



Imagination Working with Integrity

How General Electric Creates a Global Culture of Ethics

By Michael Price

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COMPLIANCE & ETHICS

For some companies, it would be sufficient to pay lip service to ethical oversight: put a bullet-point about high ethical standards in the employee handbook, maybe include a passage about whistleblower protection for good measure. That's not enough for General Electric (GE). The global corporation has made ethics and compliance a benchmark of its operations around the world and is, in many ways, the gold standard that other companies look to when it comes to modeling global compliance and ethics programs.

Through this attention to detail in its ethics and compliance program, GE has developed an enviable culture from the top down.

"You can have a discussion on ethics with hundreds, thousands of GE leaders and you get basically the same answer, maybe different wording," says John Rice, Vice Chairman of GE and President and CEO of GE Global Growth and Operations. "When we think about certain things relevant to our culture, like ethics and compliance, the senior people in our company all think about it the same way. That doesn't happen by accident."

In its 120 years of existence, GE has become an undeniably great company in many respects. Grown from Thomas Edison's electricity provider into a Fortune 10 multinational, it has become a multimodal corporation offering not only energy utilities, but also consumer and business electronics, technology infrastructure, and capital finance, among other products and services. As GE has expanded to emerging markets in India, China, and beyond, its commitment to legal and high ethical standards (both its host countries' and its own) is more than just good business ethics for the company—it's good business around the world.

"Particularly in emerging markets, integrity is really our entry ticket for growth," says Rachel Duan, President and Chief Executive Officer of GE Healthcare China. "That's because when you're trying to attract customers and business partners in new markets, they must trust that you'll be able to provide the services and products you say you will. They must trust that you'll be honest dealing with them. They must trust that you won't be shut down by regulators."

In fact, GE has won deals because of its reputation overseas.

"We were called four or five years ago by the Nigerian government and asked to come in to help them with their infrastructure needs as some of our competitors were being escorted out because of compliance issues," Rice says. "One of the main reasons I believe we were called in was because of our reputation for ethical transparent behavior. I think they wanted to do business with us because they could trust us."

In the short term, some companies make promises that are too good to be true because they only come about from engaging



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in unethical business practices, adds John Flannery, President and CEO of GE India. For example, Flannery notes that, in seeking a level playing field, one of the biggest issues GE has faced in India "has been non-enforcement of regulations or competitors circumventing regulations. [Some of them] are in the market with products that don't really meet code or standards or specifications, or they've misrepresented testing results." Though as time goes on and the markets become more sophisticated, he says, those who skirt regulations get caught and their credibility gets bruised. Those who don't take shortcuts have better success in the long run.

"Companies that are recognized as the World's Most Ethical perform better," says Brackett Denniston, Senior Vice President and General Counsel of GE. "I think there is a direct relationship between shareholder value and strong integrity." Even so, being committed to integrity does not mean that issues do not arise: "our culture is always to take a hard look in the mirror and ensure that we address issues promptly and systematically" says Denniston.

How does GE achieve nearly wholesale compliance across its more than 300,000 employees worldwide? "It's got to start at the top," says Keith Sherin, GE's Vice Chairman and Chief Financial Officer. "The leaders have to set the right tone."

"Employees need to hear you talk about ethics as much as they hear you talking about

performance and winning. They hear you talk about doing it the right way, winning the right way," says John Dineen, President and CEO of GE Healthcare. "That type of balance is extremely important. You're frequently in conversations with employees where you have to talk about winning and where you're talking about performance that you have to make sure you are putting equal emphasis on not just what we do but the way we do things. When people see that you are comfortable with that process, transparent with that process, challenging yourself, then they get more comfortable, and they start doing it to themselves and in their teams."

In order to meet this commitment, GE's top brass meet annually for a leadership meeting where they discuss company priorities. Sherin says one of the most frequent topics that comes up at these meetings is the need for integrity in GE's operations. Then the message filters down. Following the annual meeting, he and other senior leaders of GE have conference calls with mid-level executives which frequently include discussion of integrity issues.

"We always include our message about the importance of our reputation and how important integrity is in everything we do," Sherin says.

These messages cascade on down the line, with the objective that all GE employees receive and understand this messaging.



"We thoroughly communicate that every leader has a responsibility to set a personal example around integrity and ethics, and they have a responsibility to put resources in place to be able to identify and manage risks," Sherin says.

"We've removed people from leadership positions that didn't know there was a problem, but we felt had either not done enough to create a culture of compliance or not asked the right questions when they were faced with an uncertain situation," Rice says. "In some companies it's okay to be ignorant. In ours if a leader was not doing enough to create a culture of compliance and looks the other way when faced with a questionable situation, they may end up going to work for someone else."

GE's growing globalization can make these efforts tricky, though. Different cultures have different frameworks for understanding integrity and how to confront unethical behavior. For example, says Bill Cary, Chief Operating Officer, GE Capital, "loss of face" can be a hurdle to reporting unethical behavior in many Asian nations. Fear of losing distinction or honor can persuade some workers to overlook ethical missteps or report a higher-up for unethical behavior.

The problem isn't that these workers are any less committed to ethical business practices, Flannery says. They are. "At the core, 99% of the people, no matter where you are in the world, want to do the right

thing. They want to win but they want to win the right way. They want to look themselves in the mirror and say they're proud of their company."

To overcome cultural barriers to reporting ethics violations, the best companies develop programs and policies that allow workers from different cultures to make ethical decisions and report bad behavior in a way that gibes with their own cultural worldview. That's why GE offers five different pathways in which employees around the world can bring their concerns to management's attention: Employees can talk to their direct managers; they can go to people in the compliance function; they can talk to someone in legal services; they can take their concerns to human resources; or they can report issues anonymously to an ombudsman through a variety of channels.

Employees in every country are trained in these methods and, to keep this important topic front of mind within all employees, GE operates "Compliance Days" in which the company discusses compliance issues and reiterates the importance of workers raising concerns about unethical practices. The company also conducts annual surveys and focus groups to assess how well its employees think the system is working and how comfortable they feel reporting problems they perceive. In recent years, Denniston says, employees have been rating its trust in GE's ethical commitment higher than ever before.

Outside Duan's office in Shanghai, the company renamed a gathering space Integrity Park. GE China sponsored a contest to design an integrity mascot for GE China. "We really worked this year to remove the mystique around compliance and integrity," Duan says. "It is a part of what we do and it doesn't have to be this very scary thing that [you] can't approach."

It's perhaps no coincidence, then, that the number of integrity issues reported through GE's various channels has gone up, as well. And a bit paradoxically, Denniston says, that's a good thing: It's not necessarily that more ethical violations are occurring, but that employees place more trust in the system and are more confident they can voice their concerns without being retaliated against.

Of course, GE's commitment to compliance extends beyond its immediate employees. If you're in the market for a GE-brand microwave, for example, you're more likely to buy one from an authorized retailer than directly from the manufacturing plant. So the company makes sure that dealers who facilitate the sale of GE products and services also receive compliance training. GE Healthcare in China has a rigorous dealer qualification program that includes quarterly evaluations, Duan says, which ensures that dealers are up to the company's ethical standards. "The dealers, in my view, are our extended sales force," Duan says. "You don't control them 100%; however, they

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represent GE in front of the customers ... not only just selling products and services, but also their behavior code and ethics." The same level of diligence applies for GE's supply chain.

"If our suppliers are making some of the more critical parts to our products they can make us more competitive or they can shut us down," says John Dineen. "And if they don't have the right compliance systems in place, if they don't have the right quality systems in place, if they are not doing business ethically, they represent a tremendous business risk. So it's something that we put a lot of our attention to."

Beyond its consumer-focused products, GE faces tough customers of a different type in federal regulators. As the world's financial services sector has come under intense scrutiny in the wake of the global recession, many companies that offer such services, including GE, have had to revamp their oversight efforts and form relationships with a cadre of new regulators. The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act in particular led many companies to adopt new policies and scramble to meet the legal requirements of the new Act.

Fortunately for his company, Cary says, GE hasn't had to do nearly as much renovation in this area as many others. "A lot of companies are running to try and establish that they're ethical, that they've got a

compliance mindset to demonstrate to the Fed or to the new consumer regulators in the U.S., that they're good at this stuff," he says. "We didn't have to play catch-up. We already had a strong culture onto which we could build systems and processes that our regulators expect."

Occasionally, strict adherence to ethical financial behavior has cost GE business in the global marketplace, Cary says. "I will say that there have been places in the world where we have foregone business opportunities because we weren't willing to compromise our standards."

Denniston adds that when operating in certain foreign markets, improper payments and fraud are ever-present concerns. "The risk increases as you become more global," he says. "We sell and make our products in over 100 countries and many of these countries are difficult to do business [in] from an improper payment perspective. ... So we've had to spend a lot of time making sure that we have a robust improper payments prevention program."

Those efforts underscore GE's belief that prevention is better than "curing" when it comes to financial dealings, he says. That goes for GE's relationships with regulators, as well. Denniston says companies should want to involve regulators from the start, get them up to speed on the company's operations, its personnel, its history, and its compliance programs. "That's a proactive

process, not a passive process," he says. "You want to call and get to know your regulator when the sun is shining, not only when there is a crisis."

These are the kinds of efforts that ensure not only success but longevity for a company, Sherin says. Company leaders need to think long-term and avoid taking the easy route when it comes to compliance. Trust—among employees, customers, and the public—is ultimately a company's most valuable asset, he says. "You earn that trust over a long period of time by operating with integrity, by doing business in a compliant way, by delivering on your commitments," Sherin says. "GE's been around for 120 years. We want it to be around for another 120 years. It's not about a functional perspective or a personal perspective, it's about what's good for the company."



Business Fact

General Electric is one of only a handful of companies that have been recognized as a World's Most Ethical Company by Ethisphere every year since the award's inception in 2007.