

Codes of Ethics and Conduct

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Abstract

This paper seeks to understand codes of ethics and conduct. It examines their origins, evolution, application in a global environment, role in decision making, and their usefulness within a project. The paper concludes with an assessment of the lessons learned in this paper and suggestions for potential improvements.

Keywords: business, *Credo*, code, conduct, decision making, ethics, Friedman, globalization, projects, social responsibility

Are Codes of Ethics and Conduct Necessary?

Ask anyone in business if they have heard of a code of ethics or code of conduct and the majority will affirm they have. However, ask them to quote their company's code, and very few can recall all of the ethics or behaviors listed there. And most guess. When asked about the purpose of their company's code, most will tell you it is about behavior. And when asked to provide an example, most will refer you to news and events such as the Enron scandal.

One would think if codes of ethics were important, more people would know their code and the meaning behind each of the code's ethical principles or behavior requirements. They would be aware of the value of the code and want to comply with it. Sadly, neither codes of ethics or conduct appear important and rarely appear to be given a second thought in the day-to-day decisions made within a business. Recent events, such as the Enron scandal just mentioned, pose the question of whether codes play any significant role in the modern and global business environment and projects.

For companies, which use projects as their basis for doing business, this becomes significant to the make-up of its current and future leadership and to its working culture. Simply stated, ethics will either be important or unimportant to these individuals (despite any other considerations) based upon their view of ethics and certain behaviors and their role within the business. Failure to recognize the importance ethics and behavior plays within the business, and to take significant and consistent action over time to ensure both an ethical management and workforce, could then become a risk to the future viability and profitability of the company.

The Origin of Codes

According to Distinguished Professor Richard T. De George of Santa Clara University (De George, n.d.), a code of ethics and conduct are part of the fairly recent business ethics

movement. As a movement, business ethics "refers to the development of structures internal to the corporation that help it and its employees act ethically, as opposed to structures that provide incentives to act unethically. The structures may include clear lines of responsibility, a corporate ethics code, an ethics training program, an ombudsman or a corporate ethics officer, a hot or help line, a means of transmitting values within the firm and maintaining a certain corporate culture, and so on." A code then forms part of the business culture and is designed to incentivize ethical conduct or behavior.

The earliest of these codes mentioned by Professor De George was, and still is, called the *Credo* (Johnson & Johnson Services, Inc., 2015). It was originally developed in 1943² by Robert Wood Johnson of Johnson & Johnson. Within the *Credo*, Mr. Johnson states four responsibilities which the company considers a "recipe for business success." These responsibilities are addressed first to its customers, then to its employees, its communities, and then to its stockholders. These responsibilities are stated in both company and individual behavioral terms owed to each group.

In an online article entitled "The Writing of Our *Credo*", the history of the *Credo* is tied to life of its creator, Robert Wood Johnson (Gurowitz, 2013). Mr. Johnson's story begins with his father Robert Wood Johnson (senior) and uncles who, in the late 1800s, worked to make surgery and disease prevention safe by making their products sterile. In 1910, Fred Kilmer (who held the position of Director of Scientific Affairs at Johnson & Johnson for 45 years) would write about Robert (senior) saying, "When once convinced that an article which he could manufacture would save life and prevent suffering, he caused it to be manufactured and placed before the [medical] profession irrespective of any consideration of profit."

At the time Robert Wood Johnson (junior) became president of Johnson & Johnson, the United States was deep into the Great Depression of the 1930s. During those years, the lessons of social responsibility Mr. Johnson had learned from his father and uncles were put into practice. During the Depression years, Mr. Johnson increased employee benefits, trained an internal staff of first aid responders, opened a new plant and increased the total number of employees, sponsored disaster relief for the people of New Brunswick N.J., and supplied additional dressings to the U.S. military at no cost. Later, during World War II, Mr. Johnson was commissioned a Brigadier General by President Roosevelt and appointed to "serve as the head of the Smaller War Plants Corporation in Washington, D.C." Of his intentions, Mr. Johnson would write in 1935, "Industry only has the right to succeed where it performs a real economic service and is a true social asset. It is to the interest of modern industry to realize that service to its customers comes first; service to its employees and management second, and service to its stockholders last. It is to the enlightened self-interest of industry to accept and fulfill its share of social responsibility." In 1944, Johnson & Johnson went public. But before then, in December of 1943, Mr. Johnson purposely wrote the *Credo* because he "wanted to reinforce the Company's philosophy to make sure it remained unchanged."

Evolution and Change

Since the writing of the *Credo*, codes have gradually changed over time. The purpose, use, definition, and even the title for a code are connected with the term "social responsibility" and to its interpretation during two periods in time: The Great Depression and legal proceedings in the late 20th century.

The first period, leading up to and including the Great Depression, emphasized a reliance on people. This is seen in the previous paragraph on the origin of the *Credo* and is due to the

Great Depression. Concerning people and the Great Depression, Daniel J. Meissner (n.d.), an Associate Professor from Marquette University, wrote, “The Great Depression affected everyone. From the very young to the old, everyone’s lives were changed drastically by the events of this period. Many people found themselves out of work and searching for a better life. Children had to deal with changes in their education if they could attend school. Teenagers and their parents were traveling to search for a new life. The middle class had to deal with a life without money and security. The years of the Great Depression were very difficult for those who lived through them and they also mark an important era in this country’s history.”

Codes created during this period reflected this need for human interdependence, and the term “social responsibility” became defined in outward and liberal terms; that is “What does the business owe society?” The word “ethics” is usually contained in the name of codes to reflect this sense of human need and responsibility. For example, Business Dictionary (2015) reflects this definition of social responsibility when it defines it as, “A company’s sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs, and (3) by earning adequate returns on the employed resources”. To this definition, Wikipedia (2015) adds the statement, “A broader definition expands from a focus on stakeholders to include philanthropy and volunteering

In addition to the *Credo*, another example of codes from this period is the Code of Ethical Business Conduct from The Hershey Company (n.d.). In its code, Hershey addresses its commitment to five groups: fellow workers, consumers, the marketplace, stockholders, and to the global community. [Like](#) [Similar to](#) the *Credo*, this code also describes the behaviors The Hershey Company will do for each of the five groups.

The second period begins in the 1960s. During this period, a number of incidents occurred, which affected business in general and the concept of social responsibility. Table 1 summarizes the major incidents and was compiled by the Ethics Research Center (n.d.) of the Ethics & Compliance Initiative of Arlington, VA.

Table 1

Incidents Affecting Business Ethics

Timeframe	Ethical Climate	Business Ethics Developments
1960s	Social unrest, anti-war sentiment, labor-management conflict, environmental issues, drug use escalates	Codes of conduct and values statements started, birth of social responsibility movement, ethics issues addressed through legal or personnel departments, anti-discrimination laws initiated
1970s	Defense and other major industry issues (Lockheed scandal), economic recession, unemployment escalates, heightened environmental concerns, the public pushes to make businesses accountable for ethical shortcomings.	Compliance with laws emphasized, Foreign Corrupt Practices Act of 1977, Values movement seeks to move ethics from compliance-oriented to "values centered"
1980s	Bribes and illegal contracting practices, influence peddling, deceptive advertising, financial fraud (savings and loan scandal),	U.S. Code of Ethics for Government Service (1980), General Dynamics establishes first ethics office (1985), Defense Industry Initiative established

	transparency, corporate downsizing, health care issues	(1986), False Claims Act (government contracting)
1990s	Global expansion, child labor, facilitation payments (bribes), environmental issues, unsafe work practices (3 rd World), increased corporate liability for personal damage, continued financial mismanagement and fraud, the Internet challenges cultural borders.	Federal Sentencing Guidelines for Organizations (1991), class action lawsuits, Global Sullivan Principles (1999), In re Caremark (Delaware Chancery Court ruling re Board responsibility for ethics), IGs requiring voluntary disclosure, Royal Dutch Shell International issues first annual ethical performance report.
2000s	Ethics issues affect high profile firms, personal data/privacy issues (data mining), cyber crime, terrorism, international corruption, intellectual property theft, continued financial mismanagement and fraud	Federal Sentencing Guidelines for Organizations; Sarbanes-Oxley Act of 2002 (revised 2004), increased emphasis on Corporate Social Responsibility and Integrity Management, OECD Convention on Bribery (1997-2000), UN Convention Against Corruption of 2003 (expanded 2004), increased emphasis on ethics program effectiveness evaluation

Each of the incidents in Table 1 placed increased legal responsibilities on the business and increased penalties for their infraction. These incidents were also perceived as placing increased social obligations on the business as well.

However, notice a shift in the Business Ethics Developments section of the table starting in the 1970s. This shift was due to an article published in 1970 by economist Dr. Milton Friedman in the *New York Times* entitled “The Social Responsibility of Business is to Increase its Profits” (Friedman, 1970). Dr. Friedman’s article, coupled with the incidents listed in Table 1, changed the perception of social responsibility and its role within business. In his paper, Dr. Friedman considered the previous interpretation of social responsibility to be nothing more than socialism. “What does it mean to say that ‘business’ has responsibilities?”, he stated; “Only people can have responsibilities.” Dr. Friedman went on to argue that in “a free-, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.” He concluded that “spending someone else's money for a general social interest” to be illegal. In essence, Dr. Friedman re-focused business on making a profit and on compliance to law. However, he still thought social responsibilities were important, but this responsibility belonged to the owners of the business; not to the business itself. Anything which interfered with profitability became unacceptable to the business unless required by law and ethical custom.

Codes created during this second period are based on Dr. Friedman’s views and reflect the need for compliance to law and ethical custom. Subsequently, the term “social

responsibility” becomes defined in inward and compliance terms; in essence, “What behaviors are necessary for the business to make a profit?” This definition of social responsibility is defined by the term “corporate social responsibility” (or CSR) which Wikipedia (2015) defines as “a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms.”

USLegal, Inc. (n.d.) takes the idea of self-regulation one step farther in its definition by stating, “A code of ethics issued by a business is a particular kind of policy statement. A properly framed code is, in effect, a form of legislation within the company binding on its employees, with specific sanctions for violation of the code. If such sanctions are absent, the code is just a list of pieties.” Because of this refocused change on compliance versus people, names for codes changed to include the word “conduct” and referred heavily to the “behavior” required of the employees for whom the code serves as both a behavioral and legal standard.

For example, PG&E (Pacific Gas and Electric) Corporation's code of conduct (2013) currently states: "We respect each other and celebrate our diversity" reflecting adherence to anti-discrimination laws and behavior. It also states, "Never knowingly violate laws, regulations, policies, standards, or procedures" and further states, "Your supervisor can't order you to take an action that intentionally violates this Code, a law, a regulation, or a company policy, standard, or procedure", which reinforces the law and protects employees from having to perform unlawful acts. As part of its code, PG&E lists the compliance standards to which employees are required to adhere. Another example involves the more recent subprime loan fraud scandals in the United States. As a result of this incident, the Board of Directors of Fannie Mae (2015) updated its code of conduct in 2011 citing two reasons. First, to update "the descriptions of some of the

requirements and examples in the Code" and second to "aligned the language in the Code with our current corporate priorities." The code now contains specific examples which reinforce the code and examples which violate it. Two sections of the code state for example, "We are Trustworthy in All Transactions, Recordkeeping, Reporting & Communications" and "We Obey the Law".

While both periods resulted in separate views toward social responsibility, codes created today rarely make such a finite distinction between social and legal obligations. Today, as in the past, the purpose, use, and even the name for a code depends on the people owning the business. If those individual owners lean toward having the business fulfill a social obligation, the code for the business will likely be defined in social terms and what it intends to do for people. On the other hand, if those individual owners limit responsibilities to compliance, then the code will likely be defined in terms of the behaviors required by its employees to comply with the law and ethical custom. In general, however, codes written currently will likely be a mixture of both social and behavior views.

Codes and Globalization

Business Dictionary defines the term globalization as the "worldwide movement toward economic, financial, trade, and communications integration" (2015). Businesses, which seek to globalize their products and services, parse their business in an integrated manner to parts of globe where there is significant benefit or profit to the company. Today it is not unusual to find a company, which has helpdesk support in India and manufacturing in China for example.

In an online article for Manufacturing.net, Mike Collins (2010) lists arguments for and against globalization. While his arguments are not presented in this paper, two observations

from his article become readily apparent. Both of these observations represent potential risks to businesses engaged in integrated global operations.

- 1) Many of the cons listed in Mike Collins' article are currently illegal in the United States; e.g., poor working conditions, below minimum wages, poor living conditions, mismanagement of the environment and natural resources, misuse of political influence, discrimination, child labor, unsafe (even inhumane) working conditions, and more. Taking these human rights for granted or for universal application can affect the profitability and reputation of the business.
- 2) There is a lack of universal agreement toward globalization and its concepts. What may be a positive concept accepted by one culture could be wholly rejected by another. This holds true for the application of ethics; that is, Western ethics do not apply universally in all countries or cultures. Thus taking an ethic and its Western understanding and applying that same understanding in another culture may result in opposition and other unforeseen consequences.

Consider the case of Apple, Inc. and its manufacturing partner Foxconn based in Taiwan, China, as reported by S. Prksah Swetrhi for the Carnegie Council for Ethics in International Affairs (2013). In this instance, and because of advantages in working with Foxconn as its partner in China, Apple failed to think about the differences between its American and Chinese workers and in the interpretation of its code for these workers. As a result, Apple "did not distinguish themselves in terms of better treatment of workers." In other words, it did not initially consider the people, laws, culture or ethics in America to be any different than those in China. "Instead, they eagerly followed the playbook developed by their predecessors in the low-tech, low-wage industries with the added problem of exposing workers to toxic materials under

unsafe conditions." S. Prksah Swetrhi went on to write, "when it comes to the management of its supply chain and treatment of workers in the Chinese factories that make its products, it (Apple) hides behind the constraints of prevailing industry practices. What is even more disconcerting is the fact that these practices are in violation of not only local and national laws, but also of Apple's own voluntary self-imposed code of conduct. It is important to note that this voluntary code of conduct breaks no new ground. It is at best a modest attempt to ensure that workers will be treated fairly and provided with a safe work environment. Yet the violations continue, despite years of monitoring factories where Apple's own audits show persistent non-compliance and despite these factories' repeated broken promises to improve." Unfortunately, S. Prksah Swetrhi reported that because of this lack of consideration by Apple, one of its Chinese employees committed suicide that was due to the working conditions.

What happened in this case? Apple did, and still does, have a code of ethics which requires employees to be honest; to treat customers, suppliers, employees, and others with respect and courtesy; to treat business related information confidentially; and to comply with applicable laws and regulations (Apple, Inc., 2015, October). S. Prksah Swetrhi did provide one important clue: that despite having a "voluntary self-imposed code of conduct", "violations" continued, "Apple's own audits (showed) persistent non-compliance", and Apple repeatedly failed to keep its promises to make improvements. Is it possible Apple failed to recognize the two potential risks? Without going into details, the answer is yes. Both risks were realized when Apple failed to think about the differences between its American and Chinese workers and the differences in the customs, laws and ethics held between those two nations and peoples.

Because of its experience in China, Apple now requires all of its suppliers to comply with a separate Supplier Code of Conduct (Bushnaq, 2011). The Supplier Code goes beyond Apple's

regular code of ethics and addresses the two potential risks by “drawing upon internationally recognized standards, in order to advance social and environmental responsibility.” Most of the entries in the Supplier Code would be considered normal human rights in the United States. But China and the rest of the world are not America, and the laws and the cultures between countries are different enough that Apple embedded the necessary human rights in its Supplier Code.

Finally, in answer to Dr. Friedman’s statement on “ethical custom” and to ensure the Supplier Code is complied with, the Audits and Assessments section of the Supplier Code states: “Periodic self-evaluations (will be conducted) to ensure that the Supplier, its subcontractors and its next-tier Suppliers are complying with this Code and with applicable laws and regulations. Apple may visit (and/or have external monitors visit) Supplier facilities, with or without notice, to assess compliance with this Code and to audit Supplier’s wage, hour, payroll, and other worker records and practices.”

From Apple’s experience in China, we learn some valuable lessons in regards to codes:

- 1) Codes must never be taken at face value or considered to be universal. Assuming a code will be effective in all cases, countries, and situations is not the proven case.
- 2) To be effective, a code must elicit the desired behaviors wherever it is used. What works in America, may not work in other locations because of changes in culture or ethical custom. As such, and as shown by Apple’s Supplier Code, a code may need to be changed and/or expanded to fit the needs of the business in a specific location.
- 3) Auditing of a code is necessary to assure it is being complied with and eliciting the desired behaviors as designed. Without this necessary assurance and feedback, a code may simply become a set of forgotten platitudes or worse.

- 4) And, finally, documented codes can be used as a tool to help assure a company’s reputation and legacy (as was the intent of Robert Wood Johnson in 1943).

Codes in Decision Making

To this point, the word “ethic” has been treated as a known term. But what is an ethic? According to the Oxford Dictionaries (2015), ethics are “moral principles that control or influence a person’s behavior” (or conduct). The word “principle” as defined by Oxford Dictionaries (2015) is “a fundamental truth or proposition that serves as the foundation for a system of belief or behavior or for a chain of reasoning.” Thus, for example, the following moral principles are considered to be fundamental and truths: reliable, honest, trustworthy, obedient, and creative to name five. Writing for Bright Hub Project Management, Alexis W. (2013) (full last name not given) stated, “Ethics are defined as the moral values, beliefs, and rules that one upholds in their life on the job and personally to ensure right from wrong.” On the other hand, what is not an ethic? According to the Markkula Center for Applied Ethics (2009), an ethic is not a feeling, or a religion, or following the law, or following culturally accepted norms, or science.

How then are moral principles to be used in making a decision? Here again, the Markkula Center provides an answer. By using both a code of ethics and a set of ethical standards within an Ethical Decision Making (EDM) framework, ethics can be injected into any decision-making situation. Before looking at an EDM process however, Table 3 lists five sources of ethical standards as provided by the Markkula Center (2009, May).

Table 3

Five Sources for Ethical Standards

Approach Name	Description
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Utilitarian	“The utilitarian approach deals with consequences”. In the Utilitarian approach, “the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm.”
Rights	The rights approach states the right ethical action “is the one that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends.”
Fairness or Justice	“Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally-or if unequally, then fairly based on some standard that is defensible.”
Common Good	“The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others-especially the vulnerable-are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone.”

Virtue “A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. Virtue ethics asks of any action, ‘What kind of person will I become if I do this?’ or ‘Is this action consistent with my acting at my best?’”

While the Markkula Center acknowledges these approaches are not absolute, ~~they~~it affirms these approaches will provide a firm basis for making an ethical decision. The process of EDM is well defined and has resulted in a number of formulaic procedures on the web. The general consensus for these procedures however results in six common steps:

1. Acknowledge when an issue requires an ethical decision. Basically, this relates an issue to one or more ethics or moral principles. This could include questions of legality, efficiency, and behavior for example.
2. Gather information regarding the situation. This includes facts, goals, and known conditions. Suspicious conditions should be questioned and may require investigation. Stakeholders who will be affected by the decision need to be identified, and a copy of the code of ethics or conduct obtained and reviewed. Obviously, by including the code of ethics at this point ensures the behaviors deemed necessary by business will be included in the decision.

3. In the third step, the requirements from step 2 are used to identify alternative actions that can be taken in response to the issue and in accordance with the information gathered. Step 3 evaluates each alternative to ensure it is ethical. It is during this step that questions related to each of the five approaches in Table 3 are applied. Alternatives, which fail to meet the questions from these five approaches, are discarded.
4. Decide on one of the remaining alternatives for implementation and testing. Once selected, test the alternative to ensure against any unforeseen consequences, to verify the alternative is in accordance with the information gathered in step 2, and to validate the alternative to see how it will be received (trial balloon).
5. Implement the alternative selected and monitor it. Make changes when results are not as intended or desired and monitor the resulting effects on stakeholders.
6. Review, reflect, and document any lessons learned that occurred during the implementation to see what can be done better next time.

Refer to Appendices A, B, and C for further examples of EDM procedures.

Codes and Projects

Projects are unique and leave little time for anything not directly related to their objectives. This includes codes and their ethical principles. In this context, how can codes be useful within a project?

In the beginning of this paper, the thought of failing to recognize the importance ethics plays to the business, and the risk this represents to both the future viability and profitability of a business was presented. By now, three benefits of codes to projects have been presented in answer to this thought: legal compliance, decision making, and behavioral conduct.

In terms of legal compliance, there should be no debate regarding compliance to law especially when non-compliance can directly impact both the profitability and viability of a business. As seen with PG&E and Fannie Mae, while a code can serve as a documented lessons learned for improper behavior, it can also require behaviors to preclude legal entanglements at any level of the business, including projects. For members of projects teams, correctly crafted project codes can serve as a delimiter and warning against taking illegal action.

A business and its projects are constantly making decisions in regards to operability, technical capability, quality, and many other aspects of the product or service being developed. In most cases, decision making in these circumstances focuses on the immediate issue at hand with little thought of the ethical or legal consequences. By using an EDM process in general, and combining it with Structured Decision Making for technical decisions, codes and the moral and legal behaviors they represent, can be incorporated into the day-to-day decisions of a project. Here again, the use of codes can mitigate the risks from illegal action while at the same time reinforcing and emphasizing ethical behavior within a business and project. This also sends a message to leadership, and to future leadership, that ethics are important and must be taken into consideration.

Finally, much has been written about the benefits of having a separate team code of ethics. Briefly, those benefits include improved accountability, communications, trust, boundaries, interfaces, support, decision making, and performance. Another benefit learned from Apple and its Supplier Code of Conduct is a team code can extend the basic corporate code to include the behaviors needed to ensure successful team interaction and development of the project's product or service. To be effective, Doctors Jennifer Newman and Darryl Grigg (2010-2012) wrote, "Teams that work well together are stress-free and productive. They experience a

sense of accomplishment and camaraderie. Creating and being accountable to an explicit team code of conduct can help teams work efficiently while ensuring their well-being.” This is true whether a team is composed of individuals located locally or internationally. Having a team code of conduct, which holds people accountable, can create accountability, openness, and trust while reducing disagreements, misunderstandings, and even affect the lack of poor individual behavior according to Doctors Newman and Grigg. In the end, an ~~effective-good~~ team code of conduct can be paramount to the overall success of the project.

Lessons and Improvements

This paper concludes by presenting four lessons learned, which can affect the effectiveness and usefulness of a code. In connection to these lessons, some thoughts which might offer some potential improvements are also presented.

The Friedman Compromise

While Dr. Friedman was correct about profitability, he was incorrect regarding the scope of ownership. First, consider the nature of profit and its relationship to people. Has there ever been such thing as a business without people? People and profit share a symbiotic relationship. People are needed by a business to make a profit, and profit is used by people for personal, social, and ethical reasons. Making profit for profit’s sake has no value. In fact, it is only when people apply profit to the business, to themselves, or to others that profit becomes useful and meaningful. Anything which interferes with profit or this symbiotic relationship is unwanted, unfair, or illegal. This is the basic idea embodied in Dr. Friedman’s article.

Next, consider the owners of a business. Are the owners just the stockholders? Are stockholders the only stakeholders interested in whether a business is making a profit? Obviously not; employees certainly have an interest. But does ownership stop there?

Successful New York restaurateur Danny Meyer (Marsh, 2014) indicates a business has five, inter-dependent groups of stakeholders who are interested in the profitability of the business: Employees, Customers, Community, Suppliers, and Investors. Mr. Meyer depicts the relationship between these five stakeholder groups as a circular diagram, which he calls a “virtuous cycle”. “The reason it’s called a virtuous cycle”, he says, “is if you break it at any point, you’ll break the whole thing.” Each of these five groups are interested in the profit from the business, and each of these five groups can affect the profit made by the business. Mr. Meyer goes on to say, “If your employees don’t love coming to work, who in the world are you to think your customers will be having a great time? And if you’re not rooting for your community, why would your community be rooting for you?” And these interactions go on to affect all five of the stakeholder groups.

The Friedman Compromise suggests the scope of profit be expanded to all five stakeholder groups and supported by a code, which explains company responsibilities to those groups in terms of profit. How effective is a code which strictly addresses the legal conduct required by employees? Such a code may hint at profit but never explain the responsibilities of the company towards that profit for its employees. How does that help an employ contribute to the profitability of the company? Even if employee profitability was addressed by such a code, what are the responsibilities of the company to the profitability of the other four stakeholder groups?

These are the questions initially raised by Robert Wood Johnson when he wrote the *Credo* and by the current Code of Ethical Business Conduct from The Hershey Company. A code, which is limited to just the requirements of legal behavior, may be a potential risk to profitability because it ignores all affected stakeholders and their concerns regarding profit. A

code can be much more effective (and potentially profitable) by laying out the basic rules for profitability both in terms of the legal behaviors currently required by law as well as those behaviors which would contribute to the profitability of all five stakeholder groups

Focus on the Need

All too frequently, codes are developed only at the corporate level of a business. Is this sufficient? Maybe, but it may also not be effective. Corporate level codes tend to focus on big-picture concerns such as legal considerations, effects on customers and investors, and profitability. By contrast, project level codes are more immediate and focus on the delivery of a product or service. They tend to focus on what a code can do to specifically support the members of the project team. A similar difference can be seen in regards to globalization which involves the differences in the laws, cultures, and customs of countries other than the United States. Collectively, these differences reveal codes need to be focused on the immediate needs of the business at a specific level of the business and at a specific location of the business to be an effective tool.

The reason for this is specificity. A code will always be more effective when it addresses the immediate goals and concerns of a specific segment of the business as opposed to a generalized code. In this paper, project codes were shown to be more effective than corporate codes at the team level. Internationally, and in terms of globalization, a code focused on the needs of a specific location was also shown to be more effective than a generalized code. As such, a business should create codes at the levels and locations of the business where they can be most effective in achieving the goals and concerns of the business.

For example, consider a situation where a business has one, unique division which deals only with medical equipment and supplies. Would the goals, customs, laws, and concerns for the

medical division be the same as for all other divisions? Most likely not; particularly if this division was located outside of the United States. Even if this division was located within the United States, quality for this division would be required to comply with the Quality System Regulation (QSR) standard from the Food and Drug Administration, while all other divisions would rely on other standards such as the Capability Maturity Model Integrated (CMMI). In this case then, the medical division could benefit and be more effective from having its own code.

Change When Necessary

Codes, which no longer support the mission, goals, profitability, and stakeholders of a business become platitudes; useless and forgotten. When these symptoms begin to appear, should a code be changed? Depends. Maybe a simple adaptation of the code needs to be made. The Credo, for example, has remained unchanged since 1943. When Robert Wood Johnson wrote the *Credo* his goal was to ensure the company's philosophy would never change. But as shown in Table 1, circumstances changed shortly thereafter. Fortunately, the *Credo* was adaptable while still being able to focus on the needs of the Johnson and Johnson stakeholders.

However, if a code cannot adapt, then it needs to be changed if it is to remain relevant to the values and obligations of the business. The inherent risk in any change however, is the possibility of destroying the good while removing the bad. This needs to be remembered throughout any change process. To ensure a code does not become platitude, it is recommended that a review of the code be undertaken with the planning effort. This way, a code can be adapted or changed to ensure it remains a relevant and useful tool to the business. It also allows the business to refocus a code based on its associated needs both in terms of the levels within the business and in terms of the location at which a code exists. A business, which has a code but

which does not actively use it to further the needs and profit of the business, is doing itself a dis-service.

Seek Feedback Often

At large, quality is equivalent to reputation. ~~Like~~Similar to the other aspects of the business, reputation needs to be controlled throughout the life of the business or project. If a code is all that it is intended to be, then it also becomes a standard and an aspect regarding the reputation of the business. Unfortunately, and all too often, once a code is documented and possibly trained to the employees, no further action is taken by the business in regards to it. Unless emphasized, people will focus more and more on the daily needs of the operation. They may remember there is a code, but not much more. To ensure this does not happen, audits can be used for two purposes. First, they areas a regular reminder to employees of their obligation to use of the code as both a standard and tool within the business. They can be reminded of how profitability (theirs and others) are affected, how a code can be used in decision making, and how it helps them as employees and team members. Second, audits open the way to change. By listening to the individuals they audit, auditors can report on possible areas of the code requiring change. As part of a system of change, responding to the results from such an audit can help the business to eliminate potential impacts and concerns earlier rather than later on when those impacts or concerns may have already impacted the reputation of the business.

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