



Compliance: first step to organisational ethics

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There is no doubt that employers need to carry out compliance training and ensure staff know what kinds of behaviour are unacceptable in the workplace. This is evidenced in at least two ways: employers themselves continue to breach legislative and regulatory standards, and employers faced with employees who breach these standards need to be able to deal with the situation appropriately. But a compliance strategy without an ethical perspective is still of limited value.

Compliance training is being heralded as the next issue to rise to the top of the executive agenda. Recent years have seen the emphasis given to the overriding need to be competitive and to produce ever-increasing profits, driven by the short-term vision of the stock market. But in Australia and overseas we have now seen how this unbridled management mentality can spiral out of control, jettisoning any sense of prudence, morality or concern for people.

In the wake of a host of spectacular corporate collapses such as HIH and One Tel in Australia, and Enron and Arthur Andersen in the US, this renewed concern for ethical standards has highlighted the importance of compliance measures in organisations. Compliance is applicable across a wide range of corporate and employee conduct. Organisations are subject to laws and regulation in areas as diverse as trade practices, accounting standards, occupational health and safety, environmental standards, equal employment opportunity, sexual harassment, industrial relations and privacy, as well as legislation that affects their specific industry, like financial services.

From compliance to ethics

However, whilst a heightened awareness of compliance is understandable, many senior executives and management commentators are coming around to the view that compliance measures must be accompanied by efforts to foster and enhance the organisation's ethics. According to this perspective, just focusing on compliance can create a mindset where employees ask, "what is the least I have to do to comply?" This approach can have two results:

- organisations are still likely to make decisions that fall foul of the law, because they misjudged the situation, and
- organisations are still likely to act unethically, even when they manage to stay on the right side of the law.

The appropriate metaphor for this approach is the archer who fails to reach the target because he/she aims too low. The message is simple: if you want employees to always abide by the law, you have to aim higher – employees have to actually seek to do the right thing.

One of the great ironies of Enron's collapse was that it had a large and well-funded compliance department: 150 staff and \$US30 million a year as a budget. Professor Fred Talbot of Vanderbilt University's Owen School of Business Management in Nashville, says that until recently, compliance officers in companies had a low-key role, mainly check-listing things internally. In the wake of Enron, their role "was going to be the key to companies retaining the all-important trust of investors".

Talbot said that if companies are to get the trust of shareholders or employees, "they have to be open, above-board, transparent and easy to understand". These qualities cast organisations into the arena of the ethical. The inference is clear: if organisations do not cultivate ethical values such as openness, then they will be regarded as investment risks.

The links between compliance and ethics are demonstrated by Pitney Bowes, a global provider of mail and document management services. It was awarded the American Business Ethics Award in January 2003 by the Society of Financial Service Professionals. Significantly, its compliance office is titled Corporate Compliance and Integrity Affairs, and its Chief Officer, John Walker, says that strong leadership commitment to business ethics has served as the backbone of the company's corporate and ethics compliance programs.

Walker said their executive officers "continue to set an example of sound business practices through their words and actions, and work together with employees to bring these ethical principles to life". Pitney Bowes has long had a code of ethical conduct, and has applied this broadly within the company, to business practices, diversity and community relations.

The compliance and ethics program has the twin aims of (1) ensuring compliance with company policies and the law, and (2) promoting ethical business conduct. All 35,000 employees worldwide are trained in the company's business practice guidelines, and the company also provides a 24-hour Ethics Help Line, where employees can clarify issues and raise concerns.

Training in ethics

The connections between business ethics and compliance are also reflected in companies which produce training programs on compliance. For example, Midi Inc, based in Princeton, New Jersey, produces multimedia and online programs on compliance, under the label "Eye on Integrity". It has instituted the role of Compliance and Ethics Training Advisor, appointing Jeffrey Kaplan to the position.

Kaplan is Adjunct Professor of Markets, Ethics and Law at New York University. His view of the role is that "effective compliance training is critical to helping companies avoid the devastating economic and reputational consequences that, increasingly, are triggered by unlawful and unethical corporate behaviour." The ethical aspect of training is essential "for ensuring that employees will remember to do the right thing in those key moments of pressure or temptation that can make or break a company".

In implementing compliance programs, companies are faced with a number of conflicting pressures:

- they need, above all, to ensure compliance, whether the issue is financial, deception of customers, or about employee relations;
- they need to do so in a cost-effective way; and
- they need to ensure, not just that employees have the knowledge they need to comply, but also that employees have the commitment to do so.

Numerous studies have shown that training programs which purely focus on compliance do not have much of a positive effect on either compliance or business ethics. Professor Lynn Sharp Paine from Harvard Business School made the distinction in the mid-1990s between training programs that focused on enforcing rules, and those that had a positive, educational message about ethics at work. She maintains that programs which promote positive ethical values, supported by management example, are far more effective than the punitive approach.

Paine, in a recent book, *Value Shift*, reports that an estimated 80% to 90% of America's large and midsize corporations have adopted written ethics guidelines. Over half the *Fortune* 100 have appointed ethics or compliance officials. She argues that values and ethics should and do play an integral role in successful corporations.

The scramble for compliance training may be an understandable reaction by executives to the collapse of high profile corporations. The conduct of companies generally is under increased scrutiny. But Paine's point is that managers must rethink their approach much more fundamentally. They must accept that it is no longer enough for companies to create wealth and produce needed goods and services. They are also expected to behave responsibly, adhere to basic moral principles, and manage their own values and commitments.

Bringing ethics to life

There is no escape from the demands of compliance. That much is beyond debate. So it is at least necessary for organisations to make sure their employees know what they must do and must not do, and what standards they must comply with. To meet these demands, organisations need compliance training programs which are grounded firmly in a knowledge of legislation.

It is similarly obvious that if compliance training is to be effective, it must be complemented by codes of conduct and systems and procedures. But although programs, systems and structures are necessary, they will still be ineffective unless, as at Pitney Bowes, managers are committed to ethical values, and "work together with employees to bring these ethical principles to life".

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