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Ethics Counts

Ethics and Workplace Productivity

By Megan Gaillard and Melinda J. DeCorte

Does workplace productivity increase when an organization dedicates resources to developing and prioritizing an ethics program?

As members of the AGA's Professional Ethics Board, our automatic response to this question is: "Yes, of course, it does." However, instinct is likely not enough to convince organizational leaders to spend scarce assets on enhanced ethics programs. Organizational decision-makers need confidence that a high benefit-to-cost ratio is possible before making these investments. It is difficult to show that every dollar spent on improved ethics yields a dollar-times-X productivity improvement. Nevertheless, the productivity costs of *not* establishing and adhering to a strong code of ethical conduct are often — and painfully — easier to measure.

In our search for empirical evidence to support our hypothesis that better ethics means better productivity, we reviewed studies published by the Ethics & Compliance (E&C) Initiative (ECI), a provider of independent research about workplace integrity, ethical standards, and compliance processes and practices in public and private institutions. ECI's research includes the National Business Ethics Survey[®] of workplace conduct in the United States and the Global Business Ethics Survey[®] of workplaces in leading world economies. In ECI's words, an E&C program exists to:¹

- Ensure and sustain integrity in the organization's performance and its reputation as a responsible business.²
- Reduce the risk of wrongdoing by parties employed by or aligned with the organization.
- Increase the likelihood that, when it occurs, wrongdoing will be made known to management within the organization.
- Increase the likelihood that the organization will responsibly handle suspected and substantiated wrongdoing.
- Mitigate penalties imposed by regulatory and governmental authorities for violations, if they occur.

ECI distinguishes between a *minimum* standard E&C program and a *high-quality* E&C program. When organizations expect their E&C programs to achieve a purpose beyond compliance with legal and regulatory requirements, they embrace the following five principles of a high-quality E&C program:

1. E&C are central to business strategy.
2. E&C risks are identified, owned, managed and mitigated.
3. Leaders at all levels of the organization build and sustain a culture of integrity.
4. The organization encourages, protects and values reporting concerns and suspected wrongdoing.

5. The organization takes action and holds itself accountable when wrongdoing occurs.

While some organizations may view their E&C programs primarily as a means to mitigate the risk of legal and regulatory noncompliance (i.e., a *minimum* standard E&C program), organizations that incorporate the principles of a *high-quality* E&C program can yield a measurable return on their investment. These organizations view ethics as their culture. Their E&C programs focus beyond compliance to also emphasize ethical decision-making.

The ECI Global Business Ethics Survey report, published in June 2018 and entitled "Measuring the Impact of Ethics and Compliance Programs," explored the impact of E&C programs on the workplace and whether it makes any difference for an organization to prioritize and dedicate more resources to them. The study queried employees about their organizations' E&C programs and their quality, if they existed. The results show improving E&C program quality does make a positive impact on organizations.

The study found that an organization with even a *minimum* standard E&C program will benefit. One reason is that employees are more likely to perceive they work in an organization with a stronger culture. As a result, they are more willing to report wrongdoing when it occurs. However, in organizations with elements of a *high-quality* E&C program,

favorable ethics outcomes are measurably increased. According to this report:

- When employees were encouraged to base decision-making on organizational values and standards, favorable ethics outcomes multiplied 11 times.
- When employees felt their supervisors would hold them accountable for wrongdoing, favorable ethics outcomes multiplied 12 times.
- When employees felt encouraged to speak up, even with bad news, favorable ethics outcomes multiplied 14 times.

It is important to explore the meaning of “unfavorable ethics outcomes.” Behavior by individuals within an organization, whether employees, managers or senior leaders, that violates a provision of law, regulation, policy or procedure is both unethical and unlawful or noncompliant. Other behaviors that are not unlawful or noncompliant also may be considered unethical, such as taking credit for others’ work, taking shortcuts that lead to poor work products, misusing company time, misleading colleagues, and failing to honor commitments. Organizations with a weak ethical culture may be more susceptible to such practices.

It is equally important to state what is meant by “productivity in the workplace.” In a governmental organization, productivity is measured by efficiency and effectiveness in converting its

income, generally taxes, into the provision of desired levels of service to constituents, such as clean water, public safety, road maintenance, parks and recreation, and trash collection. Less efficient government organizations may not use tax revenues effectively to provide desired levels of service.

The ECI study does not cite productivity statistics. Rather, it addresses ethics outcomes measured by examining positive changes in employees’ perceptions, actions and behaviors and how they align with the principles of a high-quality E&C program. This, however, begs the question: do favorable ethics outcomes help increase productivity?

We believe they do. Key aspects of a high-quality E&C program include employees’ perception that they work in an organization with a strong ethical culture and then base their decision-making on the organization’s values. This kind of decision-making, in turn, increases productivity. For example, an organization in which E&C is central to business strategy (Principle 1) avoids risks of unethical behavior and consequences of non-compliant actions. As a result, resources that do not need to be directed toward investigating and punishing unethical behavior or defending non-compliance can, instead, be applied to maximizing productivity.

Another example is an organization that does not manage and mitigate its ethics risks (Principle 2), thereby



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tolerating unethical behavior. This organization suffers from employees who are distracted, unable to focus on their assigned tasks and/or work effectively with employees who commit unethical deeds. In addition to reduced productivity brought on by the distractions, the organization may face the resignations of employees who believe it lacks a strong ethical culture. Employee turnover further reduces productivity as the organization seeks qualified replacements and incurs costs for recruitment, hiring and training. The organization may also find it difficult to attract and retain qualified employees, which further reduces productivity.

Employees who believe their organization built and sustains a culture of integrity (Principle 3) may be less likely to abuse privileges, such as flexible and telework policies or sick days and time off. These employees may also be less likely to overstate hours worked on a task, take extended lunch and coffee breaks, or to need less day-to-day general management oversight in order to accomplish their assigned duties. Likewise, employees who believe their supervisors will take seriously reports of concerns or wrongdoings (Principle 4) may be more likely to report their concerns about or knowledge of unethical behavior. This culture may help supervisors stop unethical behavior early in its development, before it causes further detriment to the organization's productivity.

Employees who believe their supervisors will hold them accountable (Principle 5) may be more likely to meet established deadlines and expectations for work products, resulting in less rework and potentially higher quality products. As an extreme example, envision an employee who spends most of her time surfing the internet and chatting on the phone or with coworkers. In order to meet demand, the organization hires an additional employee to do the work she does not complete. The new hire initially finishes his assigned tasks, but then realizes the original employee is not doing her assigned tasks and modifies his behavior to match hers. The organization now has two employees underproducing what should be done by one.

As stated earlier, the productivity costs of *not* establishing and adhering to a strong code of ethical conduct are often — and painfully — easy to measure. About 16 years ago, one of our colleagues was asked to help an organization develop a code of conduct. Our colleague performed substantial research to identify the attributes of a strong code of conduct and then searched for an existing code containing these attributes. This colleague finally found the best one in existence at the time — the Enron Corporation's Code of Conduct. More than 60 pages long, Enron's code was very well written and contained every desired attribute. It was, and still is, a good model. However, as most people know, this impressive code was neither embraced nor followed by Enron's senior leaders, who signaled everyone else in the corporation that the code was irrelevant and, like Pied Pipers, led Enron into scandal — fraud, conspiracy, bankruptcy, convictions and prison terms. In less than two months, an ethics counterculture caused productivity in one of the world's largest companies to drop to zero.

Each government entity must create and maintain its own set of ethical standards above and beyond that which is legally required for that entity. Creating ethical standards is easy; simply cut and paste an admired entity's goals, policies and procedures to fashion a pretty code of conduct. *Maintaining* ethical standards is far more difficult. It requires hiring only employees who are willing to accept and abide by that entity's ethical

standards, training those employees to properly conduct themselves in accordance with the ethical standards, and strictly enforcing the standards by disciplining employees who violate them, up to and including termination of employment. As the Enron debacle illustrates, a code of ethical behavior is only as good as the commitment of the organization's leaders to ensure it is, in fact, a guiding doctrine. ■

Endnotes

1. Ethics & Compliance Certification Institute. "Principles and Practices of High-Quality E&C Programs," 2016.

2. The term "business" refers to the day to day operations of an organization, including a government entity.



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