

GLOSSARY

Audit committee In large, complex enterprises, and recently as a matter of joint-stock company law, the board of directors often creates an audit committee to ensure the financial integrity of an enterprise. An audit committee investigates an enterprise's financial records and ensures that its financial operations are conducted on a transparent and accurate basis. The committee provides members of the board of directors with information about the financial and business operations of the enterprise. This information enables the board of directors to supervise implementation of the enterprise's financial and business plan and to ensure the efficiency of its internal control and risk management systems—two key components of any business ethics program.

Board of directors The board of directors of an enterprise is the primary body responsible for representing the shareholders and safeguarding their interests. The board creates special committees—such as audit, executive compensation, and ethics committees—to fulfill this function. Increasingly, corporations will also appoint a social responsibility committee. These committees issue reports to the board, which uses the reports to make decisions concerning the development, implementation, and modification of the ethics compliance program. The board of directors makes the final decisions concerning any policy, program, or initiative that an enterprise may make.

Bribery Bribery is a form of corruption. In the case of political corruption, bribery is the direct or indirect provision of illegal compensation to—or any other action in favor of—any employee of a government body. In return, the government employee acts in a manner advantageous to the company or refrains from acting to the company's disadvantage. Enterprises use bribery to obtain or retain business, receive patronage, or obtain an unwarranted advantage over other businesses.

Business ethics Business ethics are an integral part of responsible business conduct. They describe an organization's commitment to a set of commonly understood core values and principles, which provide a basis for business decisions and conduct. Typically, business ethics presume that decisions will conform to standards articulated in law and regulations; internal policy and procedures; a set of core values determined by owners and managers, including honesty, integrity, respect, and fairness; and commercial principles such as profitability, customer satisfaction, product quality, health, safety, and efficiency. Business ethics issues range from practical, immediate ones, such as an enterprise's duty to be honest with its employees and customers, to broader social and philosophical questions,

such as a company's responsibility to contribute to the welfare of the community and to preserve the environment.

Channel Stuffing Channel stuffing is the act of inducing customers or suppliers to increase purchases or decrease supplies or services that would be purchased or supplied in the ordinary course of business, solely to present a more favorable performance or financial picture to partners.

Code of ethics A code of ethics is a blueprint for developing a culture of values in an organization. A code consists of a clearly stated and written set of guidelines that managers, employees, and agents of an organization must follow. A code of ethics is a reference tool that provides guidance to both employees and managers on how to implement and practice business ethics in the workplace. A code should embody both business standards (such as customer satisfaction, a high quality of products, safety, and employee rights) and values (such as mutual trust, respect, and honesty).

Conflict of interest A conflict of interest occurs when the private interests of an individual who works for an enterprise interfere, or appear to interfere, in any way with the interests of the enterprise as a whole. A conflict arises when an employee, officer, or director of an enterprise performs an action that will interfere with that individual's ability to perform his or her official duties.

Core values Core values are values shared by the leadership, the employees, and the stakeholders of a business that make the business special and determine its organizational culture.

Corporate governance Corporate governance refers to the system that a corporation establishes to structure relations among managers, directors, and shareholders and between the enterprise and civil society. Such governance measures are necessary when government charters provide limited liability to shareholders, which separates ownership of the enterprise from responsibility for day-to-day operations. Corporate governance practices are built on the ethical premise that the leaders of an enterprise have an obligation to be fair, transparent, accountable, and responsible in their conduct toward shareholders and civil society.

Corruption Corruption is any choice or action made or taken that intentionally violates the reasonable expectations of enterprise stakeholders for the profit or gain of one responsible to some degree for meeting those expectations. Public-sector corruption is easy to recognize when a politician or bureaucrat accepts large sums of cash to steer a government contract to a particular enterprise. However, corruption also exists when an owner or manager consciously chooses to fail to meet reasonable stakeholder expectations for personal gain. The damage done to the reputation of the enterprise and the social capital of its community may be as severe as in public-sector corruption. See **Enron** and **WorldCom**.

Declaration of integrity A declaration of integrity is a public agreement among business enterprises in an industry or a locality that they will abide by an agreed-on set of norms, values, and standards with a view to improving the business climate of the industry or community. This term differs from an **integrity pact** in that the government is not necessarily involved and the agreement has broader application than with government procurement. Such a declaration, however, does not have the immediate risk of loss of an ability to bid on a contract that characterizes an **integrity pact**. A declaration of integrity might be particularly valuable when a community foundation intends to fund a community-driven development project.

Discipline A discipline is a body of theory and practice that requires both reflection and action to be put into practice. The discipline of responsible business conduct is a study that will last a lifetime. This discipline requires an understanding that an enterprise is a system and part of yet wider systems. It recognizes that there are bodies of experience embedded in traditions, laws and regulations, industry best practices, and emerging global standards that practitioners will spend precious time acquiring and sharing. Ultimately, the practitioner of such a discipline generates new knowledge to further the discipline itself.

Economic progress According to Peter Drucker, economic progress is “a steady rise in the ability of an economy to invest more capital for each job and thereby to produce jobs that yield better living as well as a better quality of work and life.” (Peter F. Drucker, “The Delusion of ‘Profits’: A Company That Loses Money Is Socially Irresponsible,” *OpinionJournal*, available at www.opinionjournal.com/extra/?id+110003570.)

Employee survey An employee survey is a mechanism that an enterprise may use to secure feedback from employees and to evaluate the effectiveness and impact of the enterprise’s ethics program. Such a survey sets forth questions concerning the enterprise’s organizational culture, the way the enterprise’s ethics program works in practice, and the measurable expected program outcomes, such as observed misconduct, willingness to seek advice and report misconduct, issue awareness, and employee satisfaction and commitment to the enterprise. Owners and managers use the survey data along with other data to determine whether they have set and communicated the proper standards and procedures and have fostered reasonable stakeholder expectations.

Enron and WorldCom Business scandals and failures are not new, but it is a sign of how closely connected the global economies are that these two companies in the United States have become symbolic of much that is wrong with businesspeople. Researchers calculate that the loss of confidence following the collapse of Enron and WorldCom will cost the U.S. economy \$37 billion to \$42 billion in reduced gross domestic product. Enron, in particular, went from being

the seventh largest company in the United States to bankruptcy in a matter of months as confidence in its leadership faded.

Ethics committee In large, complex enterprises, an ethics committee is often created and assigned overall responsibility for the ethics and compliance program. The ethics committee helps develop and implement the ethics program and the code of ethics of an enterprise. The committee ensures that ethical, regulatory, and policy standards have been established within the enterprise and that they are widely and consistently communicated to all. The committee also monitors and improves the processes of the ethics program and works closely with all parties responsible for supervising and managing the ethics program, including the ethics office, the ethics officer, and the board of directors.

Ethics office Many enterprises create an ethics office, which is responsible for the day-to-day management and implementation of the enterprise's ethics program. The office provides clarity and guidance on compliance with the code of ethics and the enterprise's policies and procedures regarding reporting and investigation of alleged misconduct. This office normally includes an ethics officer, support staff, and a help-line.

Ethics officer The position of ethics officer is created to accomplish the day-to-day operations of the business ethics program. The ethics officer may or may not be the person with high-level responsibility for the business ethics program. He or she provides advice on ethical behavior and on how to report ethics concerns, investigates and monitors investigations of possible misconduct, monitors the development of the ethics program, and works with other bodies in the enterprise to promote compliance. The ethics officer ensures that all levels of the organization meet or exceed ethical, legal, and civil society expectations on a day-to-day basis. The ethics officer generally has the right to report directly to both the chief executive officer and the board of directors, and often to the audit committee.

External stakeholders The external parties that have a stake in an enterprise's success include customers and consumers, suppliers and service providers, civil society organizations, nongovernmental organizations, government agencies, local community representatives, the media, and the environment. External stakeholders share the objective of having business succeed in a manner that strengthens both the economy and civil society. These stakeholders can provide feedback on values and political, economic, and social considerations that an enterprise should integrate into its ethical identity.

Feedback mechanism A feedback mechanism is a tool that an enterprise may use to obtain timely information pertaining to the implementation and effectiveness of its ethics program. A feedback mechanism could take the form of a survey, a focus group, a one-on-one interview, or a help-line.

Fiduciary duties Each member of the board of directors of an enterprise is a fiduciary who owes a duty of loyalty and duty of care to the enterprise. The duty of loyalty requires a board member to place the best interests of the enterprise first and to avoid advancing the member's personal, financial, or professional interests at the expense of the enterprise. The duty of care requires a board member to act as a reasonable and diligent businessperson would to help the enterprise create maximum shareholder value with minimum risk.

Focus groups A focus group is a feedback mechanism that brings together a small group of employees and an outside party to gather information about life in the enterprise. A focus group is a particularly useful device in evaluating a business ethics program. During a focus group, the outside party asks detailed questions and receives in-depth responses from employees about the ethics program.

Good corporate governance Good corporate governance is the process by which the leadership of an enterprise, especially a limited liability enterprise, sets standards and procedures for employees and agents, fosters reasonable expectations among stakeholders, and meets those expectations. Good corporate governance expresses itself through a sound set of core beliefs, standards and procedures, and expectations. It requires understanding the relevant context of the enterprise, its organizational culture, and its strengths and weaknesses. Good corporate governance exercises those strengths and reforms the weaknesses through infrastructure, including a business ethics program. Good corporate governance is more likely when there is a transparent relationship between the government and the private sector.

Good public governance Good public governance, in the context of this manual, is the process by which the leadership of a country makes and implements decisions concerning the market. There are eight characteristics of good governance: consensus building, participation of all interest, accountability, transparency, responsiveness, effectiveness and efficiency, equality and inclusiveness, and finally the rule of law. Good public governance occurs when there is a transparent relationship between the government and the private sector.

Help-line A help-line or hot-line is a secure telephone line that is connected to an ethics office or the office of an ombudsman. Employees use this tool to contact the ethics office or ombudsman to report a violation or receive advice on matters that concern them. A current best practice is that no call to a help-line is refused except for grievance matters under a labor-management bargaining agreement.

Industry standards Industry standards are standards that different enterprises in a specific industry develop and agree on with one another or that are so common as to be considered a custom of the industry or profession. Such standards go beyond laws and regulations to promote free, fair, and honest competition among the members of the industry.

Integrity pact An integrity pact is an agreement among a group of businesses that obligates them to participate in a government tender or procurement process in a legal and transparent manner. Under an integrity pact, the parties may pledge not to offer, pay, accept, or seek bribes of any kind during the tender. The key component of an integrity pact is transparency. A business in the pact also abides by any and all sanctions placed on it by the other members of the pact.

Internal stakeholders The internal parties that have a stake in an enterprise's success include the shareholders, the board of directors, the executive management, and the employees.

Learning organization A learning organization is an enterprise adept at generating, acquiring, and sharing knowledge about its relevant context, its organizational culture, and the expectations of its stakeholders and at using that knowledge so that its owners, managers, employees, and agents can live the lives they truly want to live.

Money laundering Under the process of money laundering, one conceals the existence, illegal source, or illegal application of income, and disguises that income to make it appear legitimate. From Andrew J. Camelio and Benjamin Pergament, "Money Laundering," *American Criminal Law Review* 35, no. 3 (1998), available at www.questia.com.

Ombudsman The office of ombudsman is designed to be completely independent from enterprise management and to provide a safe place where employees and agents can seek advice and report concerns. The position of an organizational ombudsman in a business ethics program has evolved to be an independent, neutral, and alternative position. The position is independent because the ombudsman is not a part of day-to-day staff or operations management. It is neutral because the ombudsman does not function as an advocate for the enterprise or individual. It is alternative because the ombudsman does not duplicate any other enterprise function, such as investigations. With few exceptions, the ombudsman is authorized only to refer reports of misconduct for investigation with the express consent of the reporting source.

One-on-one interviews One-on-one interviews of employees are used to secure detailed feedback for enterprise management and to allow management to conduct intensive questioning of individuals that is designed to improve the ethics program. An interview provides a forum in which an employee can identify and address issues that employee surveys may not bring to the surface.

Organizational culture Organizational culture can be understood in the same way as the culture of a society, nationality, or country. Organizational culture is shaped by the enterprise's origin and history, as well as by the values, norms, and attitudes of its leaders and stakeholders. The culture is reflected in the organization's decision-making and communication procedures, production

methods, and policies regarding servicing customers and clients. Organizational culture is the primary predictor of business ethics program success or failure. There are several measurable elements of culture that should be a part of the regular evaluation of the business ethics program by owners and managers.

Parade of horrors A parade of horrors often consists of news headlines and stories about enterprises that failed and senior executives who went to prison for breaking the law. It is one way to encourage an enterprise and its owners, managers, employees, and agents to embrace the discipline of responsible business conduct. See, for example, **Enron** and **WorldCom**.

Purpose statement The fundamental reasons for an enterprise's existence beyond profit are noted in the purpose statement. A purpose, unlike a vision of a desired future, is broad, essential, enduring, and even spiritual. A purpose inspires and guides employees and agents. It is pursued but never fully captured. Researchers suggest that the way to surface the purpose of an enterprise is to describe what the enterprise does, or intends to do, and ask, "Why is that important?" five times.

Relevant context All enterprises strive to meet enterprise goals and objectives in a context of legal, economic, political, environmental, socio-cultural, and technological elements. Each element in an enterprise's "relevant context" may cause threats, opportunities, demands, constraints, and uncertainties that owners, managers, workers, and agents must recognize and address.

Responsible business conduct Responsible business conduct reflects an understanding of the relevant context of the enterprise, its organizational culture, and the reasonable expectations of its stakeholders. In one sense, responsible business conduct is very practical and rooted in the particular situation of the individual and enterprise. In another, however, responsible business conduct is a recognition that we are all in this situation together and that one does not cease to be a member of a community simply because one goes into business.

Responsible business enterprise A responsible business enterprise is a learning organization that is adept at understanding its relevant context, its organization culture, and its core beliefs. From these understandings, the owners, managers, employees, and agents of such an enterprise are able to build an enterprise that has the appropriate standards, procedures, and expectations; has structures and systems; has communication and feedback; and has an enterprise alignment that is able to foster reasonable expectations among its stakeholders and meet those expectations. By meeting reasonable expectations, the responsible business enterprise is able to improve its business performance, to make a profit, and to contribute to the economic progress of its community.

Responsible officer A responsible officer is a high-level person who is responsible for overseeing the business ethics program. The responsible officer should be an owner, director, or senior manager. This person may or may not be

the ethics officer for the enterprise. Indeed, where the enterprise is large or complex, the responsible officer often has executive responsibilities and relies on the ethics officer to run day-to-day operations.

Reward system Through a system of rewards, an enterprise provides rewards to employees who uphold core values and fulfill ethical goals in their day-to-day activities. These rewards may be formal, taking the form of promotions, pay raises, bonuses, and public recognition. The rewards may also be informal, taking the form of private praise or a special meeting with the president of the enterprise. A reward system reinforces the enterprise's commitment to ethics and encourages its employees and managers to conduct themselves according to the guidelines of the enterprise's code of ethics.

Risk management The risk management process helps the owners and managers of an enterprise plan, organize, and control the day-to-day operations of the enterprise to minimize risks to capital and earnings. Risk management includes, but is not limited to, the management of risks associated with accidental losses, financial mismanagement, fraud and embezzlement, corruption, loss of reputation, and employee health and safety, as well as other operational risks.

Social capital Social capital is the mutual trust and shared values among individuals within an organization and between an organization and external stakeholders that enables those parties to work together on a cooperative basis. Social capital accrues through performance at the grassroots level within an enterprise and through the creation of civil society organizations, such as trade groups, business associations, service clubs, charities, and nongovernmental organizations.

State capture State capture is an effort by an enterprise to shape the laws, policies, and regulations of the state to its own advantage by providing illicit, illegitimate, and nontransparent private gains to public officials.

Triple bottom line Triple bottom line reporting requires enterprises to evaluate their social and environmental performance to the same degree they evaluate and report economic performance.

Values statement A values statement sets forth in a clear and consistent form the core values that make an enterprise special in the market. Each value is explained in the relevant context and culture of the enterprise. The process of establishing core values requires an enterprise's leaders to consider the values and expectations of internal and external stakeholders.

Vision statement A vision statement expresses a view of what success for the enterprise will look like. This statement incorporates the enterprise's short- and long-term objectives and provides the enterprise the opportunity to publicly declare its role in the market and in civil society and to set a standard that it can be expected to meet.