## BALDRIGE: Ethics—A Strategic Imperative

### Profits and Ethics—You Must Have Both

For any organization, large or small, public or private, ethics should mean going beyond profit or loss considerations, beyond simply distributing a code of conduct, to creating an organizational culture that values sound governance, transparency, integrity, and social responsibility. For U.S. companies, ethics has become a strategic imperative and a competitive or marketplace necessity.

Senior management is responsible for creating an environment in which employees’ decisions and actions and stakeholder interactions conform to the organization’s moral and professional principles. The Baldrige National Quality Program’s Criteria for Performance Excellence emphasize that responsibility for stewardship and ethical business practices starts at the top with an organization’s chief executive and governing body. Senior leaders must consider carefully how situations will be perceived by others, the possible long-term consequences of short-term thinking, and the long-term consequences of their strategic actions. Also, senior leaders must ensure their organizations’ missions and visions are aligned with ethical principles, and they personally should be role models for these principles.

In an age when organizational credibility and ethics are coming under increased scrutiny, senior leaders must build stakeholders’ and employees’ trust in the governance of their organizations and ensure legal compliance and ethical behavior.

### Medrad, Inc.: Maintaining an Ethical Workplace

“Regardless of role or region, all Medrad employees are responsible for promoting the integrity that has made Medrad a market leader,” says John P. Friel, President and CEO of Medrad, Inc., a medical device manufacturer and 2003 Baldrige Award recipient. “Ethical behavior also fosters a rewarding place to work.”

All employees must attend training on Medrad’s Code of Business Conduct. The Code formalizes the manufacturer’s commitment to ethical business practices and sends a consistent worldwide message to its employees and business partners. It also provides a framework for Medrad employees to better understand the importance of ethical decisions. An anonymous hotline allows employees to report behavior that they feel is not ethical, and a Compliance and Legal Ethics Advisory Board and Business Ethics Committee review issues and develop policies and programs.

Social responsibility is important to Medrad as well. During the Medrad Day of Caring, operations are suspended so employees can spend the day volunteering. Over 75 percent of employees spend the entire day doing whatever is needed at more than 30 local United Way agencies. According to Friel, “What we lose in work hours, we recoup with a renewed perspective about our jobs, our coworkers, and the impact each of us can make. The primary purpose of the event has always been to share our success with those in the community who need it, but the other benefits are undeniable.”

### Community Consolidated School District 15: Modeling Ethical Behavior

“Ethical practice in an educational organization is a top priority. Our primary constituents are children, and to meet the expectations of parents and the community, all our interactions with students, parents, and the community must be completely above reproach,” notes Dr. Robert McKenna, Superintendent of Community Consolidated School District 15, a 2003 Baldrige Award recipient in Palatine, Illinois. “We recognize that teachers and other staff members serve as intentional or unintentional role models, and their exemplary behavior reinforces our district’s commitment to teach ethical, responsible behavior.”

Expectations about ethical practices are made clear to new employees the first day on the job, when the superintendent and union officials discuss codes of conduct and ethical behavior. In addition, training, video programs, and other targeted forms of communication address ethical issues that may be confusing or that can lead to difficult legal issues, such as issues regarding Internet and e-mail usage.

For students, ethical behavior is taught and reinforced by the district’s Civic Beliefs Program. Across the district, these beliefs are incorporated into the curriculum and made an integral part of instruction. They are reinforced where possible through service learning activities such as student-directed food drives.
According to President Al Stubblefield, “Ethical behavior is the very core of who we are. Everything we do has its foundation in ethical behavior, beginning with our mission statement: To provide superior service based on Christian values to improve the quality of life for the people and communities served through our values of Vision, Integrity, Superior Service, Innovation, Teamwork, and Stewardship.”

Baptist Hospital, Inc. (BHI), a 2003 Baldrige Award recipient, has committed itself to improving the quality of life for the communities it serves. The hospital system provides a number of free health programs for the area’s poor and uninsured—6.7 percent of its total revenue goes to indigent patients, compared to 5.2 percent and 4 percent for its closest competitors. BHI outlines appropriate staff behaviors and ensures legal and ethical compliance to patient rights with its Code of Conduct. Patient confidentiality is safeguarded with the utmost sensitivity. For instance, employees working with patient information are required to position their computer screens so that the content can not be viewed by passersby. The organization’s Standards of Performance allow discussion of patient information only when necessary to meet the patient’s health needs.

BHI staff are expected to model ethical behavior. “Our ‘no excuses’ culture is very evident in our intolerance toward unethical behavior,” adds Stubblefield. “Our employees know that ethical behavior is a requirement if they want to remain a part of our team.”

“Ethics and governance are growing areas of our business,” says Rob Marchalonis, General Manager of Stoner, Inc., a chemical manufacturer with 43 employees and a 2003 Baldrige Award recipient. “Stoner employees take pride in the company’s ethical business culture,” he adds.

Stoner’s approach to sustaining ethical behavior includes addressing ethics-related issues in a team handbook; Stoner University classes on ethics; open-book management that allows for cross examination and questioning; incentives to “share the rewards of the company,” which promote more “buy in” and improve team morale; and a team culture that discourages any behavior detrimental to the company or teammates.

Environmental responsibility also has been key to Stoner’s success: Stoner has not only reduced the amount of toxic chemicals it uses by 31 percent but also has increased the use of environmentally friendly water-based formulations by 74 percent. According to Marchalonis, “‘Health, safety, and environmental responsibility’ has been one of our core values for more than a decade.”

As a multibillion dollar financial services company, CFSC has established strong internal financial control mechanisms. Segregation of duties and authorities prevents abuse, and systems are audited internally and externally. CFSC’s Business Excellence Council monitors portfolio quality, and, as an issuer of publicly traded debt, CFSC’s financial and portfolio practices and results are evaluated and made public by external rating agencies and analysts. The Caterpillar Executive Office and Audit Committee of the Board of Directors provide oversight to CFSC. Although not required by law, Caterpillar also established share ownership requirements for recipients of stock option grants more than a decade ago, and shareholders approve all equity programs.

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