



WORKPLACE ETHICS

For **Goodness** Sake

A new breed of CEOs—chief ethics officers—are policing right and wrong in the workplace

BY JENNIFER BRESNAHAN

Reader ROI

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- ▶ Why some companies are spending millions to promote ethical standards
- ▶ The role that chief ethics officers play in creating, running and enforcing a company ethics program
- ▶ How leading organizations are structuring their ethics programs

Used to be all a company had to worry about was staying in business. Today, baby seals, the line worker's sense of self-worth and the minimum wage in Bangladesh all fall within the province of running a successful company. Caring about such things has become the rule rather than the exception—not necessarily because it's the right thing to do but because being ethical engenders bottom-line results. Simply put, companies with solid ethics programs enjoy a competitive advantage in attracting customers, employees and investors. "How could anybody not think that having a highly ethical organization wouldn't pay off?" asks Frank D. Walker, chairman of marketing research and measurement firm Walker Information Inc. in Indianapolis. "Who would you want to work for, work with and buy from? If everything was equal and you had a choice, wouldn't you pick the firm that you believed was the most ethical?"

At the most basic level, formulating a set of ethical guidelines prevents a company from getting into legal trouble down the road because it has a better chance than those without guidelines of detecting, resolving and forestalling ethical breaches. And having guidelines ensures companies that punishment will be less severe. Federal sentencing guidelines passed in 1991 permit judges to reduce fines and jail time for executives proportionate to the ethical measures a company has taken. In addition, businesses have realized that consumers really do care whether they engage in shady business practices. If there's any doubt on that score, consider the image problems



any doubt on that score, consider the image problems companies deal with after a corporate debacle reveals ethical gaps in their practices. The tobacco industry comes to mind. "Companies are used to being in a dog-eat-dog world, and when you're dealing with [other] dogs, you bite, you chew," says W. Michael Hoffman, executive director of Bentley College's Center for Business Ethics in Waltham, Mass. But taking a bite out of the competition using any means possible is no longer acceptable in the eyes of the public. "In fact we're coming to the realization that a business without ethics is a business at risk, and [not having an ethical program] will catch up with a company more often than not," he says. Finally, ethical behavior also helps companies attract and retain employees who wish to be part of something worthwhile—or at least decent and respectable.

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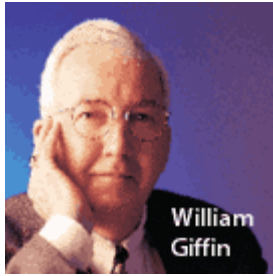
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An increasing number of companies are investing millions of dollars to promulgate an ethical code of conduct and are hiring a senior executive to serve as chief ethics officer (see "[Snapshot: Chief Ethics Officer](#)"). These chief ethics officers (note: their titles vary) have the task of ensuring their companies achieve outstanding results not by any means possible but by ethical means. In many companies, this is accomplished through a multi-layered, unspoken pact between the company as a corporate entity, its customers, business partners and employees. This is how it works: The company pledges to its customers and business partners not to sacrifice quality and fairness for profit, and in exchange it hopes that customers and partners increase their sense of loyalty toward the company. Employees are expected to abide by the code of ethical behavior developed by the chief ethics officer's office. And in return, employees can expect the company to treat them with dignity and respect. Since employees are the linchpins of the company's ethical success, ethics programs often center on an internal scheme to communicate and enforce the message of this pact to employees. Many chief ethics officers develop elaborate dispute identification and resolution mechanisms and training programs to help employees make the right decisions. Following are the stories of how several ethics officers are helping their companies gain a sense of moral responsibility in hopes that it will eventually translate into competitive advantage.



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—WILLIAM GIFFIN,
VICE PRESIDENT OF
ETHICS AND
BUSINESS
PRACTICES AT
SEARS, ROEBUCK
AND CO.



Come See the Ethical Side of Sears

Well known for its Craftsman tools and DieHard batteries, Sears, Roebuck and Co.'s strategy to reestablish itself as a retail leader has been to stress its softer

side. But the softer side that we're urged to come see doesn't stop at the pretty dresses and delicate sheets advertised on television. It also includes ethics. For Sears, being ethical means balancing the interests of its three main constituencies: customers, employees and shareholders. Where most companies get into trouble is to concentrate on only one of these groups, usually the shareholder, says William Giffin, vice president of ethics and business practices at Sears. Giffin adds that Sears Chairman and CEO Arthur C. Martinez stresses that in fulfilling his goal of making Sears a compelling place to shop, work and invest, the way Sears does so is just as important as whether it actually succeeds.

Martinez took the helm of the \$41 billion Hoffman Estates, Ill.-based Sears Merchandise Group in 1992 and two years later approved the creation of the ethics and business practices office. Giffin, a 31-year Sears veteran who began his career as a store manager and eventually moved to HR, was chosen to head the department. Giffin and his 11 direct reports have since become an integral part of daily operations at Sears. "My team is welcome as part of the [day-to-day] process," says Giffin.

Giffin and his people are charged with promoting the values in Sears' 15-page code of conduct. They do this by serving as a resource for employees to use if they run into ethical quagmires that could potentially affect one of the company's three constituencies. Sears' ethics program differs from some in that it is not preoccupied with catching and punishing transgressors. "We don't offend employees by treating them like they're one of 10 people who are doing something wrong." Rather, the focus is on helping employees make the right ethical decisions. For example, a sales rep might be unsure whether he should accept a gift from a vendor when not accepting it might be seen as



from a vendor when not accepting it might be seen as impolite.

Find It Online

Bentley College

(www.bentley.edu/)

Columbia/HCA Healthcare Corp

(www.columbia.net/)

Equal Employment Opportunities Commission

(www.eeoc.gov/)

Sears, Roebuck and Co

(www.sears.com/)

The Wall Street Journal

(www.wsj.com/)

U.S. Senate Committee on Armed Services

([www.senate.gov/
~armed_services/](http://www.senate.gov/~armed_services/))

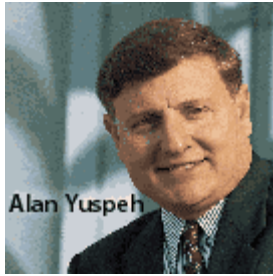
United Technologies Corp

(<http://www.utc.com/>)

An important component of the goal of helping employees make the right ethical decisions is an ethics assist line. The hotline gets 15,000 calls per year from employees looking for general guidance and clarification of ethical issues, says Giffin. The assist line representatives, selected from various corporate and functional departments within the company, receive an average of four hours of training per week in business knowledge and conflict resolution skills. Moreover, to evaluate the performance of the assist line, people from a third-party company pretending to be Sears employees call monthly.

When there is an ethical problem that could affect the customer, the representatives are trained to bring in the employee's manager or to route the problem directly to Giffin. All managers receive ethics literature, take training courses at Sears University in Illinois and re-sign a contract annually signifying their commitment to the company's code of conduct. Giffin estimates that having a formal conflict resolution mechanism in-house has yielded a 4-to-1 return by avoiding scandals and drawn-out conflicts. "It's simply less expensive for us to deal with problems swiftly and efficiently internally than to go through the Equal Employment Opportunities Commission, courts and *The Wall Street Journal*. It's not only the right thing to do, it's the practical thing to do," he says.

The point of all this focus on the employee, of course, is satisfying the customer. "We've built a covenant of trust with the American consumer over 100 years. It's ironic that it can be so fragile that if we don't protect it every day, we run the risk of losing it," says Giffin. "People believe in Craftsman and DieHard batteries. Why? Because if you buy a Craftsman tool and it breaks in your lifetime, we give you a new one. That's pick-and-shovel work, but the minute we starting handling that badly, we lose our covenant."



Alan Yuspeh

Moral Health at Columbia/HCA

If anybody ever needed an organized ethics plan it's the \$18.8 billion Columbia/HCA Healthcare Corp. Vilified in the press and pursued by federal officials for questionable billing practices and fraud, the Nashville, Tenn.-based hospital chain was in desperate need of

a new image after the charges were brought to light in early 1997. Investigations are ongoing. In July of that year, the board brought in a new management team to clean up the mess and in October hired Alan R. Yuspeh as senior vice president of ethics, compliance and corporate responsibility. His mission was to develop what the company hopes will be the most robust, comprehensive ethics and compliance program in health care.

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SENIOR VP OF ETHICS,
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CORPORATE
RESPONSIBILITY AT
COLUMBIA/HCA
HEALTHCARE CORP.

Yuspeh was a good choice for the position. Formerly general counsel to the U.S. Senate Committee on Armed Services and chief of staff for now retired Sen. J. Bennett Johnston of Louisiana, Yuspeh was executive director of the Defense Industry Initiative (DII) on Business Ethics and Conduct from 1987 to 1997. He joined Columbia as one of the company's 11 most-senior executives. When Yuspeh arrived, he found only a rudimentary compliance program with a perfunctory, legalistic set of ethical guidelines that no one could understand. He immediately set about drafting a code of conduct. Yuspeh put it on the company intranet for comment and received several hundred suggestions from the company's workforce. The finished product was distributed to Columbia's 285,000 employees and emphasizes the values of compassion, honesty, integrity, fairness, loyalty, respect and kindness.

Yuspeh then constructed a massive ethics program with the objective of ensuring that all Columbia/HCA employees are familiar with basic organizational values and relevant health-care laws, regulations and policies. To succeed in this endeavor, Yuspeh created an organizational support system, encompassing an ethics hotline that answers about 1,200 employee calls annually and a sophisticated ethics training program for all employees. Each of Columbia's 300 hospitals has an ethics and compliance officer, usually the



hospital CEO. "This is too important not to have attention from the very top," explains Columbia/HCA Chairman and CEO Thomas F. Frist in the 1997 annual report.

The next step in Yuspeh's vision is to leverage technology to support these efforts. He is currently working with Columbia's information systems department to create an automated training-tracking system. For example, Yuspeh will be able to push a button to see whether a given hospital CEO has completed his or her mandatory units in compliance training. The system will show which units, if any, remain incomplete and will also track the completion of individual compliance training profiles for all employees. Another system that is being considered will conduct automated checks on billing to ensure compliance with the sometimes arcane and complicated Medicare policies.

Although the company incurred a net loss of \$305 million in 1997, there were immediate indications that Columbia's ethics program was slowly helping the company climb back to credibility in the public's eyes. For the first time in two years, patient satisfaction levels rose, according to the company's 1997 annual report.

"[Columbia/HCA managers] have been particularly concerned in light of the investigation that we develop a sense of self-confidence," says Yuspeh. "I've gotten a lot of e-mails from employees that say things like, 'I feel proud to be part of an organization that supports these kinds of values.'"

Elevating Ethics at United Technologies

Hartford, Conn.-based United Technologies Corp. (UTC) does not stop its ethics program—called business practices—at merely serving the interests of customers, employees and shareholders. The \$25.7 billion UTC, whose best-known products include Pratt & Whitney aircraft engines, Otis elevators and Carrier heating and air-conditioning systems, also includes its competitors and its vendors.



Patrick
Gnazzo

"You recognize that you have some responsibilities to your competitor in terms of not lying about what your competitor's product can do. The golden rule has a lot to do with this," says Patrick Gnazzo, vice president of business practices. Referring to vendors, he adds, "Vendors receive

letters from the company detailing the ethics program and assuring them that any ethics problems that they report will be swiftly dealt with." These are the kinds of values that Gnazzo insists have been a central reason for UTC's success. "What do we get out of [being ethical]?" asks Gnazzo. "We get to stay in business and do really well and have people want to continue to do business with us."

A former trial attorney for the Navy, Gnazzo previously held six different positions in UTC, including stints in the legal department and international marketing. He currently reports to the general counsel. "There is no such thing as a typical day in the world of ethics because you just never know what phone calls you're going to get," says Gnazzo. But on any given day, he is likely to wrestle with such issues as who—company or employee—gets to keep a prize laptop won by an employee at a work-related conference. "Part of the reason you have human beings in this job is there is no such thing as the one right rule," says Gnazzo.

UTC has one of the most extensive ethics programs in corporate America. It employs 160 designated business practice officers around the world who are chosen from the upper-and middle-managerial ranks. The business practice officers act as a resource for guidance on the company's ethical code, coordinate training programs on business practices and oversee investigations of possible code violations. The business practice officers serve on a part-time basis, in addition to their scaled-back managerial roles. "Most people see the position as an opportunity," says Gnazzo.

Then there are 1,320 administrators not under Gnazzo's jurisdiction (to ensure legal confidentiality) who run what's referred to as the Dialog/Ombudsman program. It's a confidential communication program that allows employees



to raise issues or concerns to Dialog administrators or to an ombudsman. If questions involve compliance issues, they will be referred to business practice officers. Otherwise, questions might be routed to one of seven appointed neutral ombudsmen. The ombudsmen investigate the reports, send them to the appropriate manager and recommend policy changes and other corrective actions. Serious ethical or legal problems, like a manager pressuring an employee to bribe a supplier, are sent directly to Gnazzo.

Gnazzo insists that buy-in from the top has been the main reason for the success of UTC's business practices initiative. "I'm one of the lucky [ethics officers]," he says. "The program isn't going to work if I don't have the full direction and control from my management and board of directors. The program would look great on paper, but it wouldn't mean anything. It's the fact that the CEO and division presidents stand up and say [to the entire company], 'You will comply, and you will be ethical.' That makes the difference."

(Google search of web-based articles on Corporate Ethics, available site: www.cio.com)