

ETHICS OFFICERS GAINING ACCEPTANCE AT MANY FIRMS, SURVEY REVEALS

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BACKGROUND

Objective: To discover how many firms have a formal ethics officer position and, if so, what its characteristics are.

Method: Surveys sent to 986 firms comprising 1991 Fortune 1000 list. Request made that an executive officer rather than the ethics officer complete the survey.

Response rate: 205 out of 986 firms responded (21%).

SURVEY HIGHLIGHTS

Definitions

- Ethics Officer: primary function is the creation and/or maintenance of the company's ethics program
- Ethics Program: either a formal code of conduct or other kinds of ethical policies, training in ethics, and procedures for enforcing the code or policies.

Establishment of Ethics Officer Position

- 65 out of 205 firms have Ethics Officer ("EO")
- 70% of responding firms said EO held position for less than 5 years.
- Reasons for establishment of position
 - Prior legal infractions
 - US Federal Sentencing Guidelines for Organizations
 - Foreign Corrupt Practices Act
 - Defense Industry Initiative
 - Scrutiny from the media

Other Responsibilities of Ethics Officer

- General Counsel
- Audit
- Human Resources

Ethics Officer's Reporting Structure

- Average number of direct reports
 - 1 – 3: 26%
 - 4 – 10: 24%
- Upward reporting line
 - Located at parent or corporate level: 66% of respondents
 - Reports to CEO: 50%
 - Reports to Board of Directors or Committee of the Board: 15%

Selection of Ethics Officer

- Criteria
 - Reputation for integrity and trustworthiness
 - Skill in human relations
 - Credibility within the company
 - Knowledge of company culture
- Origin
 - 82% of respondents found EO within own company, usually legal department

Formal Responsibilities of Ethics Officer

- Over 80% of responding firms expected their EO to perform the following duties:
 - Meet with employees, Board of Directors, and top management to discuss or provide advice about ethics issues
 - Disseminate code of conduct
 - Create and maintain anonymous, confidential service to answer questions about ethical issues or take action on possible code violations
 - Investigate alleged violations of law
 - Review and modify code of conduct
 - Monitor adherence to laws and internal codes

Satisfaction Level with Ethics Officer Position

- 90% of responding firms were satisfied with the EO position
- Suggestions for improvement
 - More pro-active work to anticipate issues
 - Ombudsman independent from senior management
 - Better ethics training methods

Firms without Ethics Officer Position: Issues of Concern

- 140 out of 205 participants have no EO
- 95% of respondents without EO have no plans to establish EO because
 - Everyone is an ethics officer
 - Existing position handles ethics as secondary responsibility
 - No ethics problems seen

CONCLUSION

As of 1992, formalizing the position of ethics officer was gaining acceptance among America's largest corporations. The number of ethics officers in the sample increased significantly between 1986 and 1992. This increase was attributable in part to the institution of the US Federal Sentencing Guidelines in 1991, which stipulates that a convicted firm's sentence can be mitigated if it can show that it has a high-level employee responsible for enforcing laws. This development, along with the creation of the Ethics Officers Association in 1991, increased the importance of the ethics officer's role.