

Six Steps to Creating an Ethical Culture - by Agatha Gilmore

First there was the case of the Wal-Mart whistleblower who alleged that a senior executive was engaging in questionable financial practices. Then there was the Societe Generale scandal, in which a rogue trader lost the French Bank a whopping \$7 billion in fraudulent transactions.

These incidents might seem extraordinary, but according to a study by the Association of Certified Fraud Examiners (ACFE), U.S. organizations alone lose 5 percent in annual revenue to fraud.

The solution is to create and enforce an ethical organizational culture, according to a new white paper from talent management solutions provider Allegiance.

According to Allegiance's research, organizations with strong ethical cultures report fewer cases of fraud, suffer less litigation and overall have happier and more engaged employees. They also cut their fraud-related losses in half, said Greg Heaps, COO and ethics specialist at Allegiance.

"Not only is having an ethical culture a good idea, but it's now practically a requirement," he said.

As a result of these findings, Allegiance devised a set of six steps talent managers can take to help create ethical cultures within their organizations.

1. Establish an enforceable code of conduct.

Talent managers should work to create an enterprise-wide code of ethical conduct that describes appropriate behavior and acts as a proactive solution, rather than reaction to past missteps. It also should incorporate employee preferences and opinions because giving them a stake in development will ultimately make them more apt to adhere to it, Heaps said.

And like most HR programs, the code must not only be championed by but also clearly demonstrated by senior executives for employees to take it seriously.

"Employees have a hard time buying in if management isn't buying in," Heaps said.

2. Offer ongoing training.

"Training is not a one-time, one-shot deal," Heaps said. "The purpose is to help employees know what is expected of them and to help them understand that having a strong ethical culture can protect the company's reputation and ultimately can impact their bottom line."

Live workshops, online courses and printed materials all are helpful, and organizations also should provide annual training on specific issues, including proper use of company assets, discrimination, harassment, use of e-mail or use of the Internet. Talent managers should also custom-fit training to the needs of different departments, Heaps said.

3. Issue regular communications.

According to a 2007 report by the Ethics Resource Center, fewer than 40 percent of employees are aware of their companies' ethics and compliance programs.

"Programs exist, but organizations aren't doing a good job of communicating [that] fact," Heaps said.

Senior-level management must establish this line of communication that can take the form of broad announcements in the corporate newsletter or more personal discussions, either by department or individually.

4. Set up an anonymous reporting hotline.

According to the ACFE, an anonymous tip is the most likely way to reveal fraud, accounting for 34 percent of the cases uncovered. But employees must feel their anonymity is safe and secure for them to participate in a whistleblower policy.

"Employees can sometimes be met in the parking lot or somewhere else and physically abused by the perpetrator if their anonymity isn't maintained," Heaps said. This potential conflict may explain why 42 percent of employees who witness misconduct do not report it, according to the ERC survey.

Heaps recommends that employees have access to anonymous Web- and phone- based reporting tools and that talent managers also consider a third-party hotline provider, as employees often feel internal avenues are less secure.

The reporting tool should require whistleblowers to answer targeted background questions, as opposed to open-ended voice-mail or e-mail questions, and it also should have management capabilities that allow talent managers to track incidents.

5. Enforce and take action.

Imposing consequences for violation of the code of conduct will result in all employees - from the CEO to the frontline worker - taking it seriously. Heaps said that research done by ERC found that misconduct is cut by 75 percent and reporting is doubled at companies with strong and enforced ethical cultures.

6. Reward employees who demonstrate the culture.

"Like a manufacturing company that brags about its safety record with signs indicating how many days [it has gone] without an accident, companies should do the same and publicly congratulate employees that adhere to the code," Heaps said.

He added that some organizations might even share the "profits" - the amount of money saved by avoiding fraud - with whistleblowers.

"Employees prefer to work for an organization that has an established ethical culture. They end up happier, they end up enjoying their jobs more - they're more engaged with the organization," Heaps said. "When you have that kind of environment and that kind of attitude with employees, it directly impacts your bottom line."

[About the Author: Agatha Gilmore is an associate editor for Talent Management magazine.]