

## Be Good

Corporate ethics transcend to profitability

### Question:

**The networking group I belong to recently had a guest speaker who presented on the topic of ethical corporate culture. He offered a lot of good reasons for why companies should be concerned about ethics. While I agree that ethics need to be emphasized, I'm not sure about the approach to take. What steps do you think a company should take to encourage ethics?**

### Answer:

This is a timely question in light of emerging national issues having to do with the righteousness of the Iraq invasion, treatment of captives, forthrightness of public figures, etc. Additionally, in business circles, the recent focus on ethics is a reflection of the extent to which trust has eroded in a variety of institutions.

Over the past couple of years, we have seen scandals in mutual fund and accounting firms. Enron became the poster boy for corporate mismanagement. The salary gap between executives and front-line workers has rapidly accelerated, leaving some employees to question their leaders' values and intentions. In the wake of these scenarios, it is no wonder people have come to expect better ethical behavior from their leaders and the organiza-

tions for which they work.

Promoting an ethical posture in the workplace is nothing new. Many institutions and organizations have explicit statements about the values they espouse and the behavior they expect from members. As an example, I am active in a number of local and national professional organizations in the fields of psychology, management, and training.

Most of them have formal mission statements and corresponding values. Further, as a licensed psychologist in Wisconsin, in order to maintain my designation, I must complete continuing education units (CEUs) on an ongoing basis. A portion of these CEUs must be on the topic of professional ethics. Many readers will be able to cite similar examples because most professional and trade associations have similar requirements.

It is worth noting, too, that in the wake of these scandals, colleges and universities have begun to offer their undergraduate and graduate students courses in ethics. This means that, over time, more and more entrants to the workforce will at least have had some exposure to the important concept of ethical behavior.

Having said that, let me note that for many organizations, there is nothing particularly compelling about getting serious about organizational ethics. In my consulting work, I hear excuses and rationalizations all the time. "Our company isn't Enron." "We don't cheat our shareholders." "We have mission and values statements. They're even posted on our Web site." "We have our act together. They have to get their house in order, not us." And so on.

Well, I'm here to tell you that this blasé attitude is not good enough. In fact, it just may be this ambivalence that gets your company (and perhaps you) in trouble. You see, the ethics game is now a hardball game, not

a softball game.

Here are just two examples of why this is the case. In 2002, President George Bush signed the Sarbanes-Oxley bill into law. Among other things, this act created an oversight board to monitor the accounting industry, toughened penalties against executives who commit corporate fraud and increased the Securities and Exchange Commission (SEC) budget for auditors and investigators.

Additionally, in a 2002 executive order, President Bush created a Corporate Fraud Task Force. The basic function of the task force is to provide direction for the investigation and prosecution of cases of securities fraud, accounting fraud, mail and wire fraud, money laundering, tax fraud and other related financial crimes committed by commercial entities and directors, officers, professional advisers and employees.

In increasing fashion, judges, prosecutors, auditors, etc. are looking to the top of the organizational hierarchy to see if values and ethics are merely words or both words and actions. This means that in today's climate, it is not enough to merely profess certain values. No, today you must practice the values you preach.

So, how do you go about building an ethical corporate culture? A simple prescription is to develop a code of organizational conduct, based upon certain underlying values and principles, educate your employees regarding the code and measure compliance on an ongoing basis.

It is this last phase, measuring compliance, that ensures the walk matches the talk. Prosecutors do not look favorably upon a company that has a code of conduct in place, but then offers no training and/or no evaluation of the program's effectiveness. The question becomes, if you are serious about ethical behavior in your workplace, why don't you have any data to show how well

your program is working?

HR professionals have an important role in all of this. In many cases, they can be the ones to spearhead the implementation of the ethical compliance audit. In doing so, they may want to make use of the following steps:

1. Gain the CEO's commitment.
2. Appoint an ethics committee to guide the audit.
3. Appoint an auditing team that will develop questions to be used in examining the organization's ethical performance.
4. Diagnose the corporate culture and investigate designated functional areas.
5. Analyze the mission statement and look for circumstances when the desired mission/goals and ethical performance do not correspond.
6. Determine underlying reasons that ethical performance and organizational goals are not consistent.
7. Collect relevant industry information, benchmark studies, and available information on competitors and industry ethical standards in each designated functional area.
8. Interview relevant stakeholders who are involved in each functional area about their perceptions.
9. Compare internal data with relevant external data.
10. Write a formal report for company managers and audit committee, and, if possible, obtain an external evaluation of the report.

In the final analysis, from my perspective, adopting a high ethical standard simply makes good business sense. If common sense alone doesn't persuade you to get on the ethics bandwagon, then let me point out that ethics are firmly related to the other

bottom line of any company, its corporate culture.

Research has demonstrated that corporate culture is directly related to both organizational performance and competitive advantage. In other words, ethical practices (or the lack of them) have the potential to impact your company's pocketbook.

So, take a look at how your company stacks up in terms of its ethical practices. Make improvements where you can. Monitor your efforts and make fine-tuning adjustments. In doing so, over time, I think you'll see better performance in both your company's bottom line and its other bottom line.



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