

Ethics Officers Balancing between Scandal Prevention and Response —A Case of Japanese Apparel Company

Akira Yoshinari

Abstract— Experts such as ethics officers play a significant role in a company-wide response to ethical issues. The purpose of this paper is to empirically clarify how ethics officers respond to ethical issues across the entire company, in particular how ethics officers prevent the unethical behavior s of lower level employees, and encourage the ethical behavior of lower level employees.

This paper clarifies the above issues based on a case study of a Japan-based underwear manufacturer with operations centered in South Asia. The case study clarified that the company's ethics officer responds to individual issues raised through whistleblowing and provides ethical education to lower level employees based on these individual issues. This paper found in conclusion that corporate ethical officers provide feedback from their experience in responding to individual ethical issues in ethical education.

Keywords—Ethical officers, ethical behavior of lower level employees, feed backing to ethical education, whistleblowing.

I. INTRODUCTION

MANY Asian companies are faced with various ethical issues. It is a well-known fact that corporate scandals such as in China, Shanghai Electric Group's corruption scandal in 2007, in India, Satyam Computer Services' window dressing in 2009, in Japan, Mitsubishi Motors' recall concealment in 2002 and 2013, and in Korea, Hyundai Motor Company's false description of fuel efficiency in 2013, etc., have a major impact on the survival of a company.

In addition, it is well known that corporate scandals such as fraudulent loans from bankers and harassment of subordinates by superiors, etc. may occur on a daily basis in any company. So, it can be said that companies and scandals that threaten their survival are always side by side.

Therefore, companies continuously need to devise preventative measures pertaining to ethical issues in advance to ensure, as far as possible, that such scandals do not occur. Companies must also devise ways to address scandals that may occur in order to minimize the ethical issue's impact on the valuation of the company. Such continuous scandal prevention and response has become essential for the survival of companies [1]–[3].

As these ethical issues are directly related to the evaluation

and reputation of a company, it is important that they are continuously dealt with across the entire company in a rapid and appropriate manner rather than on an individual case-by-case basis [1].

Experts dealing with various ethical issues such as embezzlement and paper trading etc. play a significant role in a company-wide response to ethical issues [4]. These experts are called ethics officers [4]–[6] or compliance officers [7] in almost all organizations.

The purpose of this paper is to empirically clarify how ethics officers respond to ethical issues across the entire company. Accordingly, this paper is intended to examine the role of ethics officers involved in the institutionalization of ethics within companies. I supposes examination of the role of ethics officers in this paper will allow researchers to grasp how, if only partially, ethics officers institutionalize ethics within the company.

This paper clarifies the above issues based on a case study of a Japan-based underwear manufacturer with operations centered in Asia. The case study clarified that the company's ethics officer responds to individual issues raised through internal whistleblowing and provides ethical education to employees based on these individual issues. In this case study, the author focuses on how ethics officers encourage the ethical behavior of employees.

Although previous studies have researched various roles of ethics officers such as receiving internal reporting about wrongdoing of employees, ethics education of employees, managing compliance and advising top management about business ethics, almost all these studies [4],[6],[8] discuss the various roles of ethics officers separately. But one role of ethics officers is not connected with another role in almost all previous studies.

This paper found in conclusion that corporate ethical officers not only play various roles such as providing ethics education etc., but are connected with various roles. This is because ethical officers balance between scandal prevention and response to scandal by providing feedback from their experience in responding to individual ethical issues in ethical education.

II. LITERATURE REVIEW

It is said that recently ethics officers play an important role in

Akira Yoshinari is with the Aichi Institute of Technology, Nagoya, Japan (corresponding author's phone: +81 52 757 0810; e-mail: yoshinari@aitech.ac.jp).

relation to various business ethics issues [9], [10] and many researchers have insisted upon the importance of moral development of executives and managers [11].

In the era from the 1980s to the 1990s, many companies have thought the role of the ethics officer is a part of the role of the executive vice president or other directors since they have not recognized the existence of ethics officer in US [12] and Japan. In other words, many companies have thought the role of the ethics officer is a minor matter for the executive vice president or other directors. Therefore many researchers have not discussed the role of the ethics officer independently despite discussing business ethics in many papers.

However particularly in Japan, many companies have a deep interest about business ethics and ethics officer are clearly recognized primarily in big Japanese companies in the era from the 1990s to the 2000s. But in many cases the executive vice president or executive officer also holds the concurrent post of ethics officer in almost Japanese companies.

At the present time, differentiation of the ethics officer role is evolving in many companies. Ethics officers are appointed independently in many companies. Even if companies don't name an ethics officer, they appoint a full time person responsible for business ethics. Thus, there has been great progress in the appointment of ethics officers in many Japanese companies.

As mentioned above, the road to the appointment of full-time ethics officers has, rather than being smooth progress, advanced in stages. So, why has there been such lag in the recognition of ethics officers and appointment of specific personnel in an environment where business ethics is regarded as such an important issue? This is because the presence of ethics officers becomes essential with the further corporate institutionalization of business ethics. To put it another way, if there is no progress in the corporate institutionalization of business ethics, companies will not actively establish ethics officers no matter how much society insists upon their necessity.

This paper defines the institutionalization of business ethics as the proactive establishment of internal systems to effectively provide an ethical code of conduct to guide decisions and actions within a company [13]. The institutionalization of business ethics is essential for corporate scandal prevention and response. It is thought that the institutionalization of business ethics within a company facilitates the correct prevention of and rapid response to scandals.

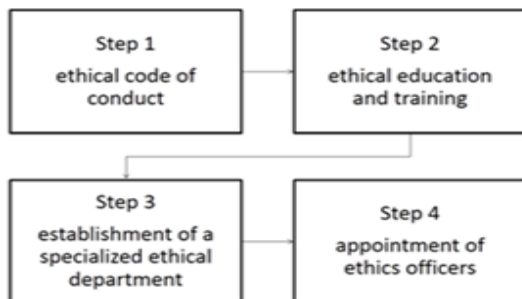


Fig. 1. Steps to institutionalization of business ethics

As Fig. 1.is indicated, the institutionalization of business ethics refers specifically to next four steps.

The first step is the systematic enactment of a clearly described ethical code of conduct. The second step is to ensure the penetration of and compliance with the code, thorough ethical education and compliance training.

The third step is the establishment of a specialized department to immediately and appropriately address reports and consultation, etc. upon the discovery of an issue or doubts arising concerning an issue.

The fourth step is the appointment of ethics officers responsible for ethical issues [3] [14] [15].

In the institutionalization of business ethics, it can be said that the first step of enactment of an ethical code of conduct prescribing ethical standards and the second step of ethics education and training are, if anything, measures for the prevention of corporate scandals [2].

Conversely, the third step of the establishment of a specialized department and the fourth step of the appointment of ethics officers can be considered measures to address corporate scandals. The theoretical importance of both the prevention of and response to scandals in the institutionalization of business ethics is well understood in US [2] and Japan.

As mentioned above, ethics officers are established in the fourth stage of corporate institutionalization of business ethics. Accordingly, this means that the first three stages form a base for the initial appointment of ethics officers. So, it may be considered that the appointment of ethics officers becomes necessary at a stage when the corporate institutionalization of business ethics has matured considerably.

Even the research that has discussed the roles of ethics officers fully supports the necessity of ethics officers at a stage when the corporate institutionalization of business ethics has matured. According to the research of Adobor [4] and Izraeli and BarNir [5], the role of ethics officers can be considered fulfilling the following responsibilities.

Firstly, ethics officers advise professionally top management about business ethics [5]. They communicate board members and advise top management on development of codes.

Secondly, ethics officer oversee investigation of wrongdoing and conduct investigation of wrongdoing [4].

Thirdly, ethics officers manage compliance with ethics codes and hand hotline and internal reporting directly.

Fourthly, ethics officers educate all employees about business ethics. They design ethics training program and delivery their training.

Fifthly, ethics officers communicate stakeholders such as customers and shareholders [16]. Fig. 2.indicates the way of communicating ethics officers with board of directors and all employees.



Fig. 2. Ethical communication inside companies

As you can see, these roles of ethics officers assume corporate institutionalization of business ethics. For example, the role of providing advice on the development of an ethical code of conduct assumes that some kind of ethical code of conduct is already in place. While ethics officers may provide advice on the development of an ethical code of conduct, they do not establish the code themselves.

In addition, the belief that the corporate institutionalization of business ethics proceeds through the investigation of its conduct, etc. and ethical officers become necessary as a final embodiment of this institutionalization may be common. The past literature is discussed above.

III. RESEARCH QUESTION

The need for ethics officers arises along with the corporate institutionalization of business ethics. Ethics officers then carry out efforts to further institutionalize ethics across various fields including directors, shareholders, and employees. In this sense, the role of ethics officers becomes important in the further advancement of the corporate institutionalization of business ethics. So, what kinds of problems do ethics officers face given this background? This is of significant interest in this paper.

In our past interview research [16] as ethics institutionalize company, a trend can be seen amongst Japanese companies whereby the prevention of scandals is emphasized. But the response to scandals is neglected in the institutionalization of business ethics. To put it another way, Japanese companies have a very poor balance between ethical issue prevention and response.

The research question of this paper is "why is it that scandal prevention is emphasized and, in particular, ethics officers cannot strike a good balance between scandal prevention and response?"

The author think that the reason for this, in many cases, is that companies, by committing to the prevention of scandals, assume that a big scandal will not occur or that they will be able to reduce the burden of dealing with any scandal that does actually occur.

However, this assumption is not always correct. This is

because of the fact that the number of events that could become scandals, even if these scandals do not eventuate in reality, will ever be reduced in any company that is committed to the prevention of scandals. Almost all companies surveyed responded that the number of events that could become scandals is constant [16].

What is the reason behind this? As Fig. 3. is indicated, ethical issues that cause scandals occur at various levels.



Fig. 3. Ethical communication inside companies

First, there is mismatch with social ethical standards. Second, there is mismatch with ethical standards in the industry. Third, there is mismatch with ethical standards of the company. Companies are forced to respond to ethical issues one after another at each of these levels in order to prevent scandals.

Therefore, a situation occurs where it is difficult to actually respond to all issues and the number of scandals does not decrease in many companies. So, companies must emphasize their response to scandals rather than simply emphasizing scandal prevention. In other words, companies will be unable to survive if they don't balance scandal prevention and response.

Balancing scandal prevention and response is not as easy as it sounds and many companies are unable to achieve such balance. The author consider the presence of ethics officers who are directly involved in the institutionalization of ethics the key to achieving balance.

In general, ethics officer often refer to a director in charge of corporate ethics. However, it is chief CSR promotion officer, which has a subordinate role to a director in charge of corporate ethics, which is involved the formation of ethics as a conduit that understands the ethical behavior on site and conveys it to senior executive of the company. In this paper, chief CSR promotion officer is included under the umbrella of "ethics officer" and, if anything, are the subjects of discussion.

This paper endeavors to find solutions based on interviews with ethics officers. The case of ethics officers from company X is taken up as an example below.

This paper presents the following hypothesis to this research question. Prevention and response are not separate issues; in fact, they are closely linked to each other. Therefore, it can be assumed that, if a model of prevention from response is able to

link the two together, and ethics officers play this role, a good balance between scandal prevention and response can be achieved.

IV. THE METHODOLOGY

The author conducted a case study of company X as qualitative investigation to test this hypothesis. The author selected this company as it is one of the companies selected by other companies as a company that actively engages in CSR efforts.

In this study, two ethics officers of company X interviewed face-to-face at headquarters on two occasions between November 2011 and October 2012. The first time of interview is from AM 10:00 to AM 12:00 12 November 2011 and the second time of interview is from AM 10:00 to AM 12:00 25 October 2012.

The author interviews two ethics officers (chief ethics officer and chief CSR promotion officer) for two hours in Osaka head office of company at Kita ward Osaka prefecture in Japan. Two ethics officers (mainly chief CSR promotion officer) also provided answers to questions in three follow-up e-mails.

Company X is a company with global business operations headquartered in Osaka, Japan and manufacturing facilities in China, Thailand and Indonesia as well as domestically.

Company X's business is centered on the manufacture, distribution and sale of underwear. This company's business fields are plastic films, engineering plastics, electronic components, mechatronics, medical materials, innerwear, leg wear, house casual wear, threads and accessories, sports club business, real estate development, etc. The company, founded in 1896, has a long history and is known, as the meaning behind the company name, "policy of city", would suggest, as a company with corporate ethics and highly motivated to contributing to the community and society. As Fig. 4. is indicated company X. [18]-[21].



Fig. 4. CSR supporting structure of X company

Company X led other Japanese companies in thoroughly institutionalizing business ethics from the 1990s to 2000s, taking the measures in step 1 to step 4 described above, and is committed to scandal prevention and response.

V. THE FINDINGS

This paper has research question that "why is it that scandal prevention is emphasized and, in particular, ethics officers cannot strike a good balance between scandal prevention and response?" The answer to my research question is as follows in this paper.

According to the ethics officers company X, their linking of prevention and response in which the response to scandals provides feedback for further scandal prevention is unique amongst other companies.

Specifically, ethical issues obtained from the ethical issue consultation helpline, ethical issue reporting hotline and employee satisfaction surveys targeting all employees are resolved with the involvement of on-site administrators and problems and solutions are reported and shared with the board of directors.

Ethical problems and solutions are also compiled in a CSR report which is later used as a textbook with which to provide ethics education to all employees. In short, ethics education is provided with the voices of employees, such as on-site complaints, etc., thoroughly taken into account.

Employees, after receiving ethics education, also take advantage of their knowledge to consult with ethical officers about ethical issues. Company X balances prevention and response though this linking in which the response to scandals provides feedback for further scandal prevention.

Previous papers [4], [8] have taken up functional and symbolic aspects of the role of the ethics officers. These aspects of the role of the ethics officers have been argued each by itself [4]. Adobor [4] pursued an argument to role ambiguity and inter-role conflict of roles. Llopis, Gonzalez and Gasco [8] insisted on importance of symbolic aspect of ethics officers and the contribution of corporate (ethical) culture to ethics officers.

But previous papers [4], [8] have taken up some roles individually or only major roles of ethics officers. This paper makes up for previous papers in that it is important linking various roles of the ethics officers.

Linking various roles of the ethics officers contribute to a good balance of business ethics between scandal prevention and response. Based on the evidence of Company X, the finding of this paper is to be able to keep good balance of prevention and response of ethical issues as a result of linking various roles of the ethics officers.

VI. CONCLUSION

This paper concludes the following from inferences drawn from the company X example: despite companies initially emphasizing both scandal prevention and response, their lack of linking in which the response to scandals provides feedback for further scandal prevention leads to a result where scandal

prevention is emphasized and response is neglected.

The X example also shows the extremely important role of ethics officers in the linking of scandal prevention and response described above. At company X, ethics officers responded to ethical issues on site and shared a collection of such issues across the company. Ethics officers were found to be both the starting point and end point for all ethical issues.

At company X, three ethics officers were the starting point for almost all ethical issues. Company X has 2,000 employees in Japan alone and the burden on these ethics officers is becoming too great. The challenge of how to further delegate authority to other employees lies ahead in the future.

[20] Company X group CSR Report, 2012,

[21] Company X group CSR Report, 2013.

Akira Yoshinari is an associate professor at Faculty of Business Administration at Aichi Institute of Technology, Jiyugaoka Campus Nagoya, Japan (e-mail: yoshinari@aitech.ac.jp). He received MBA in Yokohama National University in 1998. Associate Prof. Yoshinari's research interests are in the areas of business ethics and whistle blowing, human resource management and ethical education

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