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[STAFF SMARTS] Well, Honestly!

ESTABLISHING ETHICS STANDARDS MAKES SENSE FOR YOUR BOTTOM LINE.

BY MARK
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FOR TINA Byles Williams, hiring ethical employees is doing the smart thing as much as doing the right thing. The pension funds and other institutions that pay her 10-year-old firm, FIS Group Inc., for investment advice and management naturally expect that none of her 16 employees will make off with their funds. They also expect no conflicts of interest or other improprieties—a matter brought into high relief three years ago when a former employee's activities made Williams consider measures to prevent unethical employee behavior.

Since the incident, the \$6 million company has re-examined its process for hiring, evaluating and retaining ethical employees. Williams, 45, now regards hiring ethical employees to be a core mission: "If part of what we're selling is trust, it's critical to hire people of integrity and high ethics."

Those people may be hard to find, according to the 2005 "National Business Ethics Survey." The report by the Ethics Resource Center found that 52 percent of employees had observed at least one type of misconduct in the workplace during the past year—but only 55 percent of them

reported it. Also, according to the nonprofit Washington, DC, research and education organization, the number of employees reporting misconduct fell by 10 percent from the prior survey in 2003.

Those findings should be of interest to entrepreneurs, according to Tom Hooyman, a Denver consultant on organizational ethics. When employees appropriate company property for personal use, for example, it comes straight out of profits, Hooyman notes. So replacing theft-minded employees with ethical ones saves you money. "Other benefits include improved productivity and increased retention," says Hooyman.

Start by deciding what ethical conduct means to you. Craft an ethics code and have new hires read it so they understand what you're about. During interviews, ask applicants ethics-minded questions. "Ask them to describe an ethical dilemma they have experienced or witnessed in the past 24 hours," Hooyman suggests. "Some people don't have any idea, and that's potentially a bad sign. It's saying their radar isn't tuned to what can be an ethical issue." Also, consider presenting applicants with real-world

ethical dilemmas and asking them what they would do.

Be sure to communicate your ethical standards to everyone in the organization. Have employees read and sign the ethics code before being hired, and annually thereafter. And consider ethics in annual evaluations and compensation reviews. "The assessment has to be tied to performance-based compensation," Hooyman says. Train ethics-impaired but otherwise valuable employees to make decisions that follow company standards.

Although hiring and training ethical employees adds little cost, it's not perfect. "There's no 100-percent-successful method," Williams notes. She pays for background checks on job applicants (see "Just Checking," at left), and notices how cheerfully employees complete reports on personal investments, which detect conflicts of interest. Says Williams, "I think people are fundamentally good. But you need to establish a framework of expectations and monitoring."

MARK HENRICKS writes on business and technology for leading publications and is author of Not Just a Living.