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A KELLY FINANCIAL RESOURCES® REPORT

BUILDING AND ENCOURAGING ETHICS ON A CORPORATE LEVEL

Thanks to the high-profile business scandals of Enron, WorldCom, and others, along with the ensuing Sarbanes-Oxley legislation, SEC regulations, and New York Stock Exchange rules, the issue of corporate ethics is now firmly fixed at the forefront of the business world. But while many corporations are aware of the need to build and encourage an ethical culture, doing so is an ongoing, often difficult process.

The good news, according to the 2003 National Business Ethics Survey, is that American workers are seeing significant improvements in ethical conduct and practices within their own organizations. Since the last survey was conducted in 2000, there is an increase in the perceptions of employees that top management regularly discusses the importance of ethics, keeps promises, and models ethical behavior. Eighty-two percent of employees in 2003 said that top management personnel in their organizations keep promises and commitments, as compared with 77 percent in 2000. Additionally, surveyed employees indicated that values such as honesty and respect were practiced more frequently in their organizations in 2003.

In developing a successful ethics program, the first requirement is for executive leadership to personify the organization's corporate values, since they are viewed as providing the organization's ethical tone at the top. One of the most important ways senior executives can do this is to take responsibility for their mistakes.

What Is Ethics?

The Markkula Center for Applied Ethics at Santa Clara University—one of the preeminent centers for research on ethical issues—defines ethics in two ways:

- Well-based standards of right and wrong that prescribe what humans ought to do.
- The continuous study of our own moral beliefs and moral conduct. It is striving to ensure that persons, and the institutions we help shape, live up to standards that are reasonable and solidly based.

There are several ethics research institutions that have been in existence for decades, such as the Ethics Resource Center in Washington, D.C., a nonprofit, nonpartisan educational organization that was established in 1922. But a number of new organizations and resources have emerged in the years since the prominent business scandals of the 1990s.

The Robert Zicklin Center for Corporate Integrity was established in 2002 to keep an informed spotlight on the changing issues of governance and financial reporting confronting U.S. corporations and capital markets. The W. Maurice Young Centre for Applied Ethics, created in 1993, is an independent unit in the Faculty of Graduate Studies of the University of British Columbia. The Business for Social Responsibility is a global organization established in 1992 that helps member companies achieves success in ways that respect ethical values, people, communities, and the environment.

These organizations and others like them are helping to strengthen the focus on corporate ethics worldwide by providing leading-edge expertise, research, and education.

An Evolving Discipline

Like employee attitudes in the workplace, corporate ethics programs have also evolved over the years, from focusing on compliance and regulation issues to addressing how to develop and sustain an ethical corporation. Many companies, including Kelly Services, have responded by re-affirming their established corporate codes of ethics and taking steps to implement new policies.

If the rapid growth of the Ethics Officer Association (EOA) is any indication, one of the first actions businesses implement is to hire an ethics officer. In 1992, a dozen members established the association; today it boasts 1,000 members representing nearly every industry. Just as diverse are the over 100 different titles the EOA's members answer to—35 percent have the word "ethics" in their titles and 37 percent use "compliance" in their titles.

Taking a Corrupt Practice to Task

Kelly Services clearly expresses its ethics standards to its employees and clients in its Vision, Mission, Shared Values, and Quality Policy. "But more than just talking about ethics," notes Robert Lyons, vice president of Kelly Financial Resources, a business unit of Kelly Services. "We practice what we preach."

He points to an effort Kelly Services spearheaded in 2003 to bring the practice of state unemployment tax avoidance, or "SUTA Dumping"—a dishonest scheme used by some organizations—to the attention of federal and state legislators. On August 9, 2004, President George W. Bush signed into law the SUTA Dumping Prevention Act of 2004. As a result of Kelly's efforts during the last two years, the unethical practice of SUTA Dumping will finally come to an end. Every state must now pass conforming legislation—including closing the loopholes and establishing meaningful civil and criminal penalties—no later than the end of 2005.

"Ethical employers are hurt because they must pay more to make up for the taxes that other companies evade," says Lyons. "We want to ensure that this type of avoidance is discontinued." Clearly, it is easier to identify blatant unethical corporate behavior than it is to determine the subtleties of what constitutes an effective, ethical program.

According to professionals in the field, in order to succeed, an ethics program must:

- Be led by senior management.
- Communicate the mission, values, and rules of the company via training and corporate publications.
- Make help lines available to employees and provide a means to investigate reports of questionable ethical behavior.

The Components of an Effective Ethics Program

In developing a successful ethics program, the first requirement is for executive leadership to personify the organization's corporate values, since they are viewed as providing the organization's ethical tone at the top.

> The second requirement to developing a successful corporate ethics program is to communicate—often and honestly. “Once employees know and understand the message, they feel the responsibility to maintain the ethical culture,” says Robert Lyons, vice president of Kelly Financial Resources, a business unit of Kelly Services.

One of the most important ways senior executives can do this is to take responsibility for their mistakes. Rather than perceiving a company’s ethics program to be simply “window dressing,” employees need to know that their organization means what it says and will follow through on ethical failures and address problems.

In a study by Linda Klebe Trevino, Michael Brown, and Laura Pincus Hartman, “A Qualitative Investigation of Perceived Executive Ethical Leadership,” the authors found that ethical leadership is comprised of more than just certain management traits such as integrity and values-based inspirational leadership. It involves using communication and the reward system to guide ethical behavior. They note that in order to be perceived as an ethical leader by those outside the executive suite, the executive must behave so that he or she stands out as an ethical figure.

Communicating Mission, Values, and Rules

The second requirement to developing a successful corporate ethics program is to communicate—often and honestly. “Once employees know and understand the message, they feel the responsibility to maintain the ethical culture,” says Lyons. Companies such as Austin, Texas-based Enspire Learning Inc., and its Executive Challenge game are partnering with other companies and university business schools to provide ethics training that goes beyond generic case studies, giving participants real-life ethical situations to experience. Another way to continually communicate an ethics message is to develop training programs for management and employees to reinforce the ethical culture.

Providing Help Lines and Investigation Methods

Finally, the third component of a successful corporate ethics program involves providing a means to report and investigate infractions. Ethical breaches are often the result of pressure from management that can surface when a company finds itself unable to live up to financial forecasts or expectations. Collecting information through anonymous help lines can assist an organization in becoming more effective in monitoring and improving its ethical compliance efforts.

What Companies Are Doing About Ethics

While some corporations that breach ethical behaviors make national news with their offenses, there are many more noteworthy companies that have adopted a wide range of ethical practices. For example:

- Health care giant Baxter encourages employees to discuss the benefits of the company’s ethics program and use it as a recruiting tool.
- Motorola published a global ethics guide in 1998 to help managers who work abroad. Its purpose was to help overseas employees understand that ethics must be adhered to both at home and abroad.
- Mattel issued its first Corporate Responsibility Report in October 2004 to communicate the company’s efforts in ethical manufacturing, philanthropy, and sound corporate governance practices.
- Johnson & Johnson employees periodically survey and evaluate how well the company is adhering to its code of ethics, called “Credo” responsibilities. These opinions are passed on to senior management and promptly addressed.

“These companies join Kelly Financial Resources in continually improving the ways in which they model and communicate what it means to be an ethical organization,” says Lyons.

The Benefits of a Corporate Ethics Program

Research shows that ethics programs do make a positive difference. The 2003 National Business Ethics Survey asked respondents about four elements of formal ethics programs: written standards of conduct; ethics training; ethics advice lines/offices; and systems for anonymous reporting of misconduct. Specifically, the survey findings indicated that:

- The presence of ethics program elements is associated with increased reporting of misconduct by employees. Employees are most likely to report in organizations with all four program elements in place (78 percent). Employee reporting declines steadily in organizations with fewer program elements such as: written standards plus (67 percent), written standards only (52 percent) or no standards (39 percent).
- Ethics programs are associated with higher perceptions that employees are held accountable for ethics violations.

- In larger organizations (over 500 employees), ethics programs are associated with lower pressures on employees to compromise company standards of business conduct.

One of the real challenges that corporations face was uncovered by professor Linda Klebe Treviño, professor of Organizational Behavior and Chair of the Department of Management and Organization in Penn State's Smeal College of Business. In her research, she discovered that ethics programs are generally administered separately from other human resource programs and practices. This finding shows that ethics program administrators may have little influence on employees' broader evaluations of organizational justice. Her results suggest that ethics management should be more closely combined with the task of managing the broader organizational culture to improve the ethics program, as well as employees' perceptions of company fairness.

Attracting Ethical Employees

When it comes to an ethical employer-employee relationship, the old adage "opposites attract" does not apply. A company that practices ethical behavior will appeal to people who share its mission and values, and drive out those who do not. "Through corporate ethics programs, a company's C-level executives and its employees play an important role in establishing an ethical culture and ensuring that everyone in the company reinforces that culture," explains Lyons.

Creating New Opportunities

An interesting result from the new focus on ethics in corporations is that many of those personnel hardest hit by stringent corporate regulations are choosing to move on. In fact, Kelly Financial Resources has seen an increase in candidate questions about prospective employers' ethics policies. "The demands created by Sarbanes-Oxley, along with the push toward a more ethical, transparent environment has placed pressure on C-level professionals and their staffs to try to profitably comply," says Lyons. "But ensuring compliance does not have to mean personnel shortages that affect productivity and profitability."

To view a sample of the American Institute of Certified Public Accountants (AICPA) ethics test, visit **www.kellyfinance.com**.

*Kelly Financial Resources has experienced and knowledgeable recruiters who find talent in a number of disciplines in accounting and finance fields, including public accounting, general accounting, payroll/billing, internal audit, tax, budgeting and cost accounting, financial analysis, treasury, cash management, investor relations, mergers and acquisitions and credit management. For more information about Kelly Financial Resources visit **www.kellyfinance.com**.*

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