Ethics auditing assignment

Art & Culture

Ethics Auditing: Identify the benefits and limits of ethics auditing. Is there a strategic role that ethics auditing may play in a company? Ethics Auditing By definition, an ethics audit is a " systematic evaluation of an organization's ethics program and/or performance to determine its effectiveness. " (1) This concept of ethics auditing is fairly new and few companies have conducted an ethics audit.

However, performing such audits will likely become more mainstream as recent legislation encourages greater ethical accountability for companies to demonstrate they are abiding by the law and have established programs to improve their ethical decision making. The U. S. Sentencing Commission (the " Commission) has amended the Federal Sentencing Guidelines for Organizations (" FSGO") whereby an effective compliance and ethics program must " exercise due diligence to prevent, detect, and report criminal conduct and otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with all applicable law. (2) The Commission noted there are seven minimum requirements of an effective ethics program: (1) Standards and procedures to prevent and detect criminal conduct; (2) Responsibility at all levels of the program, together with adequate program resources and authority for its managers; (3) Due diligence in hiring and assigning personnel to positions with substantial authority; (4) Communicating standards and procedures, including a specific requirement for training at all levels; (5) Monitoring, auditing, and non-retaliatory internal guidance/reporting systems, including periodic evaluation of program effectiveness; 6) Promotion and enforcement of compliance and ethical conduct; and (7) Taking reasonable steps to respond appropriately and prevent further misconduct upon detecting a violation. These requirements should be addressed through the ethics audit. Framework for an Ethics Audit In addition to the requirements noted by the Commission, there are many different questions that can be addressed by an ethics audit. How broad should the audit be? How often should the audit be performed? How will the company communicate the results with its constituencies?

As each company has unique needs, each ethics audit should be unique. An example of a framework for an ethics audit is detailed below (4). Companies can adapt this framework to their own needs and circumstances. Step 1: Secure Commitment of Top Managers and Board of Directors As noted in the class slides, “ a corporation only acts through those who act for it and it is the latter who must assume responsibility for the corporation. ” (3) Essentially, management and the board of directors are responsible for the direction of a corporation.

If there is no commitment from the top levels of a corporation, it is very unlikely that an audit would be successful. Step 2: Establish a Committee to Oversee the Ethics Audit The committee should consist of members who are knowledgeable about ethics auditing and come from various departments. In most cases, companies may not have internal employees that have the skill set to serve on an ethics audit committee. In such circumstances, external consultants, such as the Ethics Resource Center, can be used to assist with the audit. Step 3: Define the Scope of the Audit Process

As mentioned above, each organization is unique and therefore, the scope of an ethics audit will differ from company to company. The committee should establish a scope based on the company's risks and how those risks will be addressed. The committee should then monitor the progress of the audit based on the scope defined. Step 4: Review Organizational Mission, Values, Goals and Policies and Define Ethical Priorities In this step, the committee should examine and review all of the company's policies, procedures and practices related to any areas defined in the scope of the audit process.

All of these items may or may not be stated in the company's mission statement. In some cases, the committee may find areas where policies need to be established and procedures updated. An effective ethics audit should review all these areas and assess their strengths and weaknesses. Step 5: Collect and Analyze Relevant Information This step is the where the majority of the audit work will take place. The committee should review internal and external documents and more importantly, gather employee, customer and stakeholder feedback through surveys.

As employees are the key to carrying out an effective ethics program and to successful business operations, gathering and understanding their feedback is crucial. Customer and stakeholder perception of the company is also critical, so collecting their thoughts and opinions will help to create and maintain customer satisfaction and uphold stakeholder expectations. Step 6: Verify the Results The results collected in Step 5 should then be verified by an independent source. The independent assessment will verify the quality, accuracy and completeness of the audit.

Having a third party verify this information will also offer an extra layer of assurance to external constituents. Step 7: Report the Findings The final step of the process is to report the findings to management and the board of directors through an ethics audit report. The report should outline all six steps discussed above and identify what the committee discovered throughout the process. In some cases, the findings may be more meaningful if combined with some benchmarking of similar companies in the industry. Such benchmarking is available through the OCEG Benchmarking Study that discusses best practices across industries.

Benefits of Ethics Audits There are many reasons companies go through the process detailed above and perform an ethics audit. In some cases, management may simply want to comply with the FSGO or the board of directors may encourage compliance with these guidelines. From a business perspective, the auditing process can highlight trends, improve organizational learning and facilitate communication and working relationships (5). Internally, companies are able to assess their current policies and possibly find ways to increase efficiency in its operations.

Additionally, the buzz word in the business world today is “ transparency”. An ethics audit is one way to provide employees, customers and stakeholders with greater transparency. Many constituents have become wary of verbal assurances from companies. An ethics audit is verified by a third party and thus, seems to carry more weight than internal communication from management. Limits of Ethics Audits While the benefits of performing an ethics audit may be many, there are also some limitations. Many people interchange the words “ ethics” and “ integrity”.

How do you measure the integrity or ethics of an organization? It is certainly not as easy to measure integrity as it is to measure financial performance. Financial performance can be quantified while integrity and ethics are the subjective aspects of a company's culture. Models such as Six Sigma, the Balanced Scorecard and the Triple Bottom Line have been developed to capture structural and behavioral organizational ethical performance (6). However, these models likely will involve external consultants, which can prove to be costly to an organization.

Additionally, ethics audits could uncover an issue that, when reported, could hurt employee, customer or stakeholder relations. This could also lead to public scrutiny. Strategic Role of Ethics Auditing Ethics auditing can be an important piece of the strategic direction of a company. The ethics audit can prove to be a useful management tool in helping a company to identify important initiatives and improvements. By identifying such initiatives, companies can prioritize its resources to focus on such ideas.

The ethics audit can also help companies to fulfill their mission statements and identify areas where improvement of operating practices may be needed. In summary, and perhaps most importantly, the auditing process can demonstrate the positive impact of ethical conduct and convince constituents of the value of adapting more ethical and socially responsible business practices (7). Reference Page Cited Materials: (1) Business Ethics: Ethical Decision Making and Cases, Ferrell, Fraedrich, Ferrell, Eighth Edition, p. 243 (2) Ethics Resource Center, FSGO, Part 2 Article: http://www. thics. org/resource/fsgo-series-part-2 (3) Corporate Governance & Social Responsibility Class Slides, 9/26/2011 (4) Business Ethics: Ethical Decision

Making and Cases, Ferrell, Fraedrich, Ferrell, Eighth Edition, p. 252 (5) Business Ethics: Ethical Decision Making and Cases, Ferrell, Fraedrich, Ferrell, Eighth Edition, p. 245 (6) Business Ethics: Ethical Decision Making and Cases, Ferrell, Fraedrich, Ferrell, Eighth Edition, p. 248 (7) Business Ethics: Ethical Decision Making and Cases, Ferrell, Fraedrich, Ferrell, Eighth Edition, p. 265