hence it is responsible for its actions towards society. An organization ought to develop a program for organizational ethics to encourage legal and ethical actions through setting, coordinating and monitoring the ethical standards and legal requirements, which describe its history, culture and business environment. Unfortunately, employees can hardly decide what conducts are acceptable in a company without such programs, policies and standards. In non-existence of such programs and standards, in general, employees will decide according to their observations of how their colleagues and superiors act. The strong ethical program involves; a code of conduct, careful authority delegation, an ethics officer, formal ethics training, strict monitoring and auditing, enforcement and revision of program standards.

Though universal standards for business ethics programs do not exist; the large number of companies improve codes, norms or policies for guiding their conduct. Nevertheless, it might be naive to believe that having an ethical code would totally resolve ethical problems when a company could face. In fact, the majority of companies confronted with ethical and legal problems in the last few years have established official codes of ethics and programs. The difficulty is that top management does not integrate these codes, norms, and standards into the organizational culture, wherever it might ensure the effective direction for daily making a decision.

Company strategies and structures that address ethical matters must be improved with the purpose of to meet the increasing public demand for ethical decision-making. Regulations have mandate certain guidelines for the improvement of the ethics, but companies should be able to make a system with the purpose of the application of ethics and values that transcends the minimum requirements.

3. Implementation of an effective ethics program and its contributions to business

3.1 Components of an effective ethics program

An ethics program enables to convey the business philosophy of the company to the workers, sellers, investors, and clients. A strong ethics program can enhance the relationship with workers and clients and can increase the reputation of the company. Though it is possible that workers may aware of the informal ethics position of the company, the creation of a program eradicates any confusion and gives everybody the same information related to business conduct.

An effective ethics program is required for a company in order to provide that all workers recognize its values and adhere to the codes of conduct and policies creating its ethical culture. We are coming from different backgrounds of family, education, and business, so it cannot be supposed that when entering a new company or employment we know how to behave applicably.

The object of an effective ethics program is to take advantage of obtaining an ethical culture. Establishing an ethical culture can contribute to a company to attain a sustainable competitive edge over the marketplace. Thus, in the creation of effective ethics (also known as ethics and compliance) program, there are both financial and ethical considerations (Ruddell, 2014).

According to the Federal Sentencing Guidelines for Organizations (FSGO), the components of an effective ethics program are the followings:

- a code of conduct
- ethics officers and the applicable delegation of authority
- an ethics training program and communication
- a system to monitor and support ethical compliance

- and continuing efforts for improving the ethics program

Ethical programs, regardless of their purposes, are developed to provide predictability to employee behavior as an organizational control system. It is possible to create two kinds of control systems. *A compliance orientation* creates instruction by requiring employees to recognize and perpetrate to the specific conduct required. It includes legal conditions, laws and contracts, which teach employees about the rules and penalties. Compliance-based programs are associated with employees' awareness about ethical problems at the workplace, their perception that the programs improved decision-making, their clear knowledge about the rules and assumption that simplify decision-making.

The second one *values orientation* that aims at developing common values. Even if punishments are imposed, the attention is given to an abstract set of ideals like responsibility and commitment. Value-based programs enhance the awareness of employees' ethics at the workplace, their completeness, their willingness to report bad news to the supervisors, and their perception of making better decisions. Eventually, it seems that a value-based program can be better for business in the long term, but both control systems can help managers and employees.

» Codes of conduct

Most organizations are starting to set organizational ethics programs through developing codes of conduct, which describe what a company expects of its workers. These statements can take three various forms:

(1) a code of ethics, (2) a code of conduct, and (3) a statement of value.

The most comprehensive code is a *code of ethics*, which contains common statements, often philanthropic or inspirational, that serve as principles and rules of conduct. In general, a code of ethics provides methods for reporting infringements, corrective action on infringements and the proper process structure. *A code of conduct,* a written document that can encompass inspiring statements, typically describes acceptable or not acceptable types of conduct. A code of conduct is closer to a number of regulations and tends to generate fewer discussions on specific actions. Certain main reasons for the failure of codes of ethics are:

- the code is not encouraged and workers do not read
- the code is not easy to access
- the code is written too legitimately and thus cannot be understandable by average workers
- the code is written too indefinitely and does not give the exact direction
- top management does not refer to the body or spirit code

The last type of ethical statement is a value statement, which serves the general public applies to different groups, including stakeholders. It is designed by management and completely developed with the input of all stakeholders.

No matter what the degree of comprehensiveness, the code of ethics should indicate the commitment of senior managers to comply with values, rules, and policies in supporting an ethical culture. The Chairman, the Board of Directors and the CEOs who will implement the Code must be involved in the improvement of a code of ethics. Legal personnel should also be requested to ensure that the code properly evaluates the main areas of risk and provides buffers for possible legal issues. A code of ethics, which is not dealing with particular high-risk activities in day-to-day operations, is insufficient to maintain standards that may prevent unethical behavior.

The following guidelines should be considered when developing codes of conduct:

- Considering risk areas and indicating the values and behavior required by legislation and regulations, values are a major buffer against the serious misconducts
- Identifying values which deal with current ethical problems in particular
- Taking into account values that connect the organizations to stakeholder orientations, trying to find coincidences in organizational and stakeholder values
- Making the code easy to understand by giving examples reflecting values
- Frequently communicating the code in understandable languages
- Revising the code annually with input from members of the organizations and stakeholders

These codes are capable of addressing a wide range of situations from internal processes to financial reporting practices and sales presentations. Research has showed that the corporate codes of ethics commonly cover around six core values, as well as descriptions that are more detailed and examples of proper behavior. The six values proposed as desirable for ethics codes contain:

1. Trustworthiness: honesty, integrity, loyalty
2. Respect: autonomy, dignity, acceptance
3. Responsibility: accountability, pursuit of perfection
4. Fairness: impartiality, equity, equality
5. Caring: kindness, sharing, loving
6. Citizenship: protecting environment, law abiding

Codes of conduct do not solve each ethical problems in day-to-day operations. However, they help workers and managers to address ethical issues through prescription or restrictions of specific activities. There are some firms having a code of ethics and they do not communicate a code of ethics effectively. A code placed on a site or in a training manual will be pointless if it does not be strengthened daily. In informing workers both what is expected from them and what penalties they may face in violation of the rules, codes of conduct decrease the possibilities for unethical behavior and thus increase ethical decision-making.

» Ethics Officers

High-ranking individuals who are known to respect legitimate and ethical standards must also be overseeing the organizational ethics programs. They are accountable for managing the ethics and compliance programs of their organizations, and often named as ethics officers. Typically, they are responsible for:

- evaluating the needs and risks of the organization's wide ethics program
- development and distribution of a code of ethics or conduct
- the implementation of employee training programs
- establishment and maintenance confidential service to response workers' questions related to ethical issues
- ensuring the company conforms to government regulations
- monitoring and auditing ethical behavior
- taking an action against possible infringements of the code of the company
- revising and updating the code

It is also the responsibility of ethics officers to know thousands of pages of related regulations and to communicate and strengthen the values, which establish an ethical culture of the company. Ethics and compliance officials have legal, financial and human resources management backgrounds. Sarbanes– Oxley has expanded the responsibilities of ethics officers for the supervision of financial reporting. Ethics officers frequently report directly to the CEO and could have access to the board. In a survey conducted with CFOs, they reported that their operations had been affected or interfered with by unexpected situations in the last year. Such surprises may be prevented through supervision, monitoring, and revising of operating processes and consequences by ethics and compliance functions.

» Ethics training and communication

An ethics-training program is another instrument to improve and safeguard the ethics of an organization. These are some particular functions of ethics training: (Kaptein, 2012)

- instructing employees in the recognition and acknowledgment of moral aspects in their conduct
- clarifying the significance of ethics for stakeholders and the organizations;
- providing methods to describe, analyze, resolve and implement moral problems
- evading or reducing uncertainty with regard to who is accountable for what and to what degree;
- creating, debating, and resolving actual moral issues;
- communicating, strengthening, illuminating, shrinking, and developing the code of conduct;
- explaining and analyzing the use of tools which can be used in the development process.

The simple training program involves an external expert who conducts a lecture and answers questions. A workshop is a more interactive form of training where, besides a lecture, time is spent talking about cases. According to Velasquez

(1988), managers lead the most successful workshops, rather than the external trainers or staff and on the other hand, these managers are trained by external trainers. An external trainer is advantageous because he is frequently specialized in providing such training programs and has practical knowledge in the field of business ethics and is not viewed as a threat by the workers. Training by staff-workers is an intermediate option, with the escorting advantage that these workers can become organizational ombudsmen.

Managers of each department should take part in the progress of ethics-training program. Training and communication initiatives should describe the unique features of an organization such as its size, values, management styles, culture, and worker bases. It is vital to distinguish between personal and organizational ethics in ethics programs. Discussions in ethical training programs are sometimes divided into personal opinions with regard to what should be done or not in particular circumstances. In order to succeed, business ethical programs should train workers on formal frameworks and models for the analysis of ethical issues. At that time, workers can make ethical decisions based on their own awareness of choices, not on emotions.

Sometimes ethics officers do not survey their employees to evaluate the effectiveness of the ethics program and they do not have ethics measurements for performance assessment systems. Both these activities can contribute to determining the efficiency of ethical training for an organization. If ethical performance is not regularly assessed, it means that ethics is not a significant element of decision-making. In order to create a difference in ethics training, workers need to realize why it is implemented and what their role in the implementation of it.

» Systems for monitoring and enforcing ethical standards

An effective ethics program uses various resources such as observers, surveys, reporting systems, and internal audits in order to control ethical conduct and to measure the effectiveness of the program. External audit and evaluation of the activities of companies can sometimes be helpful in the development of compliance criteria.

The observers could concentrate on how the worker handles ethical circumstances in order to determine whether an individual performs his/her work properly and ethically. For instance, many companies use role-playing training exercises for managers and salespersons. Ethical issues can be submitted for discussion, and the consequences can be recorded in a video in order to both participants and their leaders can assess the result of ethical dilemmas.

Surveys can be used as benchmarks in a continuing appraisal of ethical performance through surveying workers' ethical perceptions of their organization, superiors, colleagues, and themselves, also getting the ratings of workers on the ethical or unethical actions in the industry or firm. If unethical behavior continues to grow, management will recognize better that what kinds of unethical practices can occur and why. Then, it may be necessary to change the company's ethics training.

An internal system, which allows workers to report misconduct, is specifically beneficial to monitor and evaluate ethical performance. Most firms establish ethics assistance lines, also called as "hotlines", in order to support and provide employees the chances to ask questions or report their worries. The best ethical hotlines are operating anonymously and are available all day of a year and each hour of a day. Such hotlines may be web, telephone or e-mail which serve important comments and advice for handling a specific case and these are also an effective tool for "blowing the whistle" on wrongdoings. Figure 3.1 indicates the percentage of the propensity of employees to report misconduct.

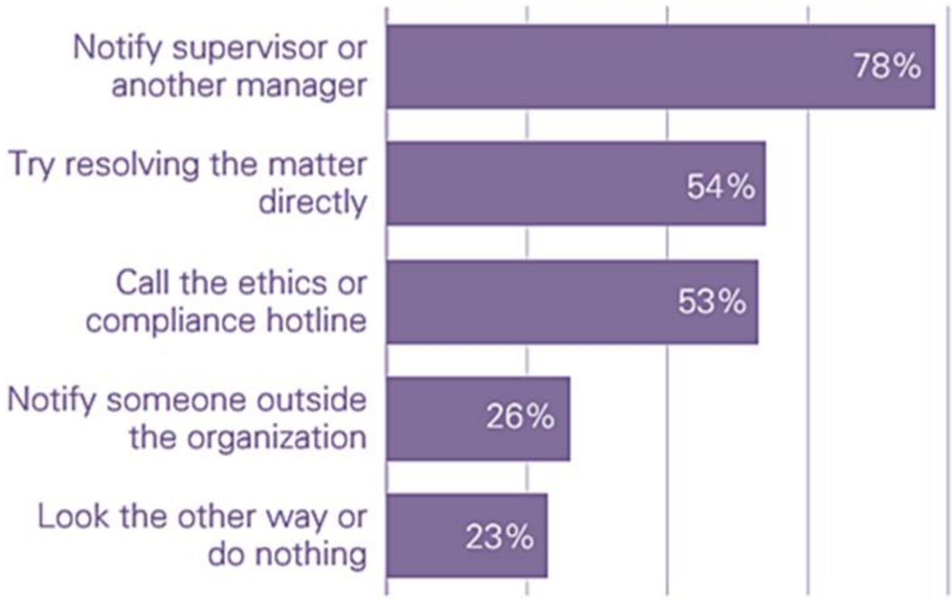

Figure 3.1. Propensity to Report Misconduct (Source: KPMG Forensic Integrity Survey 2013, https://assets.kpmg/content/dam/kpmg/pdf/2013/08/Integrity-Survey-2013-O-201307.pdf)

A functional ethics program requires constant enforcement and appropriate disciplinary actions. Ethics Officers are responsible for carrying out all corrective actions for infringements of company ethical standards. In the assessment of employee performance, many organizations include ethical compliance. During performance assessments, employees may need to sign a notice that they have read the ethical rules of the company. Any known or suspected unethical behavior must be examined by the company immediately.

Attempts to prevent ethical misconduct are crucial for the long-term relationships between companies and their workers, clients and public. By actively enforcing the code of ethics and becoming part of corporate culture, ethical conduct within the company can be improved successfully. If a code is not applied properly, it will achieve little to develop ethical behavior and decision-making.

» Continuous efforts for improving the ethics program

Improving the system to encourage staff for making more ethical decisions is little different from applying other kind of business strategies. The application involves activities designed to accomplish organizational goals through using existing resources and certain existing restrictions. The practice translates action plans into operational terms and generates a tool for monitoring, managing and improving the organization’s ethical performance.

The ability of a firm to plan and implement ethical standards is partly dependent on how it arranges resources and activities in order to accomplish its ethical goals. The behavior and attitudes of people should be driven not only merely obeying to traditional management but by a common commitment to the company. The promotion of diverse perspectives, disagreement and intensification assistances to line up the leadership of the company with its workers.

If an organization finds its ethical performance to be less than sufficient, managers may need to modify how definite sorts of decisions are taken. A decentralized organization, for instance, might want to centralize important decisions for a period or more, and then top managers can provide that the decisions are ethical. Centralization can decrease the probabilities for unethical decisions being made by workers and lower-level managers. The managers can then pay attention to initiatives in order to develop corporate culture and ethical values within the organization through rewarding affirmative conducts and sanctioning undesirable conducts.

In other organizations, it can be a better way to deal with ethical issues via decentralization of vital decisions, so that, lower-level managers who are aware of the local culture and local business environment may make more decisions.

Ethics function may be centralized or decentralized, it is important that the organization delegates authority so that ethical performance can be achieved.

Many companies are commonly misunderstood in the implementation of ethics and compliance programs, including the fact that their senior managers do not have to take ownership of the ethical programs, improve program materials that do not respond to average employee requirements and transfer a number of fundamental questions about the aims of those programs.

3.2 Advantages of having an effective ethics program for businesses

An ethics program may assist the company to avoid civil responsibility, nonetheless, the company still has the burden to demonstrate that it has an effective ethics program. In the nonexistence of wrongdoing a program will be more effective than one enforced as a response to prosecution or disgrace. Legitimate tests of a company's ethical program are feasible when individual workers are charged with illegal behavior. The judicial system or the United States Sentencing Commission assesses the agency's responsibility for the individual's conduct during the investigation processes. If the courts determine that the organization has contributed to the wrongdoing or failed to demonstrate due diligence in avoiding wrongdoing, then the organization may be convicted or penalized.

For ethics programs, a wide variety of objectives and benefits are sometimes cited: avoiding and the following wrongdoing, endorsing fulfilling regulatory demands, an ethical culture, protecting executives and officers and safeguarding the reputation of the companies. The Society of Corporate Compliance and Ethics

(SCCE) and the Health Care Compliance Association (HCCA) surveyed the organizations' management and board of directors that what they consider as the main objective of their ethics program and found out that promoting an ethical culture and preventing and detecting misconduct are the main objective of their ethics program .(Figure 3.2)

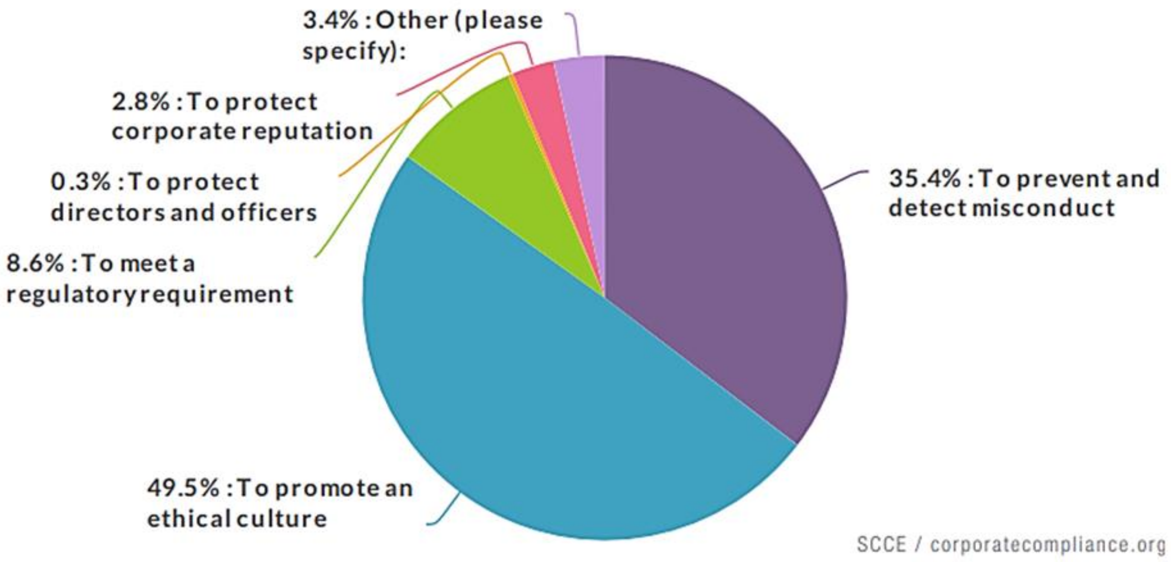

Figure 3.2. The perception of the main objectives of the ethics program considered by the companies (corporatecompliance.org, July 2016)

There are also wide ranges of benefits of ethics and compliance programs and followings describe various types of benefits for businesses:

- Ethics programs help to preserve moral standards in tough times.

Business ethics is crucial in periods of fundamental change which now both non-profit and profit-making businesses are fronting. Ethics program provides businesses with a code of ethics, which allows making constant decisions on what is right and wrong. This is particularly useful for decision-making in conflict times.

- Ethics programs promote strong teamwork and efficiency

Ethics programs adjust employee conducts with top important ethical values favored by the company's leaders. In general, a company finds a striking difference between the values that are preferred and the values that are really reflected by the conduct at the workplace. Continuous focus and dialogue on workplace values constitute the transparency, integrity, and community that are key components of the strong team at work environment. Employees feel strongly in harmony with their values and the organization's value and they react with great performance and motivation.

- Ethics programs support the growth of workers

Paying attention to ethics at work assists workers to confront good and bad reality in their organization. Workers feel that they have a positive effect on society by performing an ethical operation. This sense of responsibility ensures meaning for what they do every day.

- Ethics programs help ensure that policies are legal

There is an enormous amount of legal proceedings concerning staff matters and impacts of company services or products on stakeholders. Ethical principles are frequently the most up-to-date legal matters and these principles are applied in order to become legislation on the present, main ethical issues. The main objective of well-designed staff policies is to guarantee the ethical treatment of workers, for example, in recruitment, firing, appraisal, discipline, and so on.

- Ethics programs can prevent criminal acts and can reduce fines.

Ethical programs incline to identify ethical concerns and infringements at an early stage, thus they can provide or report information. If the company is informed about the current or potential infringement and still does not report it to applicable authorities, of course, this is a crime. The FSGO identify main penalties for different types of infringements of ethics. Nevertheless, if a company makes clear efforts to run ethically, the guidelines could reduce fines.

- Ethics programs encourage a strong public image

The ethics of a business can show a strong positive effect on the public on a regular basis. These organizations are seen as valuing people and as seeking to function with the highest integrity by people. Today's knowledgeable consumers investigate more and closely how companies conduct themselves and doing research whether they really "walk the talk". A constant application of ethical values to daily business decisions is the grounds for establishing a fruitful and socially responsible business.

4. Conclusion

In the first chapter, we defined the meaning of ethics so that ethics is the study and philosophy of human conduct with the focus on defining what is right or wrong. Personal and professional ethics are the main parts of ethics; personal ethics is associated with a combination of family influences, peer impacts, life experiences, personal values and morals while professional ethics is described as individual and corporate rules governing conduct in a specific professional context. The main sources of ethical beliefs are cultural experience, authority and legal system. Business ethics comprises values, principles, and standards, which govern conduct in the business world and it has moved through five distinct stages of development from 1960 to now.

The second chapter provides how to manage ethics in the workplace. As we know, any business is managed through hundreds of decisions and all decision-making processes are subject to ethical issues. The National Business Ethics Survey (NBES) identify the specific ethical issues related to business: abusive or intimidating behavior, discrimination, sexual harassment, lying, conflicts of interest, bribery, corporate intelligence, environmental issues, fraud, insider trading, intellectual property rights, privacy issues, financial misconduct and etc. Increasingly, companies are seen not only as profitable entities, but also as moral agents responsible for their actions towards their workers, clients, suppliers and investors. Considered as moral agents, organizations must comply with laws and regulations that determine acceptable business behavior.

The last chapter focuses on an effective ethics program and its necessity. According to the Federal Sentencing Guidelines for Organizations (FSGO), the components of an effective ethics program are a code of conduct, ethics officers and the applicable delegation of authority, an ethics-training program and communication, a system to monitor and support ethical compliance and continuing efforts for improving the ethics program. There are wide ranges of benefits of ethics and compliance programs for businesses such as it helps preserving moral standards in tough times, promoting strong teamwork and efficiency, supporting the growth of workers, preventing criminal acts and can reducing fines and encouraging a strong public image.

Reference list

1. Andrew Crane, Dirk Matten (2016). Business Ethics: Managing Corporate Citizenship and Sustainability in the Age of Globalization. Fourth edition. Oxford University Press.
2. Archie B. Carroll, Jill Brown, Ann K. Buchholtz (2017). Business & Society: Ethics, Sustainability & Stakeholder Management.
3. Cathi McMahan, “Are You A Bully?” Inside Seven, California Department of Transportation Newsletter, June 1999, page 6
4. Dean Bredeson, Keith Goree (2012). Ethics in the Workplace. South-Western Cengage Learning
5. Elaine Douglas (2001) Bullying in the Workplace: An Organizational Toolkit
6. Elizabeth Vallance (1995). Business Ethics at Work. Cambridge University Press.
7. Everyone’s business: Fourth national survey on sexual harassment in Australian workplaces, 2018
8. Fernando A.C (2010). Business Ethics And Corporate Governance. Pearson Education India
9. Heimir Giersson, Margaret Holmgren (2000): Ethical Theory: A Concise Anthology
10. Joseph Migga Kizza (2010) Ethical and Social Issues in the Information Age, p 34
11. Julia Driver (2013). Ethics: The Fundamentals. John Wiley & Sons.
12. Keith Witt (2008) Waking Up: Psychotherapy as Art, Spirituality, And Science. p 441
13. Labor Code of the Republic of Azerbaijan Republic (Adopted by the Law of Azerbaijan Republic of February 01,1999, N 618-IG)
14. Larry Ruddell (2014) Business Ethics - Faith That Works, 2nd Edition: Leading Your Company to Long-Term Success.

15. Law of the Republic of Azerbaijan on Rules of Ethics Conduct of Civil Servants
16. O. C. Ferrell & J. Fraedrich & L. Ferrell (2010) - BUSINESS ETHICS. Ethical Decision Making and Cases. Eighth edition. South-Western, Cengage Learning.
17. R. P. Maheshwari (1997). Principles of Business Studies. Pitambar Publishing.
18. Richard C. Warren, (2011) "Are we making progress in international business ethics?", Humanomics, Vol. 27 Issue: 3, p.212-224,
19. Roger Bradburn (2001). Understanding Business Ethics. Cengage Learning EMEA.
20. Root Cause Analysis: A 2018 BELA Research Report
21. S. Prabakaran (2010). Business Ethics and Corporate Governance. First edition. New Delhi
22. S.P. Kaptein (2012). Ethics Management: Auditing and Developing the Ethical Content of Organizations
23. Saleem Shaikh (2010). Business Environment, 2/E. Pearson Education India.
24. William Fortenbaugh, Dimitri Gutas, (2010). Theophrastus of Eresus Commentary Volume 6.1: Sources on Ethics
25. William H. Shaw (2011). Business Ethics. Seventh edition. Wadsworth, Cengage Learning.

From internet:

26. 2016 Compliance and Ethics Program Objectives Survey. https://assets.corporatecompliance.org/Portals/1/PDF/Resources/Surveys/2016-c-and-e-program-objectives-survey.pdf?ver=2016-07-15-130621-143
27. https://ahdictionary.com/word/search.html?q=ethics
28. https://bizfluent.com/info-12043676-personal-ethics-affect-professional-ethics-workplace.html
29. https://indiankanoon.org/doc/1113485/

30. https://managementhelp.org/businessethics/ethics-guide.htm#anchor33077
31. https://www.cnet.com/news/mp3-com-pays-53-4-million-to-end-copyright-suit/
32. https://www.dii.org/about/dii-principles
33. https://www.humanrights.gov.au/what-bullying-violence-harassment-and-bullying-fact-sheet
34. https://www.humanrightscommission.vic.gov.au/discrimination/sexual-harassment)
35. https://www.humanrightscommission.vic.gov.au/the-workplace/workplace-discrimination
36. https://www.investopedia.com/ask/answers/what-exactly-is-insider-trading/
37. https://www.managementstudyguide.com/sources-of-business-ethics.htm
38. https://www.patriotsoftware.com/payroll/training/blog/how-deal-conflict-interest-workplace-business/
39. https://www.quora.com/What-are-professional-ethics
40. https://www.whitehouse.gov/about-the-white-house/presidents/lyndon-b-johnson/).
41. Kennedy, John F. (March 15, 1962). "John F. Kennedy: Special Message to the Congress on Protecting the Consumer Interest". https://www.presidency.ucsb.edu/documents/special-message-the-congress-protecting-the-consumer-interest
42. KPMG FORENSICSM Integrity Survey 2013, https://assets.kpmg/content/dam/kpmg/pdf/2013/08/Integrity-Survey-2013-O-201307.pdf
43. Nader R (2011). "Unsafe at any speed: the designed-in dangers of the American automobile. 1965". Am J Public Health. 101: 254-6. (https://ajph.aphapublications.org/doi/10.2105/AJPH.101.2.254