

FOREWORD

*W*e live in an age of innovation, the growth of free markets, and a world economy. New technologies, roles for government, and players on the global scene offer challenging opportunities, demands, and constraints. More peoples and nations are working together to spread freedom and democratic principles; to nurture free markets; to protect individual property rights; and to encourage respect for human rights, the rule of law, and the environment.

With increasing urgency, market and social forces are rewriting the roles and responsibilities of business as well. Though the profit motive of business is understood and accepted, people do not accept it as an excuse for ignoring the basic norms, values, and standards of being a good citizen. Modern businesses are expected to be responsible stewards of community resources working toward the growth and success of both their companies and their communities.

Government has an important role in the spread of freedom and democratic capitalism. It provides for the essential market-oriented legal framework and reliable dispute resolution processes that allow businesses to compete fairly on the quality, prices, and delivery of their goods and services alone. It enforces laws, regulations, and judgments to safeguard the social order its citizens value. It cannot, however, act alone. Businesses and civil society must also be involved in solutions to community problems. They can help in the fight against the corruption that saps national resources. They must reform the unethical business practices that breed cynicism and distrust in communities.

Businesses are at the strategic center of a civil society, and they have a stake in their communities. They depend on free markets and good public governance for their growth and success, but they are also authors of their own destiny. Through responsible business conduct, they contribute to the essential social capital of trust and fairness that makes good governance and free markets possible.

Markets become free and remain free if their players are responsible and respect the basic values of honesty, reliability, fairness, and self-discipline. The alternatives to responsible business conduct are inefficient markets and costly government regulation. Free flows of capital, talent, knowledge, and

creativity are possible where communities are known for transparency, respect for property, a market-oriented legal framework, and reliable dispute resolution mechanisms. The alternatives are a lack of capital, high transaction costs, limited markets, underdevelopment, and poverty.

In short, owners and managers must temper the competitive aspects of capitalism with concerned citizenship. They must take individual responsibility for the decisions and activities of their enterprises and their impact on the culture of their enterprise and its stakeholders. A business needs committed, productive employees, agents, and suppliers to create goods and services. It needs loyal, satisfied customers and consumers to make a profit. It needs people who believe in it and in its prospects enough to invest. It needs to take the long view and to respect the physical environment and the prospects of future generations.

Over the past few decades, governments, international institutions, transnational organizations, organized labor, and civil society have been engaged in an ongoing dialogue into the role of business as responsible stewards. Standards, procedures, and expectations for business are emerging worldwide. Enterprises and markets that are unaware of them, or fail to plan their futures with them in mind, will be unable to participate in the global dialogue and will risk being left behind as the global market economy expands.

Businesses around the world are designing and implementing business ethics programs to address the legal, ethical, social responsibility, and environmental issues they face. By addressing these issues in a systematic way, enterprises can improve their own business performance, expand opportunities for growth, and contribute to the development of social capital in their markets. They can realize specific business benefits, such as:

- Enhanced reputations and good will
- Reduced risks and costs
- Protection from their own employees and agents
- Stronger competitive positions
- Expanded access to capital, credit, and foreign investment
- Increased profits
- Sustained long-term growth
- International respect for enterprises and emerging markets

Enterprises that excel in these areas create a climate of excellence for their employees, shareholders, and communities, and contribute to the economic wellbeing of their countries.

No single volume can tell individual businesses what decisions and activities will foster and meet the reasonable expectations of their stakeholders. Each enterprise faces unique political, economic, social, and technological pressures. Moreover, each has a unique organizational culture that influences all that its members think, say, and do. However, a guide can demonstrate a process through which owners and managers can identify enterprise stakeholders; can foster reasonable stakeholder expectations; and can inspire, encourage, and support responsible business conduct.

Purpose of this Manual

This manual is intended to aid enterprises in designing and implementing a business ethics program that meets emerging global standards of responsible business conduct. Owners and managers can explore the substantial body of global standards, procedures, and expectations described here. They can adopt or adapt them on a sector-by-sector and enterprise-by-enterprise basis, taking into account their particular circumstances, such as applicable laws and regulations, the size of the enterprise, and the enterprise's purpose.

This manual explores how a business ethics program helps owners, managers, and their professional advisers build an enterprise to meet these standards. It builds on three essential concepts to help busy owners and managers design and implement business ethics programs for their unique enterprises.

1. **Responsible business conduct:** the choices and actions of employees and agents that foster and meet the reasonable expectations of enterprise stakeholders.
2. **Responsible business enterprise:** an enterprise characterized by good governance policies and management practices as well as by a culture of responsible business conduct. It is adept at dealing with the challenges and complexities of its business environment, but holds closely to its purpose, core values, and vision.
3. **Business ethics program:** a tool that owners and managers use to inspire, encourage, and support responsible business conduct, by engaging enterprise stakeholders in order to foster and meet their reasonable expectations, and designing structures and systems to guide and support employees and agents.

There is, of course, no one right way to design and implement a business ethics program, let alone to achieve a culture of responsible business conduct. Whatever the size or purpose of the enterprise, however, owners and managers will find value in building an enterprise that sets standards for responsible business conduct, puts them into practice, and learns from experience. This

manual distills the experience of business enterprises that have designed and implemented business ethics programs to address a number of issues:

- What it means to be a responsible business
- How to approach responsible business as a strategy
- What structures and systems help management guide employees and agents and foster reasonable expectations among enterprise stakeholders
- How to communicate with stakeholders about enterprise standards, expectations, and performance
- How to align management practices with core beliefs through a business ethics program
- How to evaluate a business ethics program and learn from it

Four distinct but related disciplines have traditionally guided responsible business conduct: business and professional ethics, organizational ethics, corporate social responsibility, and corporate governance. The focus of all four approaches is the governance policies and management practices that inspire, guide, and support responsible business conduct. This manual integrates these four disciplines into a single, systemic discipline: the discipline of responsible business conduct.

To help owners and managers apply the discipline of responsible business conduct, this manual develops a set of tools that will assist them in answering important questions drawn from each of the four traditional approaches to responsible business conduct:

1. Business and professional ethics
 - a. What does a business enterprise owe its customers and consumers?
 - b. What standards of conduct and performance should an enterprise set for its employees and agents?
 - c. What is the role of industry and government in setting business and professional standards?
2. Organizational ethics
 - a. What is the optimal mix of values and rules to guide decision-making and action?
 - b. What structures, systems, practices, and procedures will best implement the values and rules of the enterprise?
 - c. What outcomes should one reasonably expect from an enterprise's decisions and activities, and how can an enterprise track, measure, and report them?

3. Corporate social responsibility
 - a. Who are the legitimate stakeholders of an enterprise, and what can they reasonably expect?
 - b. Who speaks for the environment and future generations as stakeholders?
 - c. What is the role of business in sustainable development?
4. Corporate governance
 - a. Who can rightfully claim the power to govern an enterprise?
 - b. How can the board of directors and management best protect the rights of shareholders, especially minority shareholders?
 - c. How can the board of directors best guide management to meet the reasonable expectations of shareholders?

Organization of this Manual

This manual includes 10 chapters, which are arranged in five parts. The five parts organize the chapters according to the flow of business ethics program design and implementation, from defining key terms and addressing global standards and best practices, through evaluating the business ethics program as a part of organizational learning. Chapters build on each other, but they may be read alone if the reader is interested in a particular topic.

Part I, “The Responsible Business Enterprise,” develops a working definition of the responsible business enterprise (RBE). Chapter 1, “Responsible Business Conduct in an Emerging Economy,” addresses the challenges business enterprises face, especially in emerging market economies. It concludes that to be part of the solution to the problems facing businesses, enterprises need to improve their business performance, contribute to the social capital of their communities, and work with leaders in government and civil society to develop a market-oriented legal framework and reliable judicial institutions. Chapter 2, “Responsible Management and the Responsible Business Enterprise,” describes the emerging global standards of performance and reporting and the benefits of having a business ethics program.

Part II, “The Business Ethics Program,” introduces the reader to the elements of a business ethics program and its nature as a business strategy. Chapter 3, “Responsible Business Conduct as Strategy,” treats the key concepts and components of a business ethics program and shows how owners and managers can approach a business ethics program as a strategy. Chapter 4, “Creation of a Business Ethics Program,” introduces owners and managers to the process of developing, reviewing, and approving a business ethics program.

Part III, “Structuring the Business Ethics Program,” details the emerging global standards and best practices of responsible business conduct. Chapter 5, “Standards, Procedures, and Expectations for the Responsible Business Enterprise,” discusses responsible board-level governance policies and management-level vision and value statements, and it describes how to implement standards, procedures, and expectations. Chapter 6, “Business Ethics Infrastructure,” discusses the structures and systems that owners and managers use to implement a business ethics program. Chapter 7, “Business Ethics Communications and Feedback,” discusses the challenges of communicating with an enterprise’s stakeholders about standards, procedures, and expectations, as well as about the enterprise’s performance.

Part IV, “Putting Business Ethics into Practice,” describes how management aligns its practices on an enterprise’s core beliefs and follows through on the expectations created through its business ethics program. Chapter 8, “Aligning the Responsible Business Enterprise,” examines how an enterprise needs to have the right employees and agents performing the right tasks in pursuit of its purpose. It explores how the RBE responds when things go wrong through the fault of its employees and agents or otherwise. Chapter 9, “Responsible Business Conduct and Practices,” pays particular attention to the challenges of being a responsible business enterprise in an emerging market economy, especially dealing with government procurement and contracting, influencing government legislation and regulation, and working with other business leaders and civil society to develop a market-oriented legal framework and reliable judicial institutions.

Part V, “Achieving Responsible Business Conduct,” helps owners and managers determine whether their business ethics program is achieving measurable goals. Chapter 10, “Program Evaluation and Organizational Learning,” emphasizes the importance of evaluating a business ethics program as an integral part of organizational learning and of what it means to be an RBE.

How to Use this Manual

The audience for this manual includes decision-makers in enterprises of all sorts: business, government, academia, and civil society—and their professional advisers.

Most of the experience in business ethics programs around the globe involves large, often quite complex, enterprises. Owners, shareholder representatives, and managers of such enterprises will find the discussion, worksheets, and sample provisions directly applicable. They may also find that it is in their best interest to encourage or require their suppliers or service

providers to design and implement a business ethics program to minimize the risk of supply chain disruption or indirect damage to their reputations.

The bulk of businesses in all economies, especially emerging market economies, consists of small to medium-sized enterprises (SMEs). Owners and managers of SMEs face particular challenges, and most chapters discuss specific issues facing SMEs. Some chapters have tables comparing the best practices of large, complex enterprises and cost-effective solutions for the SME.

Individuals, businesses, and nongovernmental organizations seeking to stimulate a public dialogue on issues and benefits of business ethics will also find this manual useful. It offers a frame of reference for further dialogue. It includes definitions of key terms and concepts. It helps define the role of the private sector in creating transparent markets, strengthening the rule of law, and supporting good public governance.

Although this manual emphasizes responsible business conduct, association members and government officials can also use it as a management tool to order their affairs. The process described here applies to all enterprises having a shared purpose. To be effective, efficient, and responsible, an association or government agency also should understand its relevant context and organizational culture. It also must establish and communicate to its stakeholders its core beliefs, standards, procedures, and expectations. In short, an association or government agency can benefit from designing and implementing an ethics and compliance program similar to the business ethics program described here.

Finally, members of the press and other media can use this manual as a framework to develop a series of articles or programs as features to raise their audiences' awareness of emerging global standards and best practices. As business news events occur, the media can use this understanding to develop and report business events as news items—confident that their readers will appreciate the significance of their reporting. They can then develop an editorial position and can publish a body of opinion-editorial pieces to stimulate national and community dialogue.

When a business enterprise is ready to design and implement its business ethics program, the RBE Worksheets and appendices will aid it in collecting and analyzing the data necessary to build an effective program. The worksheets can be used as checklists to ensure that owners, managers, and working groups taking on this task have considered all relevant circumstances for their enterprise. These circumstances may include fundamental matters such as the political, economic, and social context and organizational culture of the enterprise. An enterprise will be most effective at building a business program if working groups of representative stakeholders are guided by an objective facilitator, whose sole responsibility is to help the group stay on task and consider all relevant points of view.

What sets this manual apart from general management texts and business ethics books is an emphasis on building formal enterprise structures, systems, and practices to achieve responsible business conduct and to embed it in the organizational culture. This manual emphasizes the process by which owners and managers design and implement a business ethics program, recognizing that each enterprise faces unique circumstances. As such, it does not answer specific legal or ethics questions.

What it does provide is a comprehensive framework for addressing ethics, compliance, and social responsibility questions on a strategic basis. It helps owners and managers organize the body of practical wisdom reflected in legal requirements, proposed guidelines, best practices, case studies, and even traditions. It can stimulate and legitimize stakeholder dialogue into matters of significance to all.

The challenges facing business are many, but its importance as the sector of society that generates consumer goods, jobs, wealth, economic progress, and, yes, even tax revenues cannot be underestimated. By working through this manual, business leaders, owners, and managers will construct their own framework for approaching a challenging, complex world more creatively and confidently.

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