Business Ethics and the HR Role: Past, Present, and Future

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Inherent in the term "business ethics" is an unavoidable tension: Managers must continuously balance the needs of the organization and its stockholders with the needs of other stakeholders. Despite this tension between competing interests, today's business leaders can model behaviors and create a corporate culture that support ethical business practices even while making their firms more competitive in the marketplace.

The first step in any recovery process is admitting you have a problem, and businesses have a problem with ethics. It is not just a matter of some arrogant, immoral executives at a few companies getting greedy and cooking the books. The problem is more basic than that. The hard truth is that natural, unavoidable tension is inherent in the term "business ethics"—a tension that stems from conflicts between the interests of companies and their employees, customers, and the greater society (*Columbia*, 2001).

Although society wants companies to create many well-paying jobs, those same organizations want to limit compensation costs and raise productivity levels. Customers want to purchase goods and services at low prices, but businesses want to maximize profits. Society wants to reduce pollution levels, but businesses want to minimize the cost that environmental regulations add to their operations.

Because these conflicts are fundamental to the nature of business, managers must continuously and consciously balance the needs of the organization and its stockholders with the needs of other stakeholders, including workers, customers, and the larger community. Managers must also balance their personal needs and desires against those of their organizations.

Balancing such factors in a *stable* economic environment is tough enough. What makes it even trickier these days is factors such as globalization, technological innovation, and the quickening pace of business change. There are just too many new developments for traditional ethical standards to keep up. At what point, for example, does using cloning technology in medical research become unethical? Are executive stock options a principled way of linking performance to pay, or do options actually encourage unethical decision making? When does offshore outsourcing become a form of labor exploitation and a repudiation of community responsibility?

conducted jointly by the Society for Human Resource Management (SHRM) and the Ethics Resource Center (ERC). Among responding SHRM members, the most commonly cited source of pressure to compromise ethics standards was the "need to follow boss's directive," cited by 49 percent of respondents. Human Resources has a role to ensure that employees always know there is recourse through open door policies or 1-800 support lines where they can question issues that concern them.

The next two most widely cited sources of such pressure, at 48 percent and 40 percent, respectively, were "meeting overly aggressive business objectives" and "helping the organization survive" (Joseph & Esen, 2003). These two sources also represent conflicts of interest, with employees pulled between obeying ethical standards and trying to serve their organizations.

Another powerful conflict of interest is that employees want to work in an ethical manner but need to safeguard their livelihoods. A recent series of interviews of British HR professionals and accountants who encountered ethics quandaries at work revealed that "ethical behavior was only infrequently a function of personal values." Instead, such behavior was found to be a variable largely dependent on "externally generated pressures, but most notably the fear of jeopardizing one's current or future employment prospects and the consequences of this for the individual's dependents" (Lovell, 2002). The study found that the combination of employees' fear of losing their

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jobs and their loyalty to organizations, supervisors, and colleagues led many to "do nothing" in the face of questionable business practices.

There are no easy answers, but this does not mean managers should throw up their hands and turn over the problem of ethics to corporate lawyers, saying, "Just keep us out of court." Business and HR leaders can model behaviors and create corporate practices that reduce unethical business practices even while making their firms more competitive in the marketplace. Despite the impression that U.S. companies are less ethical than ever, they have actually enjoyed progress in this area over the last couple of years, a trend that will continue if employers remember the lessons of the recent past.

Ethics is a moving target. Social values shift over time, influenced by a complex web of factors. Employers must keep a close eye on those values and, when possible, proactively address ethical dilemmas emerging in their companies. This will always be more of an art than a science, but it is an art well worth pursuing in a world where ethical missteps can result in disaster.

Conflicts of Interest Play a Key Role

To address ethics problems, managers first have to recognize that conflicts of interest exist. In 2000, the Ethics Officer Association conducted a survey of 213 members representing 150 firms and found that the most widely mentioned reason (by a large margin) for contacting the ethics office was conflicts of interest, cited by 74 percent of respondents (Ethics Officer Association, 2000).

Although such conflicts stem from many sources, the most important of these is management itself, suggests an April 2003 study

Corporate culture plays a major role in allowing such conflicts of interest to paralyze ethical decision making. An environment of "ethical cynicism" convinces employees that resisting bad behavior is at best useless and at worst dangerous. Formal codes of conduct, mission statements, and the like have little organizational impact if business practices and leadership actions contradict them (Lovell, 2002). Indeed, a KPMG LLP survey of 2,390 employed adults found that working in an environment plagued by cynicism, diminished morale, or indifference was the leading origin of unethical behavior (p. 3).

Creating an ethical corporate environment requires much more than just devising new standards and amending current mission statements. It means busting up the cynicism that sometimes pervades corporate cultures. This is an opportunity for HR leaders in an organization, but the environment is ultimately most heavily influenced by the actions and attitudes of the business leaders themselves.

Conflicts Are Influenced by the Larger Social Environment

We need to look at social context in order to gain a better understanding of the recent wave of scandals. A lot of these scandals had their origins in the business culture of the late 1990s, an era forged by a confluence of events such as a skyrocketing stock market, the fast spread of Internet-related technologies, the related emergence of new business models, a war for talent, an aging workforce, and soaring executive compensation. These factors tended to reinforce one another to create an ethical "perfect storm."

The hot economy, for example, led to virtually full employment and a tight labor market, especially for top-notch managers and other skilled employees. This, in turn, led to the war for talent that nurtured a sense of hubris and arrogance among some top managers, giving them the impression they were above the rules. Meanwhile, some stock-option-rich executives apparently inflated the market value of their companies in unethical ways in order to cash in their options (Perel, 2003). Investors were willing to throw money even at dubious new business ventures whose stock values soared, further ratcheting up the pressure on executives to boost the market value of their enterprises, even if it meant cutting ethical corners.

The 1990s also saw new financial and accounting tools for which there were scarce ethical guidelines. Few investors really understood derivatives, for example, and Enron used complex accounting structures to conceal debt. "These were all financing measures that hadn't been tried out before," said Thomas Donaldson, an ethicist in Wharton's legal studies department. "The industries didn't know how to keep ethical score" ("Why Smart People," 2004). In such a shifting business environment, conflicts of interest became difficult to balance in traditional ways.

Meanwhile, the advent of the Internet, rising education rates, and the aging of the workforce also played a role in changing the context in which companies did business. According to Joseph T. Wells, a former FBI agent and founder of the Association of Certified Fraud Examiners, crime is very much dependent on age; as the population gets older, fraud increases as the crime of choice for older perpetrators. Because the education level has risen over the past 20 years, it has become easier for employees to use the power of new technologies to commit white-collar crime (Labaton, 2002).

These and other factors helped create the context in which many business people made the types of unethical decisions that led to a series of high-profile scandals. These scandals led to an ensuing social backlash against unethical business practices. It also led some to question "Where was HR?" as these ethical tragedies unfolded, a fair challenge to a profession that has worked so hard and come so far to "be at the table." Now that HR is at the table, there is a clear ethical culture role that they must help instill.

This dynamic can be viewed from the perspective of a Hegelian Dialectic, an idea put forth by the famed philosopher Georg Wilhelm Friedrich Hegel. He believed that history progresses as a result of a series of conflicts. A concept (known as a *thesis*) inevitably generates its opposite (or *antithesis*), and the interactions between them lead to a *synthesis* of the two. This synthesis then becomes a new thesis, and the process starts all over again (*Columbia*, 2001).

Using this philosophical lens, we can view the ethical environment of the late 1990s as a thesis that, after the ensuing scandals, generated an antithesis in the form of social outrage, new regulations, heightened levels of stockholder activism, the Sarbanes-Oxley Act, greater attention on the support roles of Finance and HR, and other changes. The Conference Board's *Across The Board* magazine reported that "large public companies are facing growing pressure to be good citizens" (2003a). Not only have new laws (such as the Sarbanes-Oxley Act of 2002) emerged, but so have new champions of corporate reform (such as New York State attorney general Eliot Spitzer) and new high-profile corporate "villains." These are real people and real events, but they also become embedded in our cultural ethos.

A New Synthesis

There Are Still Signs of Ethics Troubles

Some argue that the ethical environment has improved little if at all since the wave of scandals first emerged in this decade. The online magazine *Knowledge@Wharton* reported in early 2004: "You might think that with the passing of another year, the scandals would be showing signs of petering out, but they are not." The article pointed to the fact that the recent "disclosures of allegedly unethical or illegal practices have rocked the mutual-fund industry" as well as the fact that "Phil Condit quit as chief executive of Boeing, a corporate icon, in the wake of a probe of the company's recruitment of an Air Force official while she was overseeing the company's contracts with the Pentagon" ("Why Smart People"). In December of 2004, personal finance columnist Jeff Brown summed up: "The post-Enron era has seen a long series of scandals involving mutual funds, Wall Street analysts, accountants, brokerages, insurance companies, and many others."

Some experts argue that despite Sarbanes-Oxley and other regulatory changes, corporate cultures are still riddled with cynicism. "Business to a large extent has lost a lot of its culture," according to Lawrence Zicklin, chairman of the Wall Street firm of Neuberger Berman. "At one time, companies had a culture that would forbid them from" acting in unethical ways. ("Why Smart People," 2004)

Some claim that, among many corporate leaders, the sense of ethical forbearance has been swamped by arrogance and feelings of entitlement, helping to explain not only the leader-driven corporate scandals of recent times but also the spread of large executive compensation plans. "I do believe that in the last 5 to 10 years there's been a socialization of a sense of entitlement among the senior ranks of organizations," argues Wharton legal studies professor Thomas W. Dunfee. "Even well-paid people with enormous compensation [packages] think that they are such high performers that they are underpaid" ("Why Smart People," 2004). HR leaders reporting to such executives have a potential conflict between being supportive of their bosses yet advising them not to indulge in excess.

Aside from individual cases of greed and arrogance, U.S. business culture also suffers from too strong a focus on the bottom line, a problem that extends even into the field of business research. When a group of researchers examined all the empirical research published by the Academy of Management from 1958 to 2000, it found that the interest in economic performance continued to grow even as interest in human welfare declined after the late 1970s.

The University of Michigan Business School reports: "This paradigm shift reflects changing views about the purpose of business organizations and their social responsibilities. Firm managers no longer feel a strong obligation to ensure the welfare of their own workforce or society in general, but are focused instead on creating wealth, gaining competitive advantage, increasing productivity, and keeping a clear eye on outcomes that affect firm performance" (2003). Doubtless this laser-like focus on productivity and performance continues today, calling into question whether managers are striving to find that balance between the needs of the organization and the needs of other stakeholders.

But There Are Also Signs of Progress

Despite those trends and opinions, the U.S. ethical environment is evolving and a new synthesis is emerging. One sign of this is that business ethics has become a higher priority among businesses. The Human Resource Institute (2003) conducted its most recent Major

Issues Survey of the issues having an impact on people management. The HR executives responding to the survey rated "ethics in business" as the third most critical issue among 120 issues, up from 10th in 2001. In terms of its perceived importance 10 years into the future, ethics in business rated eighth in 2003, up from 21st in 2001. This also indicates HR is more clearly understanding the role they have in corporate ethics practice.

Could this just be lip service stemming from the barrage of recent scandals? Maybe, but other studies suggest something real is happening. Back in 1997, when the ERC and SHRM first conducted a joint survey on ethics, fully 58 percent of responding HR professionals said one of their reasons for not reporting some ethics misconduct was that "nobody cares about business ethics, why should I?" When the survey was sent out again in late 2002, nobody gave this answer (Joseph & Esen, 2003, p. 10). This is a huge shift in attitude and represents an acceptance that HR should be involved in this issue.

This attitude has been echoed by the mainstream business press. "Trust, integrity and fairness do matter, and they are crucial to the bottom line," reported *BusinessWeek*. "In the post-Enron, post-bubble world, there's a yearning for corporate values that reach higher than the size of the chief executive's paycheck or even the latest stock price" (Byrne, 2002).

Another Ethics Resource Center study, the *National Business Ethics Survey 2003*, also suggests some genuine changes have taken place. In comparing the results of its 2003 study, which was based on 1,503 employee interviews, with results from similar 1994 and 2000 studies, the ERC found that the portion of respondents who said they "observed misconduct" declined from 31 percent in 1994 to 22 percent in 2003 (2003b, p. 27). At the same time, respondents became more willing to report misconduct. The percentage who reported misconduct when they observed it increased from 48 percent in 1994 to 65 percent in 2003 (2003b, p. 39). Moreover, those who believe top management "keeps promises and commitments" increased from 77 percent in 2000 to 82 percent in 2003 (2003a).

These higher marks for leaders are particularly good news for those hoping that a more ethical era is emerging. The ERC survey shows that employees who believe that top management acts ethically in four areas are a lot less likely to see workplace misconduct (15%) than workers who think their top managers are all talk or take none of those actions (56%). These four leadership actions, all of which HR can reinforce, include setting examples of ethical behavior, talking about the importance of ethics, keeping promises, and keeping workers informed (2003a).

The hope, indeed, the goal, is that ethical leadership will extend all the way up to the top of corporations, where many of the latest scandals have originated. A large majority of CEOs who were recently polled worldwide believe that corporate reputations are more important than they were just five years ago, and about two-thirds take the responsibility on themselves for managing their organization's reputation (Korn/Ferry International, 2003; Hill & Knowlton, 2003). An organization's reputation, in turn, has a huge effect on HR's ability to attract and retain talent.

The *National Business Ethics Survey* also indicates that management (and the HR function) can have a genuine impact on corporate ethics by getting behind programs consisting of four elements: written standards, ethics training, ethics advice lines/offices, and systems that can be used for anonymous reporting. When all four elements are in place, employees are most likely to report misconduct they have seen in the workplace. What is more, among organizations with more than 500 employees, "ethics programs are associated with lower pressures on employees to compromise company standards of business conduct" (2003a).

At least some of these ethics initiatives seem to be growing more popular, perhaps as a result of Sarbanes-Oxley. For example, Network, Inc., a third-party service provider, reported that the number of clients purchasing ethics hotline services in the first four months of 2003 was greater than for all of 2002 (Bureau of National Affairs, 2003, p. 10). Managers also seem to be seeking more help from experts in the field of ethics and compliance. PricewaterhouseCoopers' corporate governance, risk, and compliance practice has reportedly doubled its business in the last two years, and LRN, which sells Web-based ethics training programs, has seen a sharp increase in the revenues it earns from online education over the last year and half (Warner, 2004).

These facts suggest that the U.S. business culture has become more ethics-oriented than it was in the 1990s. The perceptions of employees as well as HR professionals have changed, and more corporate leaders are coming to understand that they have the levers at their disposal to create a new era in the field of business ethics.

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The Role of HR

If the ethics environment is driven both by leadership practices and by specific corporate initiatives, what exactly is HR's role in cultivating an ethics-friendly corporate environment? Broadly speaking, HR has four responsibilities:

1. *HR professionals must help ensure that ethics is a top organizational priority.* Pat Wright, head of Cornell University's Center for Advanced Human Resource Studies, has stated that, in the wake of business scandals, HR leaders will take on a "bigger role in monitoring the culture of the organization in terms of its ethical status" (Nadel, 2004). Monitoring is a good start but alone will not suffice. HR executives must either take on the mantle of ethics champion or ensure that some other capable person in the organization does so. Such a champion will need

to be highly experienced and respected, having enough organizational clout to make a difference.

2. *HR must ensure that the leadership selection and development processes include an ethics component.* After all, leaders at all levels of the organization need to both model ethical behavior and communicate ethical standards to employees. Selection procedures must filter out people who, despite making their numbers, are known for cutting ethical corners. Leadership development should include not only ethics theory but also real-life examples, perhaps from mentors, on how managers have handled ethical dilemmas in the past.

   Among the most difficult aspects of this may be convincing top management, perhaps including board members, that they too should receive ethics training. A Conference Board survey of over 80 ethics, HR, and legal officers found that only about a quarter had held training programs for their boards of directors. Yet, over half (55%) of these said their boards are "not engaged enough" in major ethical decisions associated with their organizations (2003b).

   Promoting gender diversity among top leadership might also have a positive impact on ethics. A report by The Conference Board of Canada showed 94 percent of boards with three or more women ensure their organizations adhere to conflict-of-interest guidelines, while only 68 percent of all-male boards do the same. The same survey suggested that boards with larger numbers of women also are more likely than are all-male boards to ensure that codes of conduct are followed in their organizations (2002).

3. *HR is responsible for ensuring that the right programs and policies are in place, keeping in mind that in this new era the U.S. government is developing a stricter set of sentencing guidelines.* A news release notes that, under the U.S. guidelines first promulgated in 1991: "an organization's punishment is adjusted according to several factors, one of which is whether the organization has in place an effective program to prevent and detect violations of law." In light of recent scandals, the U.S. Sentencing Commission has "sent to Congress significant changes to the federal sentencing guidelines for organizations, which should lead to a new era of corporate compliance." This amendment strengthens the criteria that companies are required to use when developing their compliance programs (U.S. Sentencing Commission, 2004).

   HR professionals should, of course, be aware of these guidelines and how they are evolving. Even more challenging is the need to customize programs to the specific risks in a given corporate culture. "Getting it to work is not simple," said Ed Petry, executive director of the Ethics Officer Association (Bureau of National Affairs, 2003).

4. *HR must stay abreast of ethics issues.* This does not mean just following legislation, which tends to be reactive rather than proactive. It means looking at the entire social and business environment and spotting conflicts of interest and other ethics problems before they develop into full-blown scandals. A combination of tools can help with this. Obviously, employers need to pay close attention to the questions and concerns that are flagged via employee hotline services. Surveys or focus groups may also helpful in spotting potential ethical conflicts in the workplace. To gauge what is happening outside the company, HR can turn to environmental scanning techniques to imagine how new trends could result in large problems down the road.

What Will the Future Bring?

Ethics and values are now being emphasized to a higher degree than they were in the 1990s; however, this will not automatically lead to a new era of long-term stability. To engage in Hegelian language again, a new thesis will inevitably be affected by a new antithesis. This process will occur at a fast pace because of today's social and technological environment. Although these forecasts about business ethics should be viewed with a healthy skepticism, certain trends that have emerged in recent years are primed to have a growing impact on the future of business ethics.

Globalization Will Bring Ethics Challenges

Global corporations operate in nations where bribery, sexual harassment, racial discrimination, and a variety of other issues are not uniformly viewed as illegal or even unethical (Kelly, 2001). Companies are destined to struggle to forge and maintain corporate-wide ethical standards in this environment. If fast-growing China becomes the economic powerhouse that many foresee, for example, there may even be a serious clash of business ethics between Chinese and Western business interests. Wright, et al. (2003), reported that in China: "there is a need to harness the (largely neglected) ethical dimension to transform business practice along international standards.... At a minimum, fraud and corruption must be suppressed in an atmosphere where contract and property rights are clearly defined and honored" (p. 182). Global and regional trade and labor agreements will increasingly create ethical norms that are applied around the world, but this will not be quick or easy: Before this happens, ethics-based cultural skirmishes will be fought within multinationals, and trade wars will be fought among nations or regions. The sooner we establish international norms, the better. Otherwise, real wars could eventually be fought based on conflicting world views. Some would argue that the current war on terrorism is, in many respects, founded on a clash of opposing cultural ideals.

Transparency Will Become Increasingly Important

In 2001, a study conducted by the Society of Financial Service Professionals and Walker Information found that deceptive promises to workers and customers were viewed by employees and managers alike as two of the most egregious ethics violations ("Importance," 2001). Since then, various scandals have made deception an even more prominent issue. With the growth in the number of businesses with employee hotlines and greater protections for whistleblowers, deception is likely to continue being viewed as among the worst ethics violations and will be accorded harsh treatment. In a global socioeconomic system based on trustworthy information, deception can cost customers and investors billions. Some experts envision the emergence of more corporations with financial underpinnings clearly visible not only to investors but to employees, customers, and suppliers (Byrne, 2002). Conflicting with this trend is the need for corporations to protect their intellectual property and strategic plans in a world of red-hot global business competition. A more transparent corporate model will indeed continue to emerge in terms of financial performance, helping investors make better decisions. At the same time, intellectual property will be closely guarded even as corporate espionage becomes a major ethical problem in the future.

Sustainability Will Become Part of the Status Quo

In order to balance the environmental needs of business and society, many companies are already trying to gauge their organization's long-term outlook by viewing it in terms of its "sustainability." PricewaterhouseCoopers defines the practice as "management for the long-term vitality of the business, through attention to its economic, environmental, and social performance, its governance and its business ethics" (PricewaterhouseCoopers, 2003). One aspect of sustainability, its emphasis on environmental issues, is more of a priority in Europe than in the United States, but as the global population swells and giant nations such as China and India become more developed, the environmental impact of doing business will grow more important. There will be serious global debate and eventually more agreements on environmental ethics. In the meantime, everything from wars fought over scarce resources (both oil and fresh water come to mind) to environmental activism aimed at corporate "bad actors" to more radical examples of terrorism will continue to occur.

Spirituality in the Workplace Will Grow

Growing spirituality in the workplace is "a trend that is about to become a megatrend," futurist and author Patricia Aburdene has declared (Lampman, 2003). To some degree, this is about making the workplace more religion-friendly. There has, for example, been an increase in the number of religion-based employee affinity groups and faith-based employee assistance programs in corporate America (Kinni, 2003).

In addition, a movement is growing that is less tied to specific religious beliefs than to a broader set of "spiritual values," including concepts such as integrity, justice, respect, and responsibility (Jurkiewicz & Giacalone, 2004). "Spirituality could be the ultimate competitive advantage," suggests Ian Mitroff, a professor at University of Southern California business school and coauthor of the book *A Spiritual Audit of Corporate America*. His work indicates that people working for "spiritual" companies "are less fearful, less likely to compromise their values, and more able to throw themselves into their jobs," reports *BusinessWeek* (Conlin, 1999).

If the trend continues to grow, a stronger focus on spiritual values may help reduce the ethical cynicism that has pervaded some corporate cultures in the recent past. On the other hand, spiritual values sometimes become sectarian and linked to specific religious beliefs, resulting in conflicts over what is and is not ethical. Some employees have, for example, argued that diversity policies aimed at banning sexual-orientation discrimination in the workplace conflict with their religious beliefs, which in some cases has led to legal conflicts (Clark, 2004). Employers should expect more such belief-based conflicts in the near future.

Metaconvergence Will Affect Corporate/Social Values

According to futurists Alvin and Heidi Toffler, the process of "metaconvergence" is the "higher level of convergence ... of technology with culture, including religion, epistemology, and the rest of intellectual life" (Toffler & Toffler, 1999). That is, new technologies not only affect the way we conduct our work and our leisure time, they affect the way we think about the world. Without Johannes Gutenberg's invention of the printing press, for example, Protestant tracts could not have been mass-produced, so no Reformation movement would have happened. Western culture as we know it would not exist.

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Today's even more powerful technologies are having, and will continue to have, a dramatic impact on the way people think and the values they hold dear. The debate over embryonic stem cell research is a case in point. Nations have different ideas about the ethics and the funding of stem cell research. In the United States, for example, federal funds can go only to research using lines of stem cells that have already been established. In contrast, Sweden allows federal funds to finance the creation of new stem cell lines (Lee, 2003).

What happens if Sweden's research results in various life-saving procedures and products? And what if Swedish biotech companies thrive as a result? This could place U.S. companies in a difficult position as they strain to balance their business interests against other factors, including legal obligations, societal attitudes, and the ethical perspectives of their researchers and leaders.

These types of ethical quandaries will grow more common and more intense as the genetics revolution proceeds. "If today's battles over race and abortion can arouse passions to the point of bombings and murder, what will happen when we can create humans with previously nonexistent physical characteristics?" ask the Tofflers. Indeed, the ethics future could be downright dangerous.

Conclusion

The U.S. business culture is going through a period of change during which ethics has become a higher priority, and with this comes some important roles for HR. This change goes beyond merely following the letter of new laws and regulations. It includes a general feeling among many workers that the ethics environment is improving and that many of their leaders are "walking the talk." It is also marked by the intense pressure from other nongovernmental sources, especially stockholders, on corporate leaders to "do the right thing." Organizations are generally becoming more transparent, and the most progressive of them are adopting a complementary array of ethics programs to help them avoid the types of scandals that have lately tarnished the reputations of many.

This transformation is by no means complete, and it will not be the last word on business ethics. The nature of business dictates that conflicts of interest will continue to exist, and these conflicts will exert an evolutionary pressure on matters related to corporate ethics. Any new thesis will be temporary and will eventually encounter yet another wave of ethics problems with which corporations and the greater society must contend. For individual companies, and for their HR leaders, the trick is to foresee this next wave and, when possible, proactively address those problems so their organizations can avoid being swamped in the future.

BIOGRAPHICAL SKETCH

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