

## **Four Reasons Your Business Needs a Code of Ethics**

Posted by [Amanda Nieweler](#)

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### **Do we really need a Code of Ethics?**

Yes you do!

A code of ethics is a set of standards adopted to govern the conduct of a group of people.

It's your rule book if you will. Groups such as national medical associations adopt Codes of Ethics that govern members in individual practices across many places of employ, while individual businesses may adopt more specific code of ethics to ensure integrity within the company.

#### **Let's put together a Code of Ethics that will work for your company**

A company's Code of Ethics will generally cover behaviour that, while not illegal, is nevertheless harmful to the company and/or its clients. A good Code of Ethics should include a motivating statement regarding the reason for its existence and the company's purpose. It should also address the consequences of violating the code as well as ways to report violations of the code. Its language should be clear and avoid meaningless phrases, focusing instead on directly communicating expectations. A Code will not be very useful unless it is widely known and followed; it should therefore be referred to frequently, becoming a part of company culture rather than being read once at hiring and disappearing forever into the abys.

#### **Why should you develop a Code of Ethics?**

The following are several reasons to consider adopting a Code of Ethics for your company.

##### **Shows employees you are a responsible company**

One reason to develop a Code of Ethics for your business is that it communicates to employees that your company is committed to doing business responsibly. New employees know right away your company's standards and expectations. If management adheres strictly to the code of ethics, a culture consistent with the code will grow among employees throughout the company. This kind of company culture creates a kind of positive peer pressure to maintain a high level of work consistent with the values of your company.

##### **Shows customers you value integrity**

Additionally, customers tend to feel reassured by the existence of a Code of Ethics within a company. They feel that the company values its integrity and will operate accordingly when doing business. Third party groups also tend to look more favourably

upon organizations that adopt a Code of Ethics, appreciating that some attempt is being made to develop a company culture of responsibility and honesty.

### **Prevents ‘innocent’ violations of ethics**

Another reason to maintain a code of ethics is that they address matters that might not occur to employees on their own. While codes don't necessarily touch on matters of illegality, they do address important matters that affect the profitability, integrity and reputation of a business. Having a specific Code of Ethics outlining the specific standards and expectations of your company for your staff will sensitize employees to things that may not have been obvious to them and avoid inadvertent, yet potentially harmful, missteps.

### **Provides a clear point of reference when enforcing corrective action**

Lastly, another reason to consider keeping a Code of Ethics as part of your company culture is that such a document will serve as a reference for corrective action or even termination for employees who fail to meet these standards. A widely known code removes anything arbitrary or murky from dealing with an employee who consistently fails to behave in a manner that meets company standards. Even one such employee can potentially cause great harm to a company, but straightforward, objective expectations for employee behaviour provides a solid foundation for catching and addressing this kind of problem.

Don't forget keep it simple. When creating your code, get right to the point. Avoid big legal sounding words and use bullet points instead of long winded paragraphs. Remember, you have to address all your employees and they each have their own levels of understanding of such documents.

### **A business, no matter how big or small, can always benefit from having a clear Code of Ethics!**

A business can always benefit from having a Code of Ethics in place both to avoid potential problems and to address problems when they arise. If you decide to develop one, consider what would motivate and unite your employees in a company culture consistent with the values you want to maintain throughout your organization.

## **What Are the Key Components of a Code of Ethics in Business?**

by Kimberlee Leonard  
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Your business code of ethics, also commonly referred to as a code of conduct, is the set of rules you determine to establish both the legal and

moral character of your company. When writing your company's code of ethics, look at both the legal, compliance and value-based components that are important in defining and running your company successfully.

#### Consider the Legal Issues

You may think that clearly expressing all employees must follow the law is something that shouldn't need to be said. It does. While some industries or specific occupations have legal requirements, all employees in any business must follow state and federal laws. Bank employees are screened for money laundering. Delivery drivers are subject to periodic driver's license reviews for excessive speeding tickets or tickets for driving while under the influence of alcohol (DUIs).

Some of these law violations don't have to occur during work hours to affect an employee's ability to perform job duties properly. You don't need to state all the laws employees must follow in your code of ethics, but if there are specific rule-breaking scenarios - such as DUIs for delivery drivers - that are grounds for immediate disciplinary action, you need to let employees know. Beyond that, state that all employees are expected to respect the law and perform their duties lawfully.

#### Compliance and Regulations

Compliance and regulation is another aspect of legal requirements that some industries must follow. Failure to do so results in fines, penalties, and potential legal action against the company, its leaders, and the employee breaking the rules. Highly regulated industries include the financial services industry, banking, real estate, health care and senior care providers.

For example, the mortgage industry has compliance regulations for advertising, disclosure and privacy. If a mortgage representative is not advertising interest rates according to the Truth in Lending Act, there could be significant repercussions. Your company's code of ethics should clearly state that all industry compliance and regulatory rules must be followed.

#### Value-Based Components

Value-based components in a code of ethics can range widely. The code of ethics usually includes the six universal moral values that state you expect employees to be trustworthy, respectful, responsible, fair, caring and good citizens. You can also include values such as celebrating diversity, using green standards in the workplace, or dress codes. Include anything that is important to the overall mission and vision of company success as part of the code of ethics.

#### Violation of the Code of Ethics

When business owners discuss any component in the code of ethics, the course of action for violating it should also be addressed. It isn't enough to say that someone can't have a DUI. You must state what the process is and

the potential disciplinary actions that could result from the action. The disciplinary actions should be fair and justifiable for the violation, meaning you wouldn't treat stealing the same as you would for not wearing the company shirt to a client's house.

# How to Write a Code of Ethics for Business

A code of ethics can help a business determine its priorities and values. It can also help you draw the line if one of your employees or vendors drags you into legal trouble.

By Josh Spiro

*Inc.*

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## How to Write a Code of Ethics for Business: What is a Code of Ethics?

A code of ethics is a collection of principles and practices that a business believes in and aims to live by. A code of business ethics usually doesn't stand alone, it works in conjunction with a company's mission statement and more specific policies about conduct to give employees, partners, vendors, and outsiders an idea of what the company stands for and how its members should conduct themselves.

The key in distinguishing a code of ethics from these other documents is to hit the right level of specificity. It should address both the particular nuances of the company's industry as well as its broader goals for social responsibility and should be concrete enough to serve as a guide for employees in a quandary without laying out rules for every situation that could arise.

Policies can include issues such as a company's commitment to not work with vendors who use child labor or are environmentally harmful, not discriminating in their hiring, and not taking bribes. For example, recently when Ikea was opening their first location in Russia, they were approached by local bigwigs requesting a kickback to turn their utilities on just before the store's grand opening. It would have been easy to cave to the pressure of their responsibility to stakeholders, creditors, and employees but Ikea has a firm no bribes policy. To get around the problem, they leased power

generators to get their store lit up in time for its kickoff.

"A code of ethics is about corporate culture," says Michael Connor, the editor and publisher of the online magazine [Business Ethics](#). "[Many small- to medium-sized businesses] have a code of ethics; it's probably not written down in many cases but it wouldn't hurt if it was."

Connor believes that there's no such thing as a business being too small to benefit from a code of ethics. Having a code is "often viewed as a luxury or something that is an added cost," he says. "The reality these days is that the business that does not have a code of ethics subjects itself to a much greater risk in its day-to-day operations and if there is an unfortunate incident, they expose themselves to much greater risk [from] regulatory and prosecutorial authorities."

### How to Write a Code of Ethics for Business: Setting Priorities

The first step a company has to take in laying out a code of ethics is deciding what values are important to it and what lines it won't cross. When Marianne Jennings is consulting with companies implementing a code of ethics, she probes a company's leadership to discover their boundaries. The professor at Arizona State University's business school and author of *The Seven Signs of Ethical Collapse*, asks her clients, "What are the things you would never do at this company to get a client, to keep a client, to make sure you met your numbers for the quarter?" Just thinking through that sets the framework for the code.

Clarifying these details can be especially helpful as the company grows. "As they grow, they're going to be hiring more people that are probably dissimilar to their value structure and [putting] those rules and those procedures in place will help your company grow in the way you want it to grow," says John Fraedrich, a professor of business ethics at Southern Illinois University.

Having HR educate incoming employees about the code of ethics and the company's culture is especially important in the age of increasingly rapid job turnover. Connor says that sometimes employees "are hired and fired at such a pace that people don't know what the corporate culture is."

### How to Write a Code of Ethics for Business: Getting Input

A common mistake that companies make when drafting a code of ethics is not to consult employees. "Often the code of ethics comes from the top, and the company is really not aware of the kinds of things the employees are facing," Jennings says. In these cases "the code of ethics comes out and it's instantly dismissed as a sham because the employees really know what's

happening and it's not covered [in the code] or it's addressed in a different way."

Even if you think you're in tune with the daily trials and tribulations of your staff, you should solicit broader participation in the crafting of the code. Employees need to have a say in it but they also need to know why the code is important and why it ultimately contains the tenets that it does. Jennings suggests soliciting anonymous input from your staff on a situation they were in during the past year that made them uncomfortable as a good starting point.

### How to Write a Code of Ethics for Business: Don't Sweat the Small Stuff

Making sure your code of ethics is neither too vague, nor too specific can be a challenge, and a slip up can make employees resentful of the endeavor. Jennings says that it's a mistake for companies to kick off their code of ethics with crackdowns on small details.

"At almost every company, people who want to do business with you bring plates of cookies at the holidays," she says. Companies often begin by pouncing on these sorts of transgressions "and that immediately creates a hostile atmosphere because people don't want to let go of that. You have to work with them from the big perspective until they self-realize what they need to do" regarding the more specific scenarios.

### How to Write a Code of Ethics for Business: Particular Pitfalls

Some ethical dilemmas can reverberate much more powerfully through a small business than through a larger corporation. Take the example of officecest, or a romantic workplace relationship.

"If you have a small company you really need to have a policy of no dating within the company," Fraedrich says. "Let's say there is some sort of harassment issue or sexual misconduct; it doesn't matter if they were great friends in the beginning, at the end it's going to be a nightmare."

Another ethical pitfall that can stir up particular trouble for a small business is nepotism. "In start-up companies, it's all about 'who do I trust' and sometimes nepotism will come in," Fraedrich says, and family-run businesses have to be especially vigilant against an ethical lapse that could lead at best to employee dissatisfaction and at worst to a discrimination suit.

### How to Write a Code of Ethics for Business: Who to Turn to for Help

While it can be valuable to consult a lawyer when drafting a code of ethics, "[a] lawyer is not really an ethics individual," explains Fraedrich. "He or she

is there to determine what can be construed as legal or illegal and what can be argued in court." Connor says that smaller companies could draft a code themselves, especially if they are in a low-risk, low-liability field, and Fraedrich similarly advises that if you have more than 20 employees, it's time to consult an ethicist or human resources specialist.

### How to Write a Code of Ethics for Business: Putting Someone in Charge

Even if senior management and employees embrace a code of ethics, someone needs to be put in charge of applying and updating it. This person is typically known as an ethical officer or, in more intimidating terminology, a compliance officer. They need to be reliable, have a strong commitment to the company's success, and good people skills. They also need to have access to senior management or the board of directors for periodic updates or in case a problem arises.

The role of ethical officer typically falls to somebody on the HR or sales team. This person is also in charge of the system for monitoring and reporting misconduct. Like the process for creating the code, this should be done anonymously as any whistleblower would likely be concerned about what rocking the boat would do to their career.

Some companies kick the tires of their adherence to the code of ethics by checking in with both managers and employees about it during performance reviews. It's also crucial to make your code of ethics a dynamic thing that changes as your business changes. Connor says, "Like taxes, it doesn't hurt, once a year, to look at it yourself and ask, 'Does this truly represent our business and where we want to be?'"

### Resources

*Inc.* has some [sample codes of ethics](#) available, and more such resources can be found online, particularly on the pages of university business ethics centers like the Illinois Institute of Technology's [Center for the Study of Ethics in the Professions](#).

[The Ethics Resource Center](#) is an Arlington, Virginia-based non-profit that provides among other things, updates on federal policy connected to business ethics, surveys on topics such as how the recession is impacting ethics, and links to other resources around the web.

[Business for Social Responsibility](#) is a global network of companies specializing in business ethics that provide consulting and research services to help companies hone socially conscious business strategies.

# Ten Benefits of Having an Ethics Code

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“The single measure that would most improve corporate governance is the establishment by senior management of an ethical business culture.”

– 2003 survey of corporate directors and general counsel

Companies should have [ethics codes](#) to promote ethical behavior – not to enhance productivity, profits or public relations. Still, a sound, well-administered code can benefit a company and its stakeholders in a variety of ways. It can:

1. Guide employees in situations where the ethical course of action is not immediately obvious.
2. Help the company reinforce – and acquaint new employees with – its culture and values. A code can help create a climate of integrity and excellence.
3. Help the company communicate its expectations to the staff to suppliers, vendors and customers. Also, by soliciting feedback and questions, a company can use the code to encourage frequent, open and honest communication among employees.
4. Minimize subjective and inconsistent management standards. A code explicitly outlines the rights and responsibilities of staff members and helps guard against capricious and preferential treatment of employees.
5. Help a company remain in compliance with complex government regulations. The landmark [Sarbanes-Oxley Act of 2002](#) requires public companies to have an ethics code for senior financial officers.
6. Build public trust and enhance business reputations. Also, a code helps demonstrate the company's values to socially responsible investors.
7. Offer protection in preempting or defending against lawsuits.
8. Enhance morale, employee pride, loyalty and the recruiting of outstanding employees.
9. Help promote constructive social change by raising awareness of the community's needs and encouraging employees and other stakeholders to help.
10. Promote market efficiency – especially in areas where laws are weak or inefficient – by rewarding the best and most ethical producers of goods and services.

Adapted from [Good Ideas for a More Ethical and Effective Workplace](#)