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HR is Poised to Promote Corporate Values

Enron. Adelphia. WorldCom. Think about what could charitably be characterized as an ethics-challenged company, and then consider how HR leaders can play a pivotal role in promoting and implementing corporate ethics - and give their company a competitive advantage.

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In *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance*, Harvard Business School professor **Lynn Sharp Paine** argues that the corporation is not a legal fiction designed only with an economic purpose; it's also a social entity with responsibilities and moral attributes, as she explains in the following interview with *Workforce Insights*.

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WI: What constitutes corporate ethics? Have corporations reached a consensus as to what this term means?

LSP: Not yet. And that's the problem. Some people think ethics is about wrongdoing. Others think of it as honesty and fair dealing. Still others focus on harms and benefits - especially harms to health, safety, or the environment. Yet another group thinks about ethics in terms of philanthropy or charitable contributions.

In my book, I try to show that these are all facets of the same thing. Fundamentally, ethics is about acting responsibly in everything you do. We see a lot of companies taking a piecemeal approach. They have a whole slew of programs - on diversity, compliance, stakeholder engagement, safety, privacy, and so on. Essentially, they are trying to graft ethics onto the organization through these stand-alone programs. But all this bureaucracy makes life complicated. A simpler approach is to weave ethics into the organization's normal activities - its management processes, its decision-making, its performance management systems.

WI: What is the role of human resources leaders with regard to the ethical dimension?

LSP: HR has three roles to play: an organizational role, a functional role and a decision-making role.

Every organization has to decide what ethical stance it's going to take - a compliance orientation, a fair-dealing orientation, a good citizen orientation. HR is in a very good position to promote and engage this debate. As a member of the organization's leadership team, the head of HR can get this topic on the team's agenda and help others understand what the issues are and why they are important.

At the functional level, HR is responsible for recruiting and developing people. Here, HR has a role in ensuring that people have the competencies they need to integrate ethics into the organization's day-to-day activities. Are people educated about the ethical and legal standards the organization is expected to meet? Do they know how to make decisions that integrate ethical considerations? Do they have the courage to make tough decisions in the face of adversity? Of course, HR also plays a role in setting criteria for hiring and advancement. In that capacity, HR ensures a basic "fit" between the values of the organization and those of its people.

In addition, reward systems are very crucial to corporate ethics. HR has a role in making sure they are aligned with the ethical standards of the company. For example, the compensation system should encourage positive, productive behavior. This is one area where we've seen a great deal of misalignment between the behavior management says it wants, versus what it's actually promoting. That's an area in which HR can speak out and make sure people have thought about the basis of the compensation arrangements.

WI: Can you provide an example?

LSP: One example I cite in my book is **Sears Auto Centers**. Sears introduced a new

pay system to encourage its service advisors and auto workers to be more productive. But the system focused only on sales targets and throughput goals. It ignored issues of quality and ethics. The result: Some people cut ethical corners to achieve their goals. This is not uncommon.

Think about **Enron** and the recent accounting scandals at many other companies. The designers of pay systems need to make sure that goals are realistic and that their full impact on behavior has been considered. Given what we know about human behavior, you can't assume that ethics will take care of itself. All people are fallible and it's very easy to make the wrong call, especially when you're under pressure.

WI: And the third role?

LSP: The third role for HR is in bringing an ethical perspective to bear in day-to-day decision-making. That could mean decisions on anything from policy positions, such as introducing or modifying the pension system, to the specifics of dealing with a "problem employee."

Really, everything HR does - from benefits to restructuring to firing to disciplinary procedures to performance appraisals - has some kind of ethical dimension to it.

WI: Can HR drive these initiatives?

LSP: Ultimately the chief ethics officer of any organization is the CEO. If the CEO isn't on board, it's very hard for HR or anybody to be the driver.

But that's not a reason for HR to give up or be complacent. Eventually, for most executives, the day arrives when they wake up to the importance of ethics. As I mention in my book, it may happen suddenly because of a scandal in the company or the industry. Or, it may happen gradually for more subtle reasons. In any event, HR can be a critical force in driving this realization and readying the organization by engaging the debate; developing educational programs; or bringing an ethical perspective to bear in their functional activities. In all these ways, HR can be a force for positive change even without the CEO's support.

So, I am not saying that HR just has to wait for the CEO to "get it." But HR should have modest expectations about how much it can do without that buy-in.

WI: You've noted that, in the aftermath of corporate wrongdoing, economists ask about cause and effect, while philosophers are drawn to questions about human decisions, motivations values and beliefs... Are you suggesting that HR leaders become more philosophical in their outlook or approach? Or do they already tend to take on the role of corporate philosopher?

LSP: My key message is that everyone needs to be both an economist and a philosopher. Being able to look at your decisions through an ethical lens, which is fundamentally about human well-being, is important. But it's also important to look through a financial lens. You can be a more effective spokesperson for the humanist lens if you're conversant in the language of economics. And vice versa.

If you can see and understand the arguments made on the other side, you can integrate the two perspectives and address issues at a higher level. You'll also have more power to influence others if you speak both languages. And you'll probably be more creative, since the highest creativity usually resides at the intersection of different ways of thinking.

WI: What metrics are emerging for measuring and tracking ethical performance?

LSP: I've seen three kinds that organizations are experimenting with. There are audit-based metrics, which typically measure failure rates or track misconduct. There are also performance-based metrics derived from the company's ethical standards. For instance, a company might set goals related to its diversity or environmental standards and then measure performance against those.

And last, there are perception-based metrics. A company surveys employees or other stakeholders and asks, "How are we doing with regard to ethics?" That data is then collected and analyzed so that managers can correct problems or make improvements as appropriate.

WI: Are these metrics effective? And is there one that stands out as being better than the others?

LSP: They are all tricky, because you have to somehow correlate what you're measuring with whatever your ethical standards are. Depending on the standard, that can be difficult. For instance, virtually all companies say that honesty is a standard,

but it's hard, if not impossible, to construct a single, objective measure for honesty. I feel that some mix of the approaches is necessary.

WI: What is the bottom line for HR professionals when it comes to initiating and implementing a companywide value shift?

LSP: HR professionals are well-positioned to be promoters of this dialog, but it's hard to go it alone. I would encourage HR leaders to work with their colleagues in finance and other areas to build a shared vision for the company, one that recognizes multiple ways of seeing and understanding the world. I have found that the double-lens approach resonates with humanists and economists alike.

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