CODES OF ETHICAL CONDUCT ARE NOT ENOUGH: STAKEHOLDER THEORY DEMANDS MORE FROM I. T. PROFESSIONALS

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ABSTRACT

Most large business organizations publish a Code of Ethical Conduct. Many Information Technology (IT) organizations publish a separate Code of Ethical Conduct related to their specialized work and unique responsibilities. While Codes of Ethical Conduct have existed for decades, ethical lapses continue in many IT areas. This paper argues that ethical behavior and ethical decision-making require a broad approach based on Stakeholder Theory – going far beyond the mere publication of a Code of Ethical Conduct. The paper presents data from a survey of CIOs and the analysis of others' research to support its position.

Keywords: Ethics, Stakeholder Theory, Codes of Ethical Conduct, Decision-Making

INTRODUCTION

Ethical issues in Information Technology (IT) include a variety of areas: assurance of data integrity (prevention of improper use or access), data ownership and privacy concerns, realistic estimates of projects' financial costs and timing, honest objective reporting of projects' progress, fair and equitable compensation for IT professionals (especially at the lowest and highest levels within an IT organization), and arms-length relationships between vendors and clients (especially during the vendor selection process).

Often, there are ethical lapses or violations involving these IT areas. To limit unethical behavior, many organizations develop and publish formal Codes of Conduct (also called Professional Codes of Conduct or Codes of Ethical Conduct). While formal Codes have existed for decades, unethical behaviors continue in many IT areas because Codes are only one part of the larger framework for ethical decision-making.

This paper builds on research data that indicate strong evidence of continuing unethical behavior within IT organizations that publish Codes of Ethical Conduct. Primary data were obtained via questionnaire responses from a group of *Fortune 100* CIOs (Chief Information Officers). These responses indicated that 96% of their parent organizations and 71% of their IT organizations publish Codes. Yet many CIOs reported ethical problems in their IT organizations. Other research findings also indicate unethical behaviors in organizations that have "strong ethics programs,"
including Codes of Ethical Conduct (5, 6).

The paper proposes a broader approach to the ethical decision-making process to include elements beyond published Codes of Ethical Conduct. The paper suggests viewing the framework for ethical decision-making through the application of Stakeholder Theory. The primary research data indicate a strong awareness (by the CIO respondents) of the "stakeholder" concept. The CIOs identify a variety of "IT stakeholders" with an emphasis on government

authorities, stockholders, customers and the media. This awareness of stakeholders is a hopeful first step towards a more comprehensive decision-making process related to IT ethical issues.

RESEARCH METHODOLOGY and FINDINGS

In a two-stage process, a one-page five-question instrument was mailed to the Chief Information Officer (CIO) or the organization's highest level IT manager (who could be identified from public sources) of 42 Fortune100 firms. All 100 CIOs were first sent letters explaining the purpose of the study, with postage-paid return cards indicating their willingness to participate. Sixty-eight cards were returned with positive indications; and questionnaires were sent to these 68 CIO/Managers. Forty-two completed questionnaires were returned (62% return rate) and form the basis of the analysis. Summary results are contained in Exhibit I. The data indicate:

- Most of these Fortune 100 firms have a published Code of Ethical Conduct
- Most of these IT organizations have a separate published Code of Ethical Conduct
- Only 28% have never had an ethical violation
- Over 50% have had ethical violations within the past five years
- The majority of ethical violations relate to the misuse of hardware or software by employees
- Most CIOs identify a variety of stakeholders – with the largest numbers identifying government authorities, stockholders, customers and media stakeholders

CODES of ETHICAL CONDUCT

Most large American organizations have a written Code of Ethical Conduct, often widely distributed and publicized (6). The Ethical Resource Center in Washington, DC estimated that 92% of the 2,000 largest American firms have a written Code of Ethics and about 33% have programs to educate their employees concerning the firms' view of ethical behavior (2).

Unfortunately, having a written Code of Ethical Conduct may not mean that firms are acting ethically. A survey of 350 firms determined that those with a written Code of Ethical Conduct were "more often charged with wrongdoing than those without such policies" (3). For example, despite having all employees sign a Code of Ethical Conduct, Hertz publicly admitted to overcharging its customers $13 million during a two-year period.

Some authors have suggested that a written Code of Ethical Conduct provides employees with a "psychological cover" for unethical behavior. The employees know the firm has a Code and, therefore, their actions must be OK or ethical (14). But Adams (1) reported that their study found "the mere presence of a code of ethics appears to have a positive impact of perceptions of ethical behavior in organizations, even when respondents cannot recall specific contents of the code."

STAKEHOLDER THEORY

Stakeholders are individuals or groups that effect or are affected by an organization. Stakeholder Theory identifies the primary task of managers as influencing, managing and balancing all stakeholder relationships to achieve the mission and objectives of the organization (7).

All organizations have primary and secondary stakeholders. Examples of primary stakeholders in business include managers, customers, clients, suppliers, stockholders, employees and business partners. Examples of secondary stakeholders include government entities, especially regulators, civic organizations (Chamber of Commerce), social pressure groups (ACLU, NAACP, Rainbow Coalition), media, trade bodies (National Association of Manufacturers, Western Association of Schools and Colleges, Baseball Owners Association), competitors, environmental pressure groups (Green Peace, Sierra Club) and animal rights groups (PETA) (4). Primary stakeholders have a direct stake in and influence on the organization and its success. Secondary stakeholders can be very influential – especially affecting reputation and public opinion – but their stake is representational, not direct.

This classification of stakeholders is arbitrary and stakeholders can quickly shift from secondary up to primary. An example is the shifting of the media from a secondary to a primary stakeholder: Media coverage of a demonstration (e.g., over customers' personal data privacy issues) becomes a prime focus of the organization, rather than the issue that sparked the demonstration (4).

Problems in Applying Stakeholder Theory
Three major problems or difficulties confront ethical decision-makers when they attempt to apply Stakeholder Theory: 1) the difficulty in defining a *legitimate stakeholder*; 2) the *complexity* of effective stakeholder analysis; and, 3) the misuse of stakeholder analysis leading to *ethical relativism. Ethical relativism* is the justification of any action or decision based solely on current standards of behavior of a particular group. The opposite of ethical relativism is an absolute ethical standard (i.e. regardless of the time, cultural setting or circumstances) that determines that an action is always right or wrong. Applying ethical relativism allows organizations to justify any action – often by stating that "this is what our most important stakeholders want or (at least) allow us to do."

Assuming that decision-makers have correctly identified and characterized (placed them in the correct category) their *legitimate stakeholders*, effective stakeholder analysis is still extremely difficult. The difficulties stem from the inherent nature of stakeholders, plus their relationships and inter-dependencies with other stakeholders. Stakeholders exist in a dynamic environment and it can be very difficult to "pin them down" as to their definition, desires, needs and influence over the organization. Before Stakeholder Theory was formalized, Merton (11) emphasized the connections and interactions between individuals and their groups within an evolving society. Recently, Whysall (16) noted that stakeholder groups "tend not to stand in isolation, but (rather) to interact."

To add to the *complexity*, stakeholders change over time: their membership changes, their skill (analysis, synthesis, presentation, advocacy) levels change, their available resources (funding, media contacts, education, training) change, and their allies change.

For decision-makers dealing with ethical issues, the third difficulty presented by Stakeholder Theory is, perhaps, the most worrisome. An over-reliance on stakeholder analysis in ethical decision-making can lead to *ethical relativism*. If decisions are judged or evaluated based on the

collective normative agreement of society – what happens if the society is morally bankrupt? For IT organizations, what happens it their ethical standards are different from their top managements' or from their customers' or from their regulators'?

Can we justify any action by appealing to the interests of our legitimate stakeholders, however we define them (9)? An example: recently, firms abandoned their fiduciary standards by permitting almost anyone to become a day trader – a practice that led to financial ruin for many clients. The 1990s bull market, especially the late 1990s "dot.com" mania, created an environment in which some clients (certainly important stakeholders of any firm) demanded ever-higher investment returns. These unrealistic client demands led firms to ignore well-known historical investment standards. By following some of their clients' (stakeholders) wishes, the firms violated their fiduciary obligation to reasonably protect their clients' financial assets (5) and ignored mandates from their "regulatory" stakeholders.

Although all organizations, including businesses, must satisfy their stakeholders' needs, it can be dangerous to base ethical standards solely on the latest opinion poll. At some level, ethics cannot be totally relative – even for business organizations.

Approaches to Address Problems
First, to address the issues of defining *legitimate stakeholder* and stakeholders' *complexity*, Wolfe and Putler (15) and many others (10, 12, 17) propose a rigorous analytical process. The concept of stakeholder analysis is sound and well proven. However, its application is often flawed. That flaws appear is understandable given the nature of the analytical problem, with many variables interacting simultaneously. The relationship among variables is difficult to discern and changes rapidly.

Second, to address the issue of potential *ethical relativism*, organizations should re-examine their fundamental definition of stakeholders. Stakeholders are not merely the primary or secondary persons or entities that organizations identify. The definition of stakeholders must be broadened to include more people and individuals. In their party-dominated society, the Nazi's stakeholder analysis discounted, neglected or ignored their victims (stakeholders) and - perhaps most significantly for the Nazis' ultimate fate - their victims' allies and sympathizers (also stakeholders)(8).

Stakeholder analysis for decision-making, like all management tools, needs to be applied effectively. Misapplied, Stakeholder Theory can lead to errors just like any other misapplied management tool.

IT Stakeholders and Ethical Decision-Making
IT stakeholders have a direct and an indirect influence on the ethical decision-making of the organization. Stakeholders' opinions of the IT organization – whether correct or not – have a tremendous influence on the organization's success or failure.

Some examples: a) If customers believe that the IT organization is not acting ethically- whether correct or not - sales could drop. b) If the media stresses the innovation of a particular IT organization – whether correct or not –sales could rise (especially relative to competitors' sales).

c) If corporate or top management has a favorable opinion of the IT organization's ethics – whether correct or not – the IT organization could receive more internal funding or be lauded/ promoted internally (relative to other departments).

Codes of Ethical Conduct and Stakeholder Theory
It is probably safe to assume the Codes are produced to meet the perceived wishes of a variety of internal and external stakeholders. Codes should be viewed as one tool to guide ethical decision-making: an attempt to promote ethical behaviors throughout the organization. Having Codes gives the IT organization a reference point and a formal written justification for its ethical decision-making. The most effective application of Stakeholder Theory should enhance the development of Codes of Ethical Conduct. In other words, the Codes should embody the interests and wishes of all stakeholders. Of course, the primary and secondary data demonstrate that unethical behavior still occurs.

RECOMMENDATIONS

Since it is clear that having a Code of Ethical Conduct does not prevent ethical lapses, here are recommendations that could lead to more ethical behavior within IT organizations:
First, identify all relevant stakeholders to the IT organization. Second, identify the "ethical expectations" of these stakeholders: what to they want from the IT organization in terms of ethical behaviors?

Third, create a series of ethical decision-making steps. Ethical decision-making should use the well-documented (13) decision-making process: 1. Identification of the problem, 2. Identification of the decision criteria, 3. Identification of alternatives, 4. Analysis of alternatives, 5. Selection of the optimal alternative, and, 6. Implementation. These steps can be applied to a variety of decision-making modes, with each step presenting challenges and opportunities to the ethical decision-maker.

Applied to IT organizations: While considering the wishes and influences of primary and secondary stakeholders, ethical decision-making should have, as its foundation, the fundamental ethical principles of the parent and IT organizations. The ethical principles are often well documented in the Code of Ethical Conduct (i.e., does this potential action adhere to or violate the Code?). Applying the principles of Stakeholder Theory should lead to a more effective development of Codes of Ethical Conduct and give the IT organization a reasonable chance of promoting future ethical behavior.

Exhibit I: Ethical Issues for IT Organizations (n=42)

Survey Question	Percent Yes
1. Does your corporate organization have a published Code of Ethical Conduct?	96%
2. Does your IT organization have a separate published Code of Ethical Conduct?	71%
3. Has your IT organization had – what you would consider – an internal violation or lapse in ethical behavior?	
No response to question	17%
Never	28%
One or more violations in the last 12 months	16%
One or more violations in the last 2 years	31%
One or more violations in the last 5 years	12%
One or more violations more than 5 years ago	8%
4. If you answered YES to #3, please characterize the internal ethnical violations or lapse in ethical behavior. *Check all categories that apply.*	
Misuse of hardware or software by an employee	61%
Theft of hardware or software by an employee	2%
Inappropriate relationship or behavior with an outsider: supplier/vendor/contractor/consultant	29%
Knowingly misrepresent (lying about) a project's status: Either completion status or budget status	25%
5. Who do you consider the most important stakeholders of your IT organization? *Check all categories that apply.*	
Government authorities/officials	73%
Stockholders	61%
External customers	54%
Media representatives	46%
Internal customers	42%
Vendors/suppliers	42%
Senior managers outside IT	33%
Employees	33%
Competitors	21%
Others (one response: Professional Oversight Board)	2%

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