

COMPLIANCE WEEK

The Subtle Presence Of Corporate Ethics

By Patricia Harned, *Ethics Resource Center* — August 1, 2006

The staff meeting ran long, but you decide to revisit the main points one last time anyway. “I cannot over-emphasize the importance of what we’ve been talking about today,” you say to the group. “The values you see on this Code of Conduct are more than just nice words; these principles guide all our activities in the marketplace. Your commitment to the highest standards of doing business is essential to our success, and that means more than just obeying the law.”

You again endorse the helpline and give a calm but stern warning that retaliation against whistleblowers will not be tolerated on your watch. Your big finish is telling employees to “go out there and do the right thing.” The meeting ends and you feel good about it.

You work your way toward the door, stopping to talk to the various staff members who have lingered to get in their questions before you disappear. Finally, when it seems you are the last one leaving the room, a timid voice comes from behind. “Umm, do you have a second?” the voice squeaks.

You turn to focus on a troubled but familiar face: one of your constant complainers. “You mentioned that if we had concerns, we could come to you,” he whines. “I don’t want to reveal any names, but I heard that some staff members are getting to expense some pretty nice perks. They’re the same level as me, and ... well, umm ... I just don’t think that’s fair.”

Your reaction is to sigh heavily and politely say, “I’ll look into it.” You walk away thinking to yourself “not again,” then turn to your task list.

All Ethics, All The Time

ABOUT THE AUTHOR



Patricia Harned has been president of the Ethics Resource Center since May 2004, serving in a variety of research and executive positions there since 1999. In those years she has led ERC to develop research and benchmarks that measure organizational ethics and compliance program effectiveness.

Harned has also helped shape ethics training for the securities industry, commented on the ethical dimensions of regulatory efforts by both the SEC and the U.S. Federal Sentencing Commission, and testified before Congress on federal legislation. She is the primary author of the 2005 National Business Ethics Survey, has written several book chapters on corporate ethics, character development and ethics education, and serves on the editorial board of *Public Integrity Journal*.

Harned welcomes specific questions

The complaint in the scenario above could be about any number of issues, from a simple misunderstanding to a perception of inequality to an indication of financial fraud. But one thing is certain, and you may have missed it completely—the situation involves ethics.

For managers, there is no shortage of resources when situations like the one described above arise. You can call ethics, compliance, legal, internal audit, risk management or human resources departments. Certainly the CFO's office would have something to say about it. In a post-Sarbanes-Oxley organization, few departments have been left untouched by the effort to create systems to help prevent, detect and respond to even the slightest allegations of misconduct. And such initiatives are good advancements for businesses. Yet it all begs the question: What do we actually mean by "ethics" anymore? Is it a goal, or a function? Has it been subsumed by something else?

The answer is very simple. Where there are people, there will be ethics—both good and bad.


Most decisions ultimately impact another person somewhere, which is why ethics are so pervasive in the operations of a business.


The simplicity of ethics gets compounded because the term can refer to many things in a present-day organization. Ethics can be a set of principles, an organizational department, a training curriculum, and even a line-item in the budget. Ethics are a theme in many intra-organization communications, and we're even starting to see integrity and ethics emerging as a marketing message.

Philosophically, however, ethics still substantially involve the study of human conduct. An ethical decision involves a choice about what is "right" or "wrong," where the outcome affects another person. In the situation above, for instance, how to respond to the employee, how to handle the potential violation, and even how one handles

from readers on ethical dilemmas they encounter; when appropriate, she will try to address them in future columns. She can be reached via email at Pat@ethics.org.

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expense reports, all affect others.

Taken from that perspective, almost every decision might seem to be ethics-related, and that is generally the case. Most decisions ultimately impact another person somewhere, which is why ethics are so pervasive in the operations of a business.

If this is true, then it follows that ethics-related decisions are almost always being made. But how many of them are intentional—or even conscious? And if they are not, what risk does that pose to your organization? Ethics cut across departments and will be a part of your job.

Fundamental Facts

For that reason it's important to know some fundamental facts. Even modern-day organizations can, and should, benefit from thousands of years of discourse and research on the nature of human conduct.

1. **Ethics can be influenced.** Moral development research has shown that a person's ethics do grow and change throughout life. A sense of right and wrong can be modified, but it takes role modeling and continuous reinforcement. The "teachable moments" come in everyday interactions. Do you express your frustration when an employee raises a concern? Or do you acknowledge that they've demonstrated courage?
2. **Tone at the top matters, but there are many tops.** It is true that when top managers commit to certain ethics actions, observed misconduct in an organization can be reduced by as much as 57 percent. But it's also true that when immediate supervisors commit to the same actions, observed misconduct falls by 37 percent. The tone doesn't start and end with the top; in many ways, front line supervisors are more influential than executives when it comes to the ethics of their employees. Do you talk about the organization's ethics with your employees on a regular basis? More importantly, when you finish talking, what do your actions teach? It makes a difference.
3. **Most reports of misconduct are made to supervisors.** Studies indicate that employees are most likely to go to their immediate supervisor to raise an issue of misconduct rather than dialing a helpline. As many as 25 percent of employees who report misconduct each year don't acknowledge the act they witnessed as a violation. If employees go to their supervisors to talk about matters that concern them, they may be raising ethics violations without even knowing it. When employees bring you bad news, are you listening for the managerial and ethical issues? If you do detect an ethics issue, are you notifying anyone?

Ethics may be a function in an organization, but it is also the over-arching purpose for all the post-SOX activities. You can have the most solid internal controls in the country, but whether

or not someone will comply—that's ethics. Each month this column will examine more closely the ways business leaders can recognize ethics issues in their everyday work and have a positive effect on the ethics of their organizations.

In the meantime, you can find valuable resources—including sample ethics policies and approaches—in the box above, right.

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