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**Feature: United Technologies Offers a Model for Reporting Problems**

## United Technologies Offers a Model for Reporting Problems

Born out of defense-contract scandals in the 1980s, the company's program required only minor changes to comply with Sarbanes-Oxley.

By Joanne Sammer

**G**eorge Wratney, former corporate ombudsman for United Technologies Corp. in Hartford, Connecticut, recalls an employee who referred to herself as Snow White to disguise her identity. She strongly suspected that her boss was stealing from the company. But since she was the only person in the department in a position to know about the theft, she was reluctant to come forward with a formal complaint. Her fear was that if an investigation were launched, other employees, including her boss, would know who had made the allegation and, if no charges against the boss were substantiated, she'd lose her job.

When she contacted Wratney to discuss the situation, she called herself Snow



Fear of retaliation keeps employees from speaking up, George Wratney says.

White, and refused to provide specific information until Wratney could find a way to investigate the theft without identifying her. In his experience, Wratney says, the Snow White tale is not uncommon in corporate America. "A lot of issues in the workplace don't come to management's attention because people are afraid to come forward," says Wratney, a consultant with Wratney Ombuds Concepts in

Locust Grove, Virginia.

That fear is exactly what UTC has been working to dispel since it implemented its Ombudsman/DIALOG project in 1986. The program is designed to provide a confidential way for UTC's 203,000 employees, as well as suppliers and customers, to report problems or potential wrongdoing, to make suggestions, and to ask questions in person, over the telephone, in writing or online. These reports can include accusations of wrongdoing, potential ethics/code-of-conduct violations, safety problems, human resources issues and ideas for training programs. Everything about the company is fair game except

issues that are covered under a collective-bargaining agreement.

For publicly traded corporations working to comply with the whistle-blower provision of the Sarbanes-Oxley Act of 2002, UTC's 18-year-old Ombudsman/DIALOG program provides a blueprint that shows how a program designed to meet an official need can evolve into an important avenue for employee communication. In general, Sarbanes-Oxley requires companies to have procedures in place to receive and deal with whistle-blower claims such as financial irregularity and accounting and securities fraud and to ensure that employees who make charges are protected.

UTC's Ombudsman/DIALOG program also was born out of scandal. In the mid-1980s, U.S. federal defense contractors were reeling from allegations of fraud and waste. To regain public and government trust, a group of defense contractors, including UTC, banded together and agreed to develop and enforce codes of ethics and standards of conduct for employees and to create feedback mechanisms to allow employees to report potential wrongdoing. In UTC's case, the program initially was planned to be a simple toll-free hotline. However, it has expanded and evolved since then to become the Ombudsman/DIALOG program.

The plan has worked so well that only very minor changes had to be made to ensure Sarbanes-Oxley compliance. The company simply added some language to the program's written materials to notify employees that they can use the program to report problems and issues related to corporate accounting, internal accounting controls and auditing. However, the company carefully avoids the use of the word "whistle-blower" in connection with the program. "Whistle-blower has a negative connotation" because people who report illegal or unethical behavior often are ostracized by their peers or fired, says Patrick Gnazzo, UTC's vice president of business practices and the executive who runs the Ombudsman/ DIALOG program.

### **How it works**

The Ombudsman/DIALOG program is overseen by Gnazzo and operated by his staff of four and nearly 200 program administrators with a budget of less than \$1 million. Although the company does not calculate the financial return on the program's costs, it does closely track the number of DIALOGs it receives and what changes, if any, have occurred as each one is resolved. Of the nearly 60,000 DIALOGs handled since the program's inception, 41 percent resulted in some type of organizational change, 23 percent did not request or require any kind of change and 36 percent received a response from management saying either that the complaint was incorrect or that nothing could be done to rectify it.

The program is structured to be solely a neutral information conduit. Neither

ombudspersons nor program administrators get involved in investigating allegations or addressing any issue raised through the program. Instead, these people collect the necessary information and funnel it to the appropriate person within the company for further action while also ensuring that the person making the report receives a written response. For example, in Snow White's case, Wratney did not set up the eventual investigation; he served as an intermediary between Snow White and a member of the company's internal audit staff as the two worked to develop an investigative approach that was comfortable for Snow White.

"The structure and confidentiality of the program are key," Gnazzo says. "We can't protect information if the person conducting the investigation gets the complaint directly from the individual. And no one in the company can demand information from the program."

UTC has gone to court six times to defend the confidentiality of Ombudsman/DIALOG program information, and has prevailed each time. The company has argued successfully that the program is merely a conduit for receiving information from employees and other interested parties. No one on the staff conducts investigations, so the records involved with the program are not admissible in court. "By using the Ombudsman/DIALOG program," Gnazzo says, "the employee is confident that no one will know their name, so there is no excuse for not coming forward."

In some cases, an employee will ask a question or raise an issue that management thinks will be of interest to the wider employee population. In these situations, Gnazzo's staff uses the program's confidential reply mechanism to ask the person making the claim for permission to address the question or issue publicly. For example, when an employee asked for clarification about billing for travel expenses after hearing news reports that some companies were overcharging clients for those expenses, the company received permission from the employee to address the issue in the employee newspaper.

### **Responsiveness and accessibility**

Ensuring that employees receive a written response explaining the DIALOG's resolution is an important element of the program, Gnazzo says. It shows that the employee's issue was investigated and explains whether any change resulted. One of the first DIALOGs that UTC received after expanding the program into operations in China was from an employee in Shanghai who suggested that the company seek out alternative suppliers in different parts of the city to cut down on the amount of time employees wasted stuck in traffic. The employee received a response through the DIALOG Web site from the managing director of Shanghai operations stating that the company would be implementing that change.

While most DIALOGs are handled by his staff, Gnazzo is involved in any reports of potential ethical violations or illegal activity. These might include issues such as the ethics of the company's charitable contributions and allegations of fraud, bribery, extortion, kickbacks or conflicts of interest. These reports account for about 4 percent of all DIALOGs the company receives.

Accessibility is also essential because UTC operates in 183 countries. The company has taken pains to make the program as user-friendly as possible by appointing program administrators at the operating-unit level throughout global operations. Program materials and the online interface are available in multiple languages, and translators are on call to facilitate program-related telephone calls. This allows individuals to create a DIALOG in their native language and to receive a response in that language. "This cannot be seen as an American program because then it won't work," Gnazzo says. As a result of these efforts, the percentage of DIALOGs coming from outside the company's North American operations increased from 10 percent in 1995 to 29 percent last year.

Taking the program online last year with a public Web site also has helped to boost participation. Since then, the overall number of DIALOGs has increased, and the company now receives 70 percent of U.S. DIALOGs online.

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