HOW TO BUILD AN EFFECTIVE ETHICS PROGRAM
V. IMPLEMENT THE ETHICS POLICY

Even though an organization might have a carefully crafted ethics policy that every employee is required to sign, the policy will not be effective if it just sits on a shelf and is never discussed. Failing to discuss and continuously monitor the ethics policy is a common mistake companies make that can have devastating consequences. In Chapter Five, you will learn how to implement the ethics policy you learned to write in Chapter Four.

Hire Ethical People
A successful ethics program begins at the hiring process. When an internal fraud happens at a company, people often wonder how that person was hired in the first place. Hiring just one person with an unethical value system can corrupt an organization. Depending on how much power that person has, he might have the ability to commit a fraud that the company can never recover from. Furthermore, he might be able to influence other employees to behave unethically or bully subordinates into making poor choices.

Efforts to maximize ethical behavior and minimize unethical behavior must start from the hiring process. Some companies focus exclusively on technical skills and educational background and pay little or no attention to personal ethics. Organizations should implement a holistic hiring approach that targets employees who meet four criteria:

- Experience
- Intellect
- Energy
- Ethics

Job Screen Process
An organization should have an established procedure for recruiting and hiring new employees. This chapter provides a seven-step ethics job screen process to ensure due diligence is performed when bringing new people into the company.

Step 1: Legal Ground Rules
Be mindful of the federal and state laws that govern the hiring process. Companies must compile information in a way that does not discriminate against job candidates based on race, religion, gender, nationality, age, or disability. By respecting the law, your company will exemplify good ethics.
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**Step 2: Fact-Check the Resume**
While resumes contain valuable information about a candidate, they also frequently contain factual errors. ADP Screening and Selection Services found that 44 percent of resumes they reviewed had lies about work histories and 23 percent had fabricated licenses or credentials. The Liars Index tracks false education claims on resumes received by executive recruiting firm Jude M. Werra & Associates. The Index found that in the second half of 2011, over 27 percent of resumes received were misrepresented. It is vital to fact-check a candidate’s resume. If they are willing to lie in the application process, they are likely to commit an ethics infraction at some point down the line.

**Step 3: Check References**
The most important information an employer can receive is the previous supervisor’s perspective of the job candidate’s strengths and weaknesses. If the previous supervisor is not listed among the candidate’s references, ask why that person was not listed. Ask the supervisor if they would hire the candidate again. If they respond favorably, that might be all the reference screening that needs to be done. If they hesitate or refuses to answer, that too is valuable information.

**Step 4: Background Check**
The type of background check a hiring manager needs to conduct depends on the position and organization. An informal background check via Google, Facebook, and a few phone calls to verify previous employment might be sufficient. More formal background checks include credit checks, criminal records, motor vehicle reports, and Social Security verification. There have been cases where a person who commits fraud at a company had actually been convicted of fraud in the past. If the hiring manager had simply run a criminal background check during the hiring process, he would have learned of the previous offense and avoided hiring the fraudster in the first place.

**Step 5: Assess Personality Traits**
According to the International Personality Item Pool, conscientiousness is the best predictor of ethics and job performance. Individuals who behave ethically also tend to be responsible, dependable, and hardworking. Ask references about a candidate’s conscientiousness. Be wary of anyone with a predisposition to bullying. Enron’s Jeff Skilling had a reputation for bullying subordinates, auditors, and government regulators. If possible, contact former subordinates and get their feedback on the candidate’s management style and how well he works with other people.

**Step 6: Interview**
If an applicant has passed the initial screening process without raising any serious red flags, invite them to interview. Carefully plan the interview questions you would like to ask beforehand. The questions you ask depend on the function of your organization. Some examples of good interview questions include:
- How have you handled an ethical dilemma in the past?
• Have you been asked by a supervisor to do something unethical?
• Have you observed an employee or customer stealing? How did you respond?

**Step 7: Drug and Alcohol Tests**
Where appropriate, conduct drug and alcohol tests as a final assessment of the candidate’s integrity. Research shows that drug and alcohol abuse negatively impacts workplace productivity, safety, and morale. Clearly, the importance of these tests depends on your organization’s industry and the applicant’s potential position. If someone is applying for a job on an oil rig and appears to be a heavy drinker, this is serious cause for concern. People with drug and alcohol dependencies are also more likely to steal from their employer to pay for their habits and be absent from work often.

It is critical to perform due diligence during the hiring process to ensure you are hiring someone with integrity, a positive work history, and no criminal record. The best measures of ethics include:
• The veracity of résumé information
• Reviews from previous supervisors, coworkers, and subordinates
• Interview questions that explore previous ethical dilemmas at work

A strict hiring process demonstrates to job candidates and employees that the organization has a firm commitment to ethics.

**Tone at the Top**
As stressed in Chapter Four, people are strongly influenced by the actions of their leaders. It is critical that managers understand how they are viewed by their subordinates. It is also critical for managers to understand that if they set high standards, foster clear communications, and act as role models, they will have the power to create an ethical environment. The idea that managers influence the behavior of staff is commonly referred to as *tone at the top*.

A poor tone at the top was cited as the catalyst for 9 percent of all the fraud cases examined in the 2012 *Report to the Nations*. Furthermore, it was considered the key factor in 18 percent of frauds that resulted in a loss of at least $1 million.

The primary goal of a management-specific ethics policy is to establish a good tone at the top. Management must be aware of how their actions and communications can have a profound impact on the behavior of everyone in the company. While a formal ethics program is important, it must promote positive informal communications.
Implement the Ethics Policy

For instance, an organization might say personal use of company printers is forbidden, but if an employee sees his manager printing out personal party invitations, then the manager has just superseded the ethics policy.

**MCI WORLDCOM EXAMPLE**

Convicted fraudster Walt Pavlo was a senior manager in billing collections at MCI WorldCom. He dealt with customer payments, credits, and reconciliations of accounts. Upper management described revenue projections and pressured employees to meet or exceed these projections. As Pavlo watched his bosses manipulate the organization’s financial records, he started to do the same. His supervisors taught him how to conceal uncollectible debt, which boosted the company’s assets and profits. Pavlo’s employees then followed his fraudulent example.

**Video**

In this video titled “Chapter V: Leading by Example” Walt Pavlo stresses the importance of leaders setting a good example for their subordinates. (Go to acfevideo.vzaar.me/1207565 to view the video.)

**Trickle-Down Ethics**

Tone at the top is ubiquitous in corporate ethics discussion. Whatever tone management sets should have a trickle-down effect on employees of the company. If the tone set by management upholds ethics and integrity, employees will be more inclined to uphold those same values. However, if upper management appears unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud because they feel that ethical conduct is not a priority within the organization.

**Influencing Subordinates**

When implementing a management-specific ethics code, be careful that it applies to anyone who has a significant supervisory role within the company. Discussion of tone at the top too often ignores important members of an organization who might have a lot of power but are not in the executive suite.

For instance, a management-specific code should not ignore the accounts payable supervisor who oversees several accounts payable clerks. He is in a good position to perpetrate a fraudulent disbursements scheme.
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**Video**

In this video titled “Chapter V: Tone, Mood, and Buzz” Eric Feldman describes the concepts he refers to as tone at the top, mood in the middle, and buzz at the bottom—the idea that anyone in the organization can influence the actions of others. (Go to acfevideo.vzaar.me/1207564 to view the video.)

**Communication**

Management needs to facilitate open communication with staff. An “open-door policy” makes employees comfortable approaching management with questions, concerns, or ethical dilemmas. If employees are uncomfortable talking to management, they might be hesitant to report instances of wrongdoing. Alternatively, if employees do not feel as though management cares about their concerns, they might feel resentment and be able to rationalize committing fraud.

**Conduct Effective Training**

People are more likely to discuss work-related ethical issues with friends and family than they are with coworkers. Formal ethics training, however, initiates dialogue at work around contentious ethical issues and has greater impact on employee behaviors than simply the existence of an ethics code or a memo from management. Ethics training fosters a culture of trust. People employed in organizations with formalized ethics training tend to have more positive perceptions about their organization’s ethics and greater job satisfaction.

**Make Training a Priority**

Since ethics programs and training do not have tangible results, organizations are often tempted to eliminate them as a superfluous expense when budgets are tight. This is a big mistake. Fraud is more likely to be committed when money is tight. This is when ethics training is most essential. Bear in mind that cutting ethical corners to save money might seem heroic in the short term, but can be devastating to the organization in the long term.

**Teach the Policy**

After you have composed ethics and whistleblower policies, you must implement these policies with an engaging training program. An ethics policy will be ineffective if it simply sits on a shelf. It must be presented to employees in a relatable manner via roundtable discussions, examples of ethical dilemmas, and illustrations of how to navigate the ethical decision-making process (presented in the next section).
Ten Tips for Ethics Training

The Corporate Executive Board recommends the following ten practical tips on how to create an effective and engaging ethics training program.6

1. Do not drown employees in details.
2. Focus training disproportionately on management.
3. Make training interactive. Ask questions to facilitate discussion.
4. Keep training modules short to hold employees’ attention.
5. Use a variety of media types (e.g., live seminars, webcasts, etc.).
6. Use simple “dos and don’ts” lists. Be unambiguous and directive.
7. Employ engaging gimmicks such as quizzes, games, or skits.
8. Personalize the ethics code to the company. For instance, use the company’s name and logo in the presentation.
9. Have managers conduct the training whenever possible.
10. Tell stories of employee misconduct that occurred at the company and how it was handled.

Personalized Training

There is no single best way to train employees in ethics at an organization. If you are part of a smaller organization, take advantage of close-knit relationships and make an effort to conduct frequent and personal ethics trainings. At a large company, divisional managers should be trained by the ethics and compliance department about how to teach the policy to their employees.

Regardless of the organization’s size, training is most effective when it is taught live, by managers, in small groups. If possible, avoid lecturing in a large auditorium or conducting training via a webcast.

Video

In this video titled “Chapter V: Personalized Training” Eric Feldman emphasizes the importance of face-to-face training when implementing an ethics policy. (Go to acfevideo.vzaar.me/1207569 to view the video.)

E-Learning

A survey conducted by The Conference Board found that companies conduct more than 90 percent of their ethics training through web-based programs.7 Although these programs are easy and efficient, they are largely ineffective. An e-learning ethics program should supplement, rather than replace, a facilitator-guided instruction and group activities. Ethics training requires dialogue, analysis, and discussion.

7 Ibid.
**Executive Training**
One of the ten practical training tips is to focus training disproportionately on executives and the board. Keep in mind that executives have the power to commit the most devastating frauds. Executive-specific training is important, especially if you have an executive-specific ethics code as recommended.

**Middle Manager Training**
Middle managers deserve special attention when it comes to ethics training. They are stuck in a difficult position: Middle managers are responsible for implementing the orders of corporate executives on a day-to-day basis, yet they are fully aware of the organization’s limited resources. They must reach the goals set by executive management while keeping their subordinates in line.

**Tailor the Training**
In addition to conducting management-specific training, perform department-specific training. Have department leaders conduct ethics training tailored to their department’s functions. This means specifically addressing ethical issues you might find in accounting, human resources, marketing, and so on.

**Provide Examples**
Simply telling your employees to conduct themselves with honesty and integrity is not very useful. Instead, endeavor to make policies actionable. Use discussion-based situational examples, such as:

> Suppose your manager tells you to recognize revenue a bit early on the books in order to meet company goals. The sale has been made, but the revenue has not been earned so it should still be on the books as a liability. You are confident the revenue will be earned next week, but the financial statements are due right now. What do you do?

**Video**
Listen to this video titled “Chapter V: Provide Examples” as Deanna Sullivan talks about the importance of providing discussion-based, real-life examples during ethics training to make the training interactive and relatable. (Go to acfevideo.vzaar.me/1207568 to view the video.)

**Ethics Workshops**
The following will list a variety of ethics training workshop options. Consider using some or all of these ideas for ethics training programs throughout the year at your organization. These workshops are designed to make the ethics program actionable, applicable, interactive, and discussion-driven.
Implement the Ethics Policy

CODE OF ETHICS ASSESSMENT
Review the ethics code. Have employees assess how well the organization is living up to the code, praise areas of strength, and develop strategies to improve weaker areas. Discuss whether any provisions of the code need to be added, removed, or revised.

CODE OF CONDUCT VIOLATIONS AND OUTCOMES
Present actual cases of employees, customers, vendors, or competitors violating a code of conduct, and the punishments they received. Employees need to see that violations of the ethics policy are taken seriously and that if they report a violation, it will be handled by those charged with governance.

APPLYING THE ETHICS DECISION-MAKING PROCESS
Teach participants the six steps of the ethical decision-making process (presented in the next chapter). Provide several real-life situations and have them use the process to derive a moral solution to the situation.

APPLYING THE CODE TO A SPECIFIC SITUATION
Ethical codes are often difficult for employees to apply to real life. Often, an employee might not realize that he is faced with an ethical dilemma because he fails to consider the long-term implications of his actions. Conduct a workshop in which you provide several real-life situations and have participants determine whether the behavior is in accordance with, or violates, the ethics code.

PERSONALITY ANALYSIS
Administer surveys that measure character attributes associated with ethical or unethical behavior, such as conscientiousness, organizational citizenship behavior, social dominance orientation, locus of control, and individualism/collectivism. This will get employees to think about their inherent tendencies to behave ethically or unethically.

IDEAL EMPLOYEE
Develop a profile of an “ideal employee.” Individuals, especially lower-level employees, like to have a role model to emulate. Put the ideal employee’s profile into a survey format and have employees assess themselves to this ideal. This will allow the employees to praise their strong points, analyze shortcomings, and develop strategies for transforming weaknesses into strengths.
Making an Ethical Decision

In this section you will learn what ethics filters are and how to apply them to the six steps of the decision-making process. The decision-making process and complementary ethics filters were developed by the ERC.\textsuperscript{8}

By understanding how people make ethical decisions, you can more effectively train employees how to view their actions through an ethics filter.

Ethics Filters

Ethics filters separate ethical elements from the rest of a problem. Apply these filters to the steps in the decision-making process to ensure all ethical elements are considered. The ERC developed a mnemonic to make the filters easy to remember:

- Policies – Is it consistent with my organization’s policies?
- Legal – Is it acceptable under the applicable laws and regulations?
- Universal – Does it conform to the universal values of my company?
- Self – Does it satisfy my personal definition of right, good, and fair?

The Ethical Decision-Making Process

A code of ethics cannot cover every situation that might arise. Employees need to know how to independently derive a moral answer to ethical dilemmas. The following six steps of the ethical decision-making process should be presented to all employees during ethics training.

STEP 1: DEFINE THE PROBLEM

The most important step of the ethical decision-making process is to define the problem. Are you having difficulty making a decision, because the answer doesn’t seem obvious? Also ask yourself, does the existing situation violate any of the PLUS considerations?

STEP 2: IDENTIFY ALTERNATIVE SOLUTIONS

Brainstorm solutions to the problem. Do not limit yourself to obvious answers; you want to be open to new and better alternatives. You also want to avoid seeing “both sides of the situation.” Instead, try to view the problem as being multifaceted, with more than two potential solutions.

STEP 3: EVALUATE THE IDENTIFIED ALTERNATIVES

Evaluate each potential solution you recognized in the previous step and consider the positive and negative ramifications of following through with that solution. Do not expect to find a perfect

\textsuperscript{8} The Ethics Resource Center, “PLUS Decision Making Model” \url{www.ethics.org/resource/plus-decision-making-model}. 
alternative. Most importantly, consider the effect each alternative has on the various stakeholders involved.

Evaluate the ethical impact of the identified alternatives using the PLUS filters. Will the alternative you are considering resolve any PLUS violations?

**STEP 4: MAKE THE DECISION**
If the decision is yours alone, go ahead and make it after choosing the best alternative. However, if you are working in a team, you might want to draft a proposal. The proposal should include a clear definition of the problem, a list of the alternatives that were considered, and a rationale for the proposed solution.

**STEP 5: IMPLEMENT THE DECISION**
Deciding on the best alternative is not the same as doing it. A decision only counts once it is implemented.

**STEP 6: EVALUATE THE DECISION**
Every decision is intended to fix a problem. The final test of any decision is whether the problem was fixed. Is the situation better now, worse, or the same? What new problems did the solution create? Consider the PLUS filters when evaluating the decision. Does the resultant situation resolve the PLUS considerations from before? Are there any new PLUS considerations?

**The PLUS Model**
The PLUS filters work as an integral part of steps 1, 3, and 6 of the decision-making process. By applying the four PLUS filters, you can determine if the ethical components of the decision are being considered.

PLUS filters do not guarantee an ethical decision will be made. They are intended to ensure that the ethical components will surface. Ultimately, whether or not the decision meets the ethical standards of the organization or the individual decision maker is a matter of personal responsibility. Ethics are about choices.

**JOB AID CARD**
During ethics training, the ERC recommends providing every employee with a wallet-sized laminated “job aid” card that they can keep with them as a reference. These cards should define the four PLUS ethics filters on one side and summarize the six-step decision-making process on the other.