Is Ethical Conduct Encouraged in Your Organization?

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During my college courses, I always show a TED Talk that focuses on the importance of ethical conduct in today's business environment. It is entitled **"Legal vs. Ethical Liability: A Crisis of Leadership and Culture"** and it is delivered by Mel Fugate, a Professor of Management at Mississippi State University. During his presentation, he distinguishes conduct that is ethical (based on human values) from that which is legal (based on written law), and argues that clearing the ethical hurdle builds your organization's leadership and character. He further asserts that "ethics is everyone's responsibility", regardless of one's role in the organization.

While most organizations agree with the above statements, it is not clear that they necessarily act in ways that support ethical conduct.

Over the past few decades we have witnessed what happens when an organization pays "lip service" to corporate ethics, and strays from ethical behavior. Unethical conduct resulted in disastrous consequences for the following corporations:

- Navient (student loans) – improperly recommended federal loan forbearance instead of better relief options
- Enron (energy, commodities and services) – hid billions of dollars of debt on financial statements
- Arthur Andersen (auditing, tax and consulting) – committed fraudulent accounting and auditing of clients
- Wells Fargo (banking) – created fraudulent checking and savings accounts without client consent
- Worldcom (telecommunications) – committed fraudulent accounting and filed false documents with regulators

What is meant by ethical conduct?

Dr. Thomas Mahan of the Work Institute defines ethics in the workplace as "the moral code that guides the behavior of employees with respect to what is right and wrong in regard to conduct and decision making." In addition, he states that "ethical decision making in the workplace takes into account the individual employee's best interest and also takes into account the best interest of those who are impacted."

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We are taught to act morally at an early age, and are expected to conduct ourselves ethically during school, in social settings and at work. Despite having an understanding of the moral code that should dictate our behavior, we are influenced by the culture of our work environment and our colleagues in the organization. As a result, we need to decide which behaviors we choose to adopt and which ones we should reject as we attempt to act ethically while we are at work.

How can organizations instill ethical behavior in their culture?

There are many ways that today's organizations choose to firmly establish ethical conduct as part of their overall culture. While some approaches are more effective than others, I suggest employing a combination of methods to increase the likelihood that ethical conduct becomes pervasive throughout the firm, and therefore defines your firm's culture.

Successful approaches include the following:

- Create onboarding programs, including videos and roleplays, that emphasize the importance of ethics in all business dealings
- Implement a Code of Conduct that makes ethical behavior a prominent component of how employees should act in the workplace
- Incorporate ethics principles into firm policies and procedures that guide employee behavior, and clearly articulate what compliance and non-compliance means so everyone understands the consequences
- Ensure that required ethical norms and values are part of routine corporate communication reminders
- Regularly train employees (especially managers) on what is meant by ethical behavior and require an annual acknowledgment by employees to adhere to ethical conduct standards
- Reward ethical conduct, honor those who achieve results ethically and weave ethics principles into the firm's rewards and recognition program
- Lead by example and make sure that leaders model the behavioral norms they expect all employees to follow
- Provide corporate resources, including approachable HR departments, that actively reinforce ethics at the firm

Why is it important to act ethically in business?

As referenced in the above examples, the negative consequences of unethical conduct are diverse and run the gamut from reputational damage to financial collapse. In fact, the risk of negative headlines, costly lawsuits, operational distractions and financial harm cause many organizations to act in an ethical manner.

However, I believe that the more important driver for acting ethically is the benefit that accrues to the organization from instilling an ethical culture in the first place – by going "above and beyond" the letter of the law.

Organizations can expect to derive value from their ethical culture in many ways, as follows:

- A reputation for ethics helps to attract and retain the best talent while reducing the likelihood of costly turnover. A recent survey found that 38% of employees consider ethical standards to be either their first or second most important workplace attribute.
- Ethical leadership may create a "domino effect" in the organization that develops a reputation for sound ethics and results in more sustainable business practices

- The stock price of the 100 most ethical firms outperforms their peers by 300% according to the Society for Human Resource Management (SHRM)
- Ethical cultures help stimulate positive employee behaviors, including stellar performance, improved morale, increased productivity, enhanced teamwork and stronger organizational trust
- Workplace issues such as bullying, sexual harassment, and pressures to misrepresent financial results become less prevalent
- Relationships with all stakeholders, including customers and the local community where the firm does business, are enhanced

The Challenge

In light of both the risks of unethical conduct and the material benefits of acting ethically, many organizations are making ethical behavior a corporate mandate for all employees. As a result, they are implementing best practices to ensure that ethical values are woven into all facets of their culture. If your organization is not taking appropriate action steps to encourage its employees to behave ethically, what can you do to change the status quo so your company becomes an ethical leader in your industry and community?