Advantages of Business Codes of Conduct

Everyone in businesses across the country is aware of the ethical lapses and scandals that have given corporations and executives a bad name. CEOs have dispatched legions of interns to unearth their corporate ethics programs, only to learn they either have none or have one that is out of date. Of course, they had government mandated posters and notices in their HR offices on matters such as racial discrimination, age discrimination, gender bias, and sexual harassment.

Many employees have come to believe their company's code of conduct does not apply to executives. Even more disturbing, is that many executives seem to behave as though codes of conduct do not apply to them. Unethical behavior is not confined to criminal matters. A few years ago, a large brokerage house in St. Louis paid bonuses to all executives, even knowing that at least one executive had made a business decision which would cause a 75% drop in the company's profits. When this became public knowledge, the company's response was to discharge every employee whose salary was between $50,000 and $100,000 per year. No one who made more than $100,000 was affected. (The entire IT department was discharged.)

Perhaps the reasons for establishing codes of conduct should be reevaluated. Further, if these codes do not apply equally to all employees, is there any reason to have them?

Quite simply, codes of conduct are important for a number of a business's stakeholders. Employees want to believe that their employers are ethical in the way they conduct business. Employees want to be proud of the company they work for, proud of the products they produce and sell, and proud of the way they are thought of in their industry and in their community. An ethics program reminds employees that their company conducts business in an ethical manner. A zero tolerance policy for ethical missteps puts all on notice that neither illegal nor unethical actions will be tolerated. This policy should be reviewed with all new hires and reviewed again at company meetings. Management must make stakeholders aware that this policy is taken seriously. Every organization, from large for-profits to smaller non-profits, needs to make their employees aware of the standards they are expected to meet.

Advising employees of the need to conduct business ethically may also serve to reduce employee turnover. Companies that are ethical tend not to have the sort of problems that cause employees to consider leaving so as not to be tainted with the company's problems. No one wants Enron on his or her resume, even if they were not part of the culture of greed and dishonesty that led to their downfall.

A code of conduct is also important for recruiting. Potential employees are trying to determine if they and your company are going to match up regarding duties, promotion, advancement, and compensation. They wonder if your corporate culture will allow them to feel comfortable. A packet of benefits for potential employees should be given to employees at their first interview. And the first document in that packet should be a copy of the company's code of conduct. It needs to be first because that position lends importance to the document. The applicant's first impression is positive because of the placement and indicates the importance of ethical behavior in the company. This should be stressed in employment interviews. Talking about this in the interviewing process is important, but giving potential employees a copy of the code of conduct will make a more positive impression of the company's integrity. Potential employees can review it after the interview. The code should also be posted in the HR department where applicants can see it.

A major component of a company's marketing mix is their promotional activities. Traditionally this includes advertising, personal selling, publicity, public relations, and other promotional activities (rebates, trade discounts, coupons, contests, trade shows, and such). Whether a salesperson sells for a small, medium sized, or large multinational corporation, their employer's reputation affects prospective customers. No one wants to do business with a firm with a poor reputation. That firm's salespeople will be at a significant disadvantage. Further, good salespeople are more likely to leave a company with a poor reputation than a company with a good one. They do not want their efforts to be undermined by unethical conduct apparently tolerated by the firm.

Unlike the entertainment industry (where any publicity for any type of behavior is considered good), poor publicity can have serious negative repercussions for an organization. Organizations cannot control publicity but they may employ public relations to repair a poor image. But as anyone can tell you, repairing an image is akin to closing the barn door after the horses have escaped. Efforts tend to be too little, too late. (Review the image of BP after the oil spill.) A code of conduct is another weapon in a firm's arsenal of expected positive behaviors, regardless of the size of the firm.

An ethics program is also important for certain of a business's other stakeholders. Customers want to believe their suppliers are ethical in their business dealings. There has been a great deal of research on the importance of trust in business relationships. A belief in the ethical behavior of business partners can and should be an important component of that trusting relationship. A code of conduct is further evidence of that trust being justified.

Similarly, a company's vendors want to know that their customers conduct business in and ethical manner. They are unlikely to give credit to a firm with ethical lapses on record. This would include paying bills on time and in full.

Many firms join their local chamber of commerce or cooperate with the Better Business Bureau. One of the benefits of membership in these organizations is that members are supposed to conduct business in an ethical manner. The size of the business has no bearing on the need for ethical behavior.

There is one more stakeholder that is an important than any other. This is the stockholder of a publicly traded corporation. These institutions and individuals have purchased partial ownership in a corporation hoping for a fair rate of return. Ethical lapses and adverse publicity can severely depress stock value. The Madoff financial scandal nearly bankrupted Brandeis University, and was certainly a factor is Madoff's son's suicide.

This area is an fertile one for further research. It would be interesting to find out how many companies did not have a code of conduct, and how many employees were not aware of one. It would also be interesting to find out how old each existing code of conduct was and whether it had ever been revised.