ETHICAL BUSINESS PRACTICES

This seminar addresses the question of ethics as an essential part of everyday practices at the workplace. All of you are aware of the ethics provisions of the Sarbanes-Oxley Act, so our discussion will move to the broader aspect of ethics as a personal and organizational matter. You will be asked to participate in small-group discussions to determine ethical issues in multiple cases.

We will define ethics in simple terms:

Ethics is “What You Do When No One Is Watching”. This means there is a personal element to ethics, and personal decisions make up the culture of organizations. Unless the company clearly defines expectations related to ethical behavior, the employees create the expectations through their individual actions.

Premise 1: Without guidance, groups find “acceptable” levels of performance and actions. This may lead to the lowest common denominator becoming common practice.

Most organizations today use teamwork and loyalty as integral parts of the business. Part of good ethics is the issue of respect, meaning respect for self, others, legalities, products, and rights. Organizations can and should teach respect and require respectful actions of employees. The lack of civility prevalent in our society today should not pervade the organization; instead, we should address the issue and train accordingly.

Premise 2: Recruitment and retention of employees is crucial to organizational success today. When employees feel respected, much of the retention battle is won. Conversely, watch turnover rates skyrocket when harassment issues enter the workplace.

An interesting question today is how far an organization can go in creating expectations away from the workplace. It is clear that standards of care are higher for exempt employees than non-exempt employees. It would then follow that the more public the organization (visible), or the more likely stakeholders will be influenced, the greater the organization would be concerned about employee actions away from work. Well-written codes of conduct should create expectations, and employers should be trained about behaviors and special circumstances.

Premise 3: Without training, you receive ignorance. Employees should know exactly what the Code of Conduct means and how it will be interpreted. “I didn’t know” is a management mistake.
Influences in the Workplace (Positive and Negative)

You are confronted with choices everyday. Many of them are ethical in nature. Sometimes you may feel pressured to act or decide in certain ways. These pressures can be either positive or negative.

Positive influences encourage you to model strong, consistent, ethical behavior. Based on your experience, what are some of the positive influences you have encountered?

Example: Clear rules; follow through, quality performance, proper relations, and customer commitment.

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Negative influences are those either intended or unintended that encourage you to make decisions or act in ways that are of a less than ethical nature. What are some of the negative influences you have encountered?

Example: Inconsistent rules, questionable communication, poor quality, ambiguous guidelines, poor follow through, leaders saying one thing and doing another.

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Cheating and lying are on the rise. The Josephson Institute of Ethics reports: In a study of 12,000 high school students, in 2002, 74% said they had cheated on an exam – up from 61% in 1992. Of these students, 93% said they had lied to their parents – up from 83% and 38% said they had stolen something in the last 12 months – up from 31%.
The Three R’s of Business Ethics

Respect

Treat everyone with dignity and courtesy

- Eliminate offensive language and risqué comments or jokes
- Recognize people’s contributions. Give credit where it is due

Respect company assets

- Use company time, equipment and supplies appropriately and correctly
- Protect and improve your work environment

Responsibility

- Meet performance expectations
- Work together and do your part
- Provide high quality work and your best service
- Bring value to the work place and your relationships
- Communicate openly both good and bad news

Results

Create honorable results

- The means must be as important as the end

Be cautious of

- Taking the easy way out
- Cutting corners because you are in a hurry

Beware of the Big 4

Greed – The drive to acquire or possess more and more in one’s self interest.

Speed – The inclination to cut corners because of the pressure to hurry-up the job

Laziness – The decision to take the easy path because it doesn’t seem that important

Haziness – Acting or reacting without thinking or considering the impact on others
CODE OF CONDUCT AND BUSINESS ETHICS

Our reputation is determined by our actions: what we say and more importantly what we do; the products we make; the services we provide; and the way we act and treat others.

To conduct our business with integrity in a lawful and responsible manner, we must be alert to situations that pose questions of right and wrong. We need a good understanding of our core beliefs and the laws that are pertinent to the work we do and the decisions we make. And we must use good judgment in deciding what course of action is most appropriate.

In general, we could state that our basic Company principle is always doing the right thing. Doing the right thing includes:

- always being truthful.
- strictly adhering to the letter and to the spirit of all laws and Company policies and procedures.
- providing high-quality products and services.
- promoting a work environment that fosters mutual respect, openness and integrity.
- being fair in all aspects of our business.
- being a good corporate citizen.

No single set of rules can provide explicit guidance for every situation with which we may be faced. Ultimately, our Company relies on every associate to use good judgment and do the right thing in everything he or she does. We must also consider the Company’s mission, beliefs, policies and procedures. We all should ask questions of our leaders or responsible staff whenever in doubt as to the appropriate course of conduct or action.

By acting consistently with the following guidelines, we can each do our part to assure that our Company continues to earn its reputation as a company which conducts its business with the utmost integrity.

RESPECT OF GOVERNMENT AND THE LAW

Our Company is committed to complying with both the letter and the spirit of all laws and regulations wherever we conduct our business activities. The Company expects every associate to know the laws and policies that apply to their Company activities, to conduct them with uncompromising honesty and integrity, and whenever possible to hold ourselves accountable to even higher standards.

Some business activity is not governed by any law, and in these situations, an associate should be able to answer “yes” to the following questions before taking action. If the answers are not an unqualified “yes,” we don’t do it:

- Is this action the “right thing to do”?
- Would this action withstand public scrutiny?
- Will this action uphold our Company’s reputation as an ethical Company?
- Am I adhering to the spirit, as well as the letter, of any law or Company policy or procedure that may be involved?

In addition, associates should consider whether or not there would be any direct or indirect negative consequences for the Company before taking action.
Compliance with Laws and Company Business
Conduct Policies and Procedures

Associates are expected and directed to comply with all laws and all Company business conduct policies and procedures relating to their business activities. It is also each associate’s responsibility to know and understand legal as well as policy and procedure requirements as they apply to their job, and to notify their supervisor when they believe a violation of law or Company policies or procedures has occurred.

Accuracy of Company Records

The Company’s business records are depended upon to produce reliable and accurate reports to upper management, shareholders, customers, creditors, governmental entities and others. Thus, all official records of the conduct of the Company’s business must be accurate, honest and complete, without any restriction or qualification of any kind. This means the accuracy of any records involves both factual documentation and ethical evaluation/appraisal.

The Company does not condone concealing any payment by means of passing it through the books or accounts of third parties, such as agents or consultants.

All Company operations must comply with all local and national laws relating to the accurate and complete maintenance of Company financial books and records.

As in their other responsibilities, associates are expected to be honest, objective and loyal in the performance of recordkeeping responsibilities. However, because loyalty includes never knowingly being a part of any illegal or unethical activity, there is no excuse for a deliberately false or misleading Company record.

Contact with Government Officials

Our company’s dealings with federal, state, and local governmental officials must comply with all applicable laws and regulations, and they should be free from even the appearance of wrongdoing. Information provided to the government must be accurate and interactions with government officers must be honest and ethical. Associates must not interfere with, threaten, abuse (including verbal abuse), or harass any government official in the course of carrying out his or her duties.

All activities that might constitute lobbying or attempts to influence government officials are first to be reviewed with the Vice President of Human Resources.

Political Contributions and Related Policies

The Company’s basic policy is that Company funds or resources may not be used to make a political contribution to any political candidate or political party. Exceptions to the Company’s basic policy are allowed only where such contributions are permitted by law and express permission has been given in advance by the Company’s Chief Executive.

Company policy does not permit the use of any Company facilities or resources by associates for political campaigning, political fundraising or partisan political purposes.

A decision by an associate to contribute any personal time, money or other resources to a political campaign or political activity must be totally voluntary.
RESPECT IN THE WORKPLACE

Personal Behavior in the Workplace
Our Company’s fundamental policy is that we will treat all of our fellow associates with dignity and respect.

The Company strives to provide a safe, healthful and productive work environment. Each associate has a personal responsibility to other associates and to the Company to help eliminate actions or circumstances which undermine this environment.

Our Company policy requires that individuals are to be considered for employment opportunities on the basis of merit, as measured against objective job requirements. Moreover, every good faith effort shall be made to implement programs designed to provide equal employment opportunity to all types of jobs and at all levels of the work force.

Our Company expects each associate to support the Company’s commitment and continuing efforts toward equal employment opportunity for all. Our Company is committed to compliance with all applicable laws and regulations relating to equal employment opportunity, non-discrimination and similar associate-related matters.

We recognize the power that comes from people of diverse backgrounds and experiences coming together around a common goal. Our policy forbids any discrimination, harassment or intimidation because of race, color, religion, gender, age, national origin, citizenship, sexual orientation or disability. Associates are encouraged to bring questions or concerns in this area to their management. Strict disciplinary action for violations of this policy will be taken, including termination of employment.

Additionally, every associate is expected to perform his or her work in a safe manner and free from the influence of alcohol or drugs.

Health, Safety and Environmental Policies
Health, Safety and Environmental policies are derived from principles, values, legal requirements and regulatory requirements. Compliance with the law is of highest priority for the Company.

Our Company has historically sought, and continues to seek, to achieve clean, safe, incident-free operation at all of our sites. This policy is assured by internally imposed standards of operation which frequently go beyond the letter of those laws and regulations that apply. This commitment to responsible operation is implemented by the sites following formal programs supported by professional staff.

Conflict of Interest
The Company policy regarding possible conflict of interest is based on the principle that an associate’s decisions in the business must be made solely in the best interest of the Company. In reaching these decisions, an associate should not be influenced by personal or family considerations which might consciously (or unconsciously) affect his or her judgment as to what is in the best interest of the Company.

Associate Privacy
Our Company respects associate privacy and dignity. We will only collect and retain personal information from associates that is required for the effective operation of the Company or as required by law. We will keep that information confidential and release it only to those who have a legitimate need to know.
# The Value of Ethical Behavior in the Organization

<table>
<thead>
<tr>
<th>Benefits to the company</th>
<th>How it benefits you</th>
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<tbody>
<tr>
<td>→ Improves trust and respect between everyone.</td>
<td>→ Improves communication.</td>
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<td></td>
<td>→ Maintains your positive reputation.</td>
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<td>→ People trust your opinions.</td>
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<td>→ People share information and ideas with you.</td>
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<td>→ Creates a positive work culture</td>
<td>→ Makes work more enjoyable.</td>
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<td>→ Makes work a place where you enjoy being.</td>
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<td>→ Improves service to customers</td>
<td>→ Improves customer relations and eliminates problems.</td>
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<td></td>
<td>→ Fosters pride, professionalism and increases productivity.</td>
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<td>→ Promotes longevity of IDF’s success.</td>
<td>→ Reduces stress levels.</td>
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<td>→ Builds job security.</td>
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<td>→ Secures your future.</td>
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<td>→ Creates opportunities for growth and personal development.</td>
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### What are some of the costs of unethical behavior to the organization and you?

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Case Study for All Groups

The organization’s Travel Policy reads in part “Employees may be reimbursed for meals for up to $40.00 daily without the need for receipts. Expenditures for greater than that amount require receipts. There is no reimbursement for alcoholic beverages.”

The seven-member Sales team has just returned from a 5-day trip. Each person’s travel report indicates these expenses for food:

<table>
<thead>
<tr>
<th>Meal</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Breakfast</td>
<td>$13.33</td>
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<tr>
<td>Lunch</td>
<td>$13.33</td>
</tr>
<tr>
<td>Dinner</td>
<td>$13.33</td>
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</tbody>
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Because you have stayed at the hotel where the sales group was booked, you know the Continental Breakfast is provided by the hotel.

1. What, if any, ethical issues are presented by these facts?

2. How should the organization react?
Group Case Studies

ConAgra (Peter Pan)

A leaky roof at the production plant allowed rainwater to contaminate raw peanuts before they were processed. Once the peanut butter was in stores, customers became ill and salmonella was discovered in a limited number of cases. ConAgra was forced to recall an entire product run and hold the product off the market for months. Particularly annoying to management was the fact the operators at the plant knew the peanuts were wet and moldy while processing the bags.

Eastern Dairy

An operator at Eastern Dairy was running milkshake mix for McDonald’s when the equipment stopped. When he removed the filters, they were clogged with maggots. He cleaned the filters and started again, but the equipment soon stopped for the same reason. He then contacted the Plant Manager for his shift, who told him to remove the filters and let the product go, because “the pasteurizers will destroy any foreign matter.” After deciding he would not eat a milkshake at McDonald’s for at least a month, he went home. By morning his conscience was bothering him, so he called the day shift General Manager. That evening he was fired. He then called, in order, the (a) newspaper; (b) television station, and (c) McDonald’s. Eastern no longer supplies any product to McDonald’s.

Case Study Questions:

1. What should any employee at these organizations have done once they learned of the unethical behavior?

2. How does a management team ensure these failures are not repeated?
Group Case Studies

Merrill Lynch and WorldCom

These two companies admitted to fraudulent business practices and were fined heavily by the SEC. In the case of WorldCom, the resulting financial disasters led to the bankruptcy and liquidation of the business.

Merrill Lynch executives openly encouraged “hyping” of stocks causing investors to view the stocks in a more favorable position, and also hid problems in organizations from investors. Employees described a cavalier “who cares” approach toward customers/investors, as managers appeared concerned only with their bonuses.

Merrill Lynch agreed to a fine of $100 million in New York federal court related to this scandal, and paid $40 million in a sex harassment debacle later.

WorldCom executives deliberately overstated assets and understated costs to inflate profits and keep stock prices up. When the tricks were uncovered by their own internal auditors, an SEC investigation led to an ouster of numerous executives and charges were filed against several people. Bernie Ebbers, former CEO, has become the “poster boy” of poor ethics.

Case Study Questions:

1. Both of these cases involved failures by top executives. What can an organization do to prevent such actions?

2. What positive statements/issues can we take from these two cases?

3. Why, in your personal belief, did the executives at WorldCom and Merrill Lynch commit acts they knew were wrong?
Group Case Studies

**Pace Corp (not the real name)**

A manager and a person who reported to him were floating a river on Saturday, with several other canoeists. Someone produced marijuana and several people smoked, including your two employees. At the take-out point, the users were written misdemeanor possession tickets by the undercover Water Patrol Officers who supplied the joints. Later, you receive a copy of the small-town newspaper article indicating that your employees pleaded guilty to the activity and paid $350 fines.

**Bach Corp (not the real name)**

Two female employees were sent to Overland Park for three days of training, Wednesday – Friday. Thursday evening they go to Hooters for three hours, then to a bar, then to an “Adult Book Store”. They notice an attractive male loitering in the store and begin flirting with him. Probably intoxicated, they make suggestions and money is discussed and changes hands. They are promptly arrested by this member of the KC Vice Squad, and later released on their own recognizance. Friday, a Kansas City Star reporter calls the organization seeking information concerning possible disciplinary action against the two employees.

**Case Study Questions:**

1. Are the actions in each case unethical? Illegal?

2. How should the organizations react?