



Doing the Right Thing: How Today's Leading Companies Are Becoming More Ethical

by Diane Kubal, Michael Baker, and Kendra Coleman

“We’ve been kicked out of the private banking business in Japan because the regulator has said we’re not fit to run that kind of business in Japan. It’s embarrassing. That’s a big deal; that’s really a big deal.”

—Citigroup Chief Executive Officer Charles O. Prince after Japan ordered the company’s private banking unit out following allegations of money laundering and other transgressions (*New York Times*, November 7, 2004).

Ethics are a big deal for corporate America and not just for global competitors such as Enron, Worldcom, and Citigroup. Both small and large organizations daily face thorny moral dilemmas, and they are not always scandals that make headline news. Issues relating to retention, recruitment and selection, promotion, compensation, and privacy and testing practices are issues that pose challenges to many organizations today.

For instance, how should organizations respond to coworkers who begin dating when company policy mandates no intradepartmental dating? How should they respond to employees who complain of sexual harassment? How do organizations ensure that employees are not taking kickbacks? How do organizations make sure the right person is being promoted—and for the right reasons? And what standards are in place to guarantee that no insider information is being leaked?

Such breaches not only create a negative organizational environment, but they also—perhaps more painfully—provoke legal battles that result in a loss of consumer and investor confidence.

“Integrity must be driven by senior leadership, not by human resources,” stated Terry Travick, President of R.R. Donnelley’s Dynamic Communication Solutions, as he kicked off a panel discussion sponsored by the Human Resources Management Association of Chicago’s Leadership Series on Ethics and Values. To make ethical performance a priority in your organization, the Human Performance Technology (HPT) professional can help leaders engage employees in discussions about the company’s code of ethics and what integrity specifically means to the organization. This is the key to maintaining an organization that is famous for running a business well—not into ruin.

Ethics Defined

So what are ethics, and why should you care?

According to Caremark Rx, Inc., a leading pharmaceutical services company, “Compliance is living by the rules.... Ethics are the broader-based, value-driven rules.”

In short, ethics are more than just making sure you do not get caught. The issue of corporate ethics runs deeper than a simple public relations strategy if or when your firm ends up on the first page of the business section.

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Arthur Freedman, PhD, a consulting psychologist who specializes in organization development, believes ethics is informed by values. He outlines a hierarchy, such that morality (“this is right or wrong”) informs values (the notion that “I prefer this to that”), which in turn informs ethics.

He says, “Ethics, in my mind, are a set of standards governing behavior.... It is the part of the culture that has been formalized. They may or may not correspond to the operation ethics, which are part of the organizational norms. In other words, there may be a discrepancy between the espoused values and the values in use.”

Examples of such a discrepancy are not difficult to find.

Take Enron’s now-infamous value statement: “Respect, Integrity, Communication, Excellence.” The actual values held by key leaders were incongruent with their organizational value statement. The key is to ensure that espoused values and values demonstrated in day-to-day practice and performance are aligned with an organization’s ethical standards.

There is no way to ensure that personal and organizational values are 100% aligned. Still, Freedman suggests that regular dialogue with employees about the organization’s actual values is a necessary place to start. An organization’s moral compass should always be turned toward doing the “right thing.”

Getting Everyone Involved

Although organizations are faced with the constant pressure to cut costs and drive out inefficiencies, who has the time or resources to manage corporate ethics? Arguably, organizations cannot afford the risk of *not* investing their time or resources in developing a comprehensive approach to corporate ethics—the cost might be too high.

Health Care Service Corporation (HCSC) and Blue Cross Blue Shield of Illinois, Texas, and New Mexico know what it costs when things go wrong. According to CEO R.F. McCaskey, who spoke at the Business Ethics Conference in 2004, in 1998 Blue Cross Blue Shield of Illinois paid \$144 million in penalties and fines and gave up a large segment of its business because of employee misconduct in their Medicare business. McCaskey states that HCSC is a better company today as a result of the 1998 incident: “Employees are now well equipped to handle the ethical challenges of a more complicated, pressure-paced business environment.”

Joe Danahy, Vice President of Governance for HCSC, said, “Our compliance program has a number of different components and purposes. But primarily, the purpose is to save the corporation from prosecution and also to operate an effective compliance program under the federal guidelines, so that in the event that we are ever subject to an ethics violation, then our corporate compliance program will act to mitigate or lower the culpability score, so that our fine will be less.

“When you boil it down, it will help you get out of jail, maybe stay in jail for a shorter period of time. Of course, when you’re talking about a corporation, you believe that you won’t get fined in the first place, or if you get fined, it will be less. So there’s a real practical business aspect.”

But an ethics program is not merely an act of self-preservation; it also helps businesses thrive and become part of society at large. To build an ethical culture, HCSC teaches its employees about the values and qualities that matter to HCSC’s customers, investors, and other stakeholders. According to McCaskey, “We teach employees how these qualities along with solid values and ethical behavior are necessary for success in the marketplace.... for all its complexity, our company is really in the trust business.”

Aligning ethics with corporate strategy and individual performance goals is essential for most organizations. Daniel Untch, vice President of Compliance Operations for Caremark, knows the customers trust Caremark with their lives. He said, “A druggist back in the days of *It’s a Wonderful Life* was one of the most trusted professionals. Today pharmacists still have a very strong ethic and are committed to providing high-quality care and service.”

Even though Caremark's pharmacists take their role of protecting customers to heart, the company goes beyond employees' personal commitment to ensure consistency throughout the organization. For example, Caremark's core values statement is ICARE: Integrity, Customer, Accountability, Results, and Empowerment.

Cathy Mejia, Manager of Organization Development at Nicor, says Nicor conducts training on ethics because the company believes it is the right thing to do—even if it appears difficult to measure. To uphold a strong ethical standard, Nicor regularly communicates its values so employees know what is expected in terms of demonstrating fair, respectful behavior toward coworkers as well as shareholders and suppliers.

Nicor has also discovered that ethical behavior has far-reaching effects. Shareholders want to invest in companies that have verifiable ethical standards. Consequently, corporate boards are placing more emphasis on ethical behavior in addition to providing the best service to their customer.

Making Ethics the Real Deal

Organizational practices need to establish and support compliance goals around ethical processes, including such processes as selection, training, and rewards and recognition. Here are several practical ideas to help the HPT professional work with leaders who wish to build an ethical organization:

Implement Training Programs. Most organizations require that every employee attend ethics training either in a classroom setting or online. According to Patricia Werhane, Executive Director of the Institute for Business and Professional Ethics at DePaul University, "One half of the universities had required business ethics courses as part of their business programs. This is a direct result of the pressure coming from corporations that want MBAs who understand that ethics is as important as any other aspect of running a business."

Apply Key Principles. At Caremark, every new hire must go through an orientation program that includes an introduction to corporate values and how to apply them. According to John Kelly, Manager of Organization Effectiveness and Training, "Beyond that, every employee also goes through an hour-long mandatory instructor-led training sometime during the year."

Make Ethics a Part of Your Business Strategy. Many organizations with ethics programs have developed a code of conduct aimed at supporting employees in making ethical decisions on a daily basis. In addition, questions, policies, and practices related to ethics and compliance need to tie to the business plan and organizational vision.

Says Danahy of HCSC, "In the same breath that [leaders] are talking about the business plan, they've got to talk about ethical compliance ... [and] where it fits into the business processes."

Measure Ethics Performance. For Nicor, the first step was to make ethics a leadership competency that was measured as part of the company's performance management system. According to Mejia, demonstrating ethical behavior looks different for each of the four levels of leadership within the company. Each level builds on the one before, and Level 4 leaders, who are officers of the company, are expected to demonstrate defined ethical competencies. For instance:

- Supervisors must model integrity, which could translate into doing the right thing versus doing the easiest or most expedient thing.
- Managers are required to lead by example.
- Directors are expected to investigate and swiftly resolve ethical issues even if they involve personal risk.
- Officers of the company are responsible for advancing the culture by making sure that policies and practices are aligned to support an ethical culture and Nicor values.

Invest Resources. Over 17 years, HCSC has invested time and financial and people resources that now support both its Corporate Compliance Office and a separate Governance Office. HCSC has received external recognition for results achieved with its management certification program and its provider and contract processes, which ensure that providers and contractors meet professional ethical standards. Says Ellen Hunt, Vice President of Compliance Operations and Corporate Compliance, "If you're not going to put in the resources, if you're not going to have the right corporate structure, you might as well not bother at all...."

For those organizations with limited resources or for those that are just getting started, Hunt offers the following: "Whatever industry [you are] in, you have to find other professionals that play a compliance role. In the compliance area, people will give you almost anything.... For example, University ITT has around 14,000 codes of conduct online. There are lots of resources."

Communicate Regularly. Another way organizations work to make ethics tangible is to help employees connect through a variety of communication tools: anonymous, 1-800 phone lines to report questionable practices; "whistleblower" hotlines; published codes of conduct; wall posters and wallet cards that list company values; articles about ethical practices in company newsletters; and demonstrated use of disciplinary action policies and procedures. In addition, it is important to share ethical practices with stakeholders: your customers, investors, suppliers, business partners, community members, and so on. Know how your efforts speak to their interests and tell them so.

Five Ways to Measure Success

Here are several methods that corporations use to gauge their efforts in building an ethical organization:

1. Scan newspaper/media coverage. One of the best and most practical yardsticks is the newspaper. If the stories are neutral or positive about your organization, investors are more likely to stand pat. Terry Travick stated, "As leaders, we represent our companies, and we wouldn't want our names on the front page of *The Wall Street Journal* for the wrong reasons."

2. Monitor public scrutiny. According to Dan Untch, "Human scrutiny or public scrutiny continues to be there. It's the common denominator."

There is increased accountability for organizations to continually monitor for those things that can potentially damage an organization's reputation, such as waste, abuse, conflicts of interest, and unfair business practices. Whether this increased scrutiny is from the media, shareholders, customers,

external "watch dogs," or other sources, it is just good business sense for companies to ensure that their ethical and business practices are in order.

3. Evaluate your recruiting efforts. A good reputation in the marketplace creates the perception that you are an employer of choice, enabling you to attract the best talent.

4. Ask for feedback from various groups. Asking for and listening to feedback from different stakeholders is a great way to get a pulse on your culture and its impact on ethics and values. Seek out employees, investors, vendors, and suppliers.

5. Assess your employees. Nicor sees the success of its program reflected in their employees' behavior.

Tap into Your Company's Grapevine. The power of the grapevine to reach every level should not be underestimated. Knowing that employees talk, an organization's goal should be to make sure the right messages about events, disciplinary actions, and ethical practices are being sent.

The grapevine can be used effectively without getting into specifics of a particular situation. It is essential that when rules are broken, there are appropriate consequences and that they are expressed to the company at large. This will give employees confidence in their leaders and demonstrate that policies serve a purpose.

For example, in one organization a couple from the same department was dating. When they decided to get married, they requested that one of them be transferred, because policy dictated no intradepartmental marriages. Management gladly granted their request and communicated the transfer decision to all employees to reinforce the company's policy.

According to Mejia, the key to creating the kind of ethical workplace that is good for your organization is to remember that "there is no black-and-white manual saying, 'Okay, here's what we need to do with ethics.'" Every organization has its own personality so appropriate ethical practices will vary.

Mejia says, "[Our] people will go to the mat for the customer. We have been successful in creating an ethical culture because our values and expectations are being exhibited by our employees on a daily basis."

Figure out what works and maintain it so you are not the next headline in the news. Running a business is a big deal. Running an ethical business is an even bigger deal. 🏡

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