



SHRM HR and Business Ethics: *Lesson from the Downturn*
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2008 Crisis Put Ethics Back in the News

The financial crisis of 2008 resulted in large part from questionable business practices



The Madoff Ponzi scheme is among several cases of fraud to hit the headlines

Has HR done enough to create ethical business cultures?

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Today's Agenda

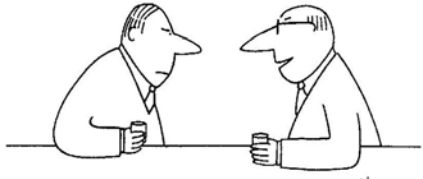
- 1) Current Status of Business Ethics
- 2) Sarbanes-Oxley Act of 2002
- 3) Elements of an Ethical Business Culture
- 4) Role of HR in Business Ethics
- 5) Case Study: Cisco's "Ethics Idol"

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Current Status

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"Get serious, John, we're talking business ethics not ethics."

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Current Status

"One of the main lessons of this crisis is that companies and markets can't rule themselves. Financial innovation sacrificed business ethics for the sake of extraordinary profit. Our societies are now so disgusted with business practices that there is a growing call for stronger-than-ever regulation, and we run the risk of returning to selfish nationalism or cumbersome overregulation."

Angel Gurría, the Secretary General of the Organization for Economic Cooperation and Development -- January, 2009

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Rising Fraud?

2009/2010 Kroll Global Fraud Report

- ❖ Average loss to fraud over the last 3 years at 700 companies surveyed increased by 7% in 2009 -- from \$8.2 million in 2008 to \$8.8 million in 2009
- ❖ Rise due mainly to credit crunch and economic downturn
- ❖ Percentage of companies suffering fraud increased from 80% in 2007 to 85% in 2009
- ❖ The incidence of fraud in 2009 was almost identical to 2008

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Ethical improvement during Recession

- ❖ The 2007-2009 recession may have helped to temporarily improve ethical behavior at U.S. companies
- ❖ 2009/2010 Ethics Resource Center survey found most ethics measures in U.S. workplaces have improved since 2007
- ❖ Percentage of employees who observed misconduct on the job dropped from 56 percent in 2007 to 52 percent in 2009
- ❖ Strength of ethical cultures measured by the ERC increased from 53 percent in 2007 to 62 percent in 2009
- ❖ This trend has been observed during earlier recessions and may be temporary

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Sarbanes-Oxley Act of 2002

Passed by Congress in response to Enron and other scandals

High-level oversight of publicly traded company financial records

Companies must disclose whether they have a code of conduct



HR is involved in onerous and expensive SOX compliance

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SOX Provisions

Section 301: Must have complaint system, anti-retaliation statement

Section 404: Must show adequate internal control structure and procedures for financial reporting

Section 406: Must have code of conduct in place

Section 806: Must have system to protect Whistleblowers

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An Ethical Culture

- ❖ SOX is not a panacea: It is only for publicly traded companies and only a legal framework for ethics
- ❖ HR professionals can take a leadership role by creating **cultures** in which integrity is a priority
- ❖ Being legal is not enough -- Litmus test must be: Is it ethical?

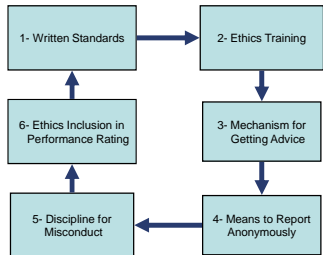
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Ethical Business Culture

Six Basic Elements



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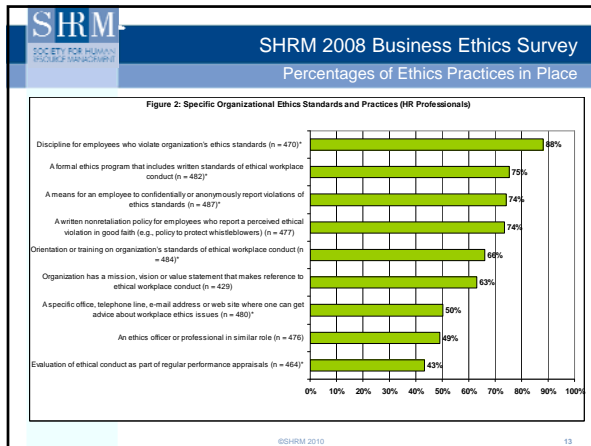
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SHRM 2008 Business Ethics Survey



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Written Standards

- ❖ Written values statements and codes of conduct are the most common tools for employee awareness of ethics
- ❖ A values statement allows organizations to identify, articulate and communicate a clear set of guiding principles
- ❖ The goal of a values statement should be to provide a framework for deciding among competing ethical choices

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Values Statements and Codes

- ❖ Values statements should reflect universal guiding principles
- ❖ 63% of companies in SHRM's 2008 business ethics survey had values statements and 75% had codes of conduct
- ❖ Codes of conduct should reflect an organization's values and provide guidelines employees are expected to follow
- ❖ SOX provisions mandate that companies must have a code of conduct in place

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Codes of Conduct

- ❖ Many organizations not subject to SOX provisions have voluntarily adopted codes of ethics
- ❖ Some industries have developed their own ethical standards to which participating companies subscribe
- ❖ SHRM has established a code of ethical standards for the HR profession to which SHRM members agree to abide
- ❖ This code can be accessed on the SHRM Web site in the About SHRM section

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Ethics Training

- ❖ Ethics training in conjunction with the code and values statement is essential for employee understanding
- ❖ 66 percent of the respondents in our 2008 business ethics survey reported having ethics training programs
- ❖ Although ethics training is not mandatory under SOX provisions, it should be an ongoing process for employees

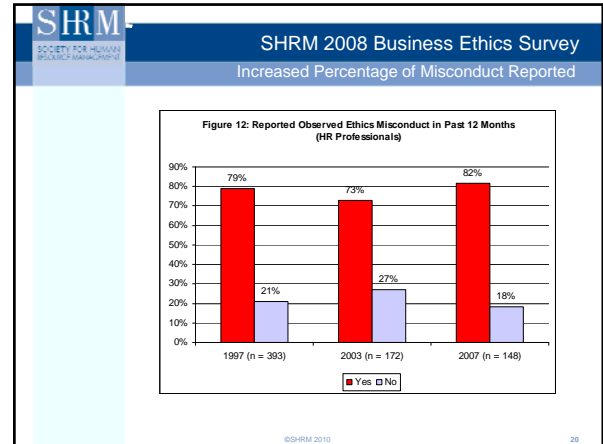
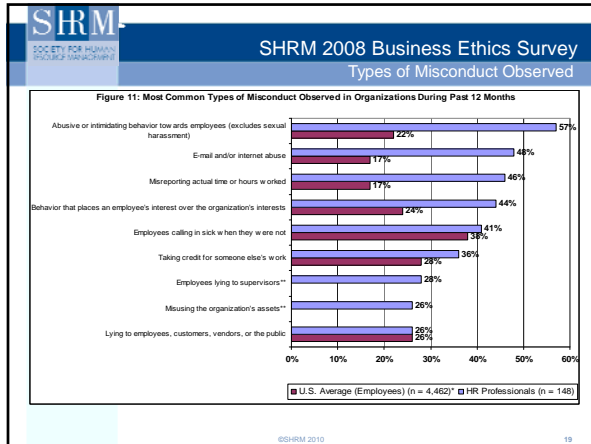
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Ethics Training

- ❖ Successful training may actually *increase* the number of reported ethical violations or incidents of noncompliance
- ❖ Organizations need to prepare for this and not misinterpret the results.
- ❖ It usually means that the ethics program is working, not that unethical behavior is increasing.

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- SHRM 2008 Business Ethics Survey**
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- Role of HR in Ethics**
- ❖ Many ethical situations are not clear-cut and require HR expertise to arrive at a workable solution.
 - ❖ Most HR professionals in our 2008 survey said their HR departments were a primary resource for ethics issues
 - ❖ Most also indicated involvement in formulating ethics policies to a moderate or large extent
 - ❖ Unfortunately, many others do not feel they are truly part of the ethics infrastructure, except to clean up the mess
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- SHRM 2008 Business Ethics Survey**
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- Chief Ethics & Compliance Officer**
- ❖ Many organizations are beginning to name CECOs with specific responsibility for ethics and compliance
 - ❖ At some organizations, the senior HR executive has taken on this added role
 - ❖ To be effective, a CECO must have sufficient authority and ideally should report to or be a member of the C-suite
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- SHRM 2008 Business Ethics Survey**
SHRM Oct, 2010, Ethics Officers Poll
- Chief Ethics Officers**
-
- Nearly 50% of organizations in a recent SHRM poll have ethics compliance officers
 - 44% of organizations polled said their ethics officer reports to their top executive officer
 - At 42% of the organizations polled, HR topped the list of departments where ethics officers work
 - There is still no solid evidence that the number of organizations with an ethics officer is increasing
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2009 PricewaterhouseCoopers Crime Survey

"Internal controls are not sufficient. Rather, it is the ethical corporate culture that plays a key role in deterring fraud, with companies that have ethical policies and compliance programs reporting fewer economic crimes."

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Case Study – Cisco Systems



In 2007, Cisco decided to rewrite its code of conduct and wanted a new ethics training tool

To accomplish this, it partnered with The Network, a San Diego-based IT company


The new user-friendly code of conduct rolled out in 2008 and was well received by Cisco's 65,000 employees worldwide

It also received an "A" rating by *Ethisphere* Magazine and was featured in CRO Magazine's 2008 "100 Best Corporate Citizens"

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Case Study – Cisco Systems



In conjunction with its new code of conduct, Cisco launched "Ethics Idol," an online cartoon parody of "American Idol."

The educational flash module on Cisco's intranet engages employees in making decisions about ethical situations.

"Ethics Idol' has helped raise awareness among Cisco employees that ethical dilemmas are not always cut and dry.

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Business Ethics and CSR

- ❖ Ethics and good governance are important elements of corporate social responsibility and business sustainability
- ❖ CSR also includes corporate concern for the environment and for community needs
- ❖ Fortune 500 companies like Cisco value their reputations as good corporate citizens since it helps their stock prices
- ❖ The rise of CSR to become a strategic business objective has helped raise the profile of business ethics

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Look to SHRM for Support



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SHRM Business Ethics Resource
4th Quarter 2009 Research Quarterly




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"I have my principals, and if you don't like them, I have others"
-- Groucho Marx

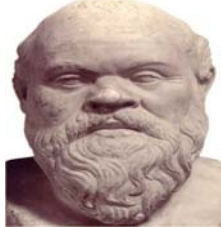


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"Not a life, but a good life, is to be chiefly valued"
-- Socrates



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Thank You

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