Successful HR Strategies for Building an Ethical Workplace Culture

Shelly Trent, SHRM-SCP, CAE
SHRM Field Services Director

Today's Agenda

1) Current State of Workplace Ethics
2) Why Good Ethics are Good for Business
3) Elements of an Ethical Workplace Culture
4) HR Strategies for Building an Ethical Workplace Culture
5) Importance of Ethical Practice as an HR Competency

Current State of Workplace Ethics

Big Business scandals

In 2013 JPMorgan Chase paid the US Government $13 billion to settle charges that its conduct had contributed to the mortgage meltdown and Great Recession of 2007-09

More than half of the 10 largest corporate bankruptcies since 1980 resulted from unethical practices, costing owners and the US economy $1.228 trillion
Lack of Trust in Leaders

**Edelman Trust Barometer**: Only 15 percent of Americans trust business leaders to tell the truth.

Globally, only 28% of the 30,000+ Edelman respondents believe that businesses follow ethical practices.

---

"The steady and sharp drop in misconduct since 2007 suggests that something both fundamental and good is taking place in the way Americans conduct themselves at work."

National Business Ethics Survey
Ethics Resource Center

---

2014 ERC National Business Ethics Survey

<table>
<thead>
<tr>
<th>2010 (%)</th>
<th>2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressure</td>
<td>13%</td>
</tr>
<tr>
<td>Misconduct</td>
<td>45%</td>
</tr>
<tr>
<td>Reported</td>
<td>65%</td>
</tr>
<tr>
<td>Retaliation</td>
<td>22%</td>
</tr>
</tbody>
</table>
Good news: Companies with “strong” or “strong-leaning” ethics cultures grew from 60% in 2011 to 66% in 2013

Only 20% of workers in companies where ethical cultures were “strong” reported observing misconduct, while 88% observed misconduct in companies with the weakest cultures.

The stock price growth of the 100 firms with the most ethical cultures outperformed stock market and peer indices by almost 200% from 1997-2013.

1997-2013, the stock price of the Fortune 100 Best Companies to Work For in the US grew 11.8%, compared to 6% for the S&P 500 and 6.4% for the Russell index.

Source: Great Place to Work Institute 2014
Good Ethics = Good Business

An Ethical Culture Brings Competitive Advantage

- Risk
- Recruiting
- Competency
- Reputation
- Financial Results

Good Ethics = Good Business

An Ethical Culture Benefits Employees and Management

- Higher employee job satisfaction
- Increased legal/rule compliance
- Increased organizational commitment
- Increased cooperation
- Increased change management success
- Increased attraction of high-potential talent
- Lower turnover
- Lower health care costs

Elements of an Ethical Culture

2014 SHRM Foundation report, *Shaping an Ethical Workplace Culture*, gives a full picture of what an ethical workplace means and how it can benefit diverse organizations

www.shrm.org/foundation
“Ethics – the values an organization demonstrates in its goals, policies, and practices – are the heart of any workplace culture. And, the quality of experience in an organization depends on the quality of the culture. Whether we are employees, customers, or clients, a positive culture enlivens our experience of a firm – and a negative culture diminishes it.”

Steven D. Olson
Shaping an Ethical Workplace Culture
SHRM Foundation 2014 EPG Report

Ethical Culture Hallmarks

1) Leaders live by clear standards and self-transcending principles when conducting the organization’s business.
2) Employees feel genuinely cared for and respected.
3) Employees, regardless of rank or role, put the work at hand and the interests of others above themselves.
4) Employees feel empowered and energized to reach for ethical and technical excellence in serving customers, clients, and each other.
5) Employees hold themselves and their managers accountable to uncompromising standards of conduct.
6) People at all levels move toward, not away from, ethical dilemmas and conflicts in order to address them through self-transcending ideals.
7) Ethical lessons learned during conflicts alter the organization’s practices, setting in motion a virtuous cycle of improvement

Source: April 2014 HR Magazine article: “Creating an Ethical Culture” by Dori Meinert

Six Basic Elements

1. Written Standards
2. Ethics Training
3. Internal Reporting Mechanism
4. Means to Report Anonymously
5. Disciplinary for Misconduct
6. Ethics Inclusion in Performance Rating

Source: US Sentencing Commission FSGO guidelines
Elements of an Ethical Culture

Written Standards

Values statements: Reflect an organization’s guiding principles

Codes of conduct: Reflect an organization’s values and provide guidelines employees should follow

Elements of an Ethical Culture

Ethics Training

Training and development programs at organizations with ethical cultures emphasize character formation, resolution of conflicting values, and a “calling” orientation towards work and career

Elements of an Ethical Culture

Internal Reporting/Advice Mechanism

Organizations should have an internal mechanism with options for employees to report or seek advice about possible legal or code of conduct violations

Employees are encouraged to report their concerns internally to their supervisor or manager and, if they are not comfortable with this option, to contact their Employee Relations Manager or their HR team
Anonymous Reporting Mechanism

Organizations should also have a confidential, anonymous hotline for employees not comfortable with using the internal mechanism.

SHRM’s hotline is conducted by a third party ethics hotline, which provides 24 hour toll-free telephone and internet service to answer, report, and track ethics concerns.

Discipline for Misconduct

HR and legal departments normally review ethics complaints and decide on the appropriate action.

The organization’s code of conduct should make clear that violators may be subject to discipline up to and including termination of employment and even possible civil or criminal penalties.

No retaliation should be permitted against anyone who reports a suspected violation.

Ethics in Performance Rating

Organizations should include measures of ethical behavior in performance ratings to help focus employees’ attention on its importance.

Doing so serves as a tool to reward those who excel in this area and to incentivize all employees to strive for high ethical behavior.
Elements of an Ethical Culture

Compliance with Legal Regulations

Sarbanes-Oxley Act of 2002
Passed by Congress after major scandals
Publicly-traded companies must have adequate internal control structure and procedures for financial reporting
They must also have a code of conduct, a complaint system, an anti-retaliation statement, ethics training, and a system to protect whistleblowers

Foreign Corrupt Practices Act of 1977
Prohibited payments: Offers, payments, or gifts to foreign government officials, parties, or candidates to obtain or retain business
Accounting standards: Keep books, records, and accounts in detail, accurately reflecting transactions and corporate asset disposition
Applies to: US citizens and residents, US companies and employees, and US citizens involved in foreign subsidiary activities

HR Ethical Culture Strategies

Leadership Role of HR
HR is in a unique position to lead in strategies to build an ethical workplace culture
HR professionals should be both guardians and champions of the ethical culture in their organizations
Assess your Workplace Culture

**Measure 3 Factors:**
- Ethical Content
- Ethical Operations
- Ethical Individuals

Use Organizational Levers

1. Onboarding
2. Ethics and Compliance Programs
3. Pay, Performance, Promotion, Procedures
4. Leadership Role-modeling
5. Training and Development
6. Workplace Communications and Routines
7. Culture Surveys and Feedback Tools
Onboarding

The best place to start shaping an ethical workplace is at the beginning of each employee’s experience with your organization. In addition to framing your organization’s ethical guidelines, examples from your own case files can be used to help new employees understand exactly what is expected of them.

Ethics and Compliance Programs

The most effective ethics and compliance programs are integrated closely with training and development departments and with senior management. HR professionals need to understand their organizations’ ethics and compliance programs requirements and be able to integrate them into their ethical culture strategies.

Pay, Performance, Promotion, Procedures

The criteria for pay, performance, and promotion should be made clear to all employees so that they are perceived to be fair and consistently upheld throughout the organization. One way to demonstrate that ethics matter is by acknowledging, rewarding, and/or promoting high performers who live and model your organization’s values and ethical standards.
**Leadership Role-modeling**

Leadership role-modeling of consistent adherence to an organization’s rules, procedures, and values is the linchpin of an ethical workplace culture.

Schedule regular ethics “reset” sessions in which supervisors at all levels are reminded of core values and updated on organizational ethics issues.

---

**Training and Development**

Ethics training programs should emphasize character formation, the resolution of conflicting values, and a “calling” orientation towards work and career.

**NBES Survey**: The percentage of companies providing ethics training increased from 74% in 2011 to 81% in 2013.

---

**Workplace Communications and Routines**

The formal and informal communications of employees’ day-to-day work experience are a rich resource for shaping an ethical culture.

Make use of organizational symbols and ceremonies to express and reinforce employees’ ethical expectations and identification with your organization’s values.
Culture Surveys and Feedback Tools

Your employee satisfaction surveys should include measures related to desired aspects of an ethical culture.

Always follow effective practice guidelines when using survey data to help foster the sense of fairness among employees.

Special Role of Top Managers

The tone set by top managers goes a long way toward shaping the overall ethics of a workplace.

Executives who speak and act courageously on behalf of the organization’s highest ethical ideals represent the best form of ethical leadership: personal example.

NBES Survey: Senior managers are more likely than lower-level managers to break the rules.

Special Role of Top Managers

2015 ERC Report on Ethical Leadership

Companies that want to support strong ethical leadership should:

- Seek out personal character when hiring and make 24/7 integrity a job expectation
- Educate managers about the way employees evaluate leaders
- Encourage leaders to share credit for success and seek honest feedback from employees
- Annually review business objectives and policies to ensure they promote ethical performance
Characteristics of Ethical Practice

**Definition:** Integration of integrity and accountability throughout all organizational and business practices

- Adherence to the organization’s core values and ethical guidelines
- HR professionals help to drive their organizations’ ethical climate by responding to ethical issues

Behaviors at Highest Level of Proficiency

1. Maintains confidentiality
2. Responds immediately to all reports of unethical behavior or conflicts of interest
3. Empowers all employees to report unethical behavior without fear of reprisal
4. Acknowledges mistakes
5. Drives the corporate ethical environment
6. Recognizes bias in self and others and takes measures to mitigate bias in business decisions
7. Maintains appropriate levels of transparency in organizational practices
8. Ensures that all stakeholder voices are heard
9. Manages political and social pressures when making decisions
The New SHRM Credentials

We've created the SHRM-CP and SHRM-SCP to:

- Encourage HR professionals to acquire the knowledge and behaviors that drive effective performance and career success and contribute to positive organizational outcomes;
- Establish a certification that is highly relevant to employers and meets the needs of business;
- Grow certification in the HR profession; and
- Create a new and universal standard for HR

Find out more at www.shrm.org/certification

Summary and Takeaways

HR must take a leading role in efforts to build ethical workplace cultures to deter misconduct and help the organizational bottom line

Research shows that an ethical workplace culture improves company performance, employee satisfaction, and provides many other benefits

An ethical workplace culture has six elements: Written standards, ethics training, an internal reporting mechanism, an anonymous reporting mechanism, disciplinary action, and ethics as part of performance appraisals

Onboarding and the other organizational levers outlined in this presentation are key vehicles to use to advance ethical workplace strategies

Ethical practice is a critical competency for all HR professionals and is one of the nine competencies required for SHRM Certification

SHRM Support Resources

HR Magazine article, "Creating an Ethical Culture"
By Dori Meinert
www.shrm.org/publications/hrmagazine

SHRM Code of Ethics for HR Professionals
www.shrm.org/about/bylegis

SHRM Toolkit: Ethics and Corporate Social Responsibility
www.shrm.org/templatestools/toolkits

www.shrm.org/hrdisciplines/ethics
SHRM 2016 Annual Conference


Questions??

Shelly.Trent@shrm.org

(Please note that these slides are copyrighted material and may only be distributed to an audience at a SHRM speaker presentation. Further distribution is not allowed, except with permission by SHRM.)