Integrity Is a Strategy for Performance

THE ETHICAL FAILURES OF THE RECENT PAST triggered regulatory reforms that were based on improved integrity and ethical values. These reforms led to enhanced stakeholder expectations for improved governance. They also gave corporations the opportunity to utilize the resulting changes to achieve significant benefits. Consequently, the initiatives are triggering widespread reevaluations of what is perceived to be the best practices to manage and measure organizational performance.

One of the most recent initiatives, emphasizing the importance of an ethical culture in an organization, is the significant revision made to the judicial sentencing guidelines. On April 30, 2004, the United States Sentencing Commission sent to Congress major changes to the federal sentencing guidelines for organizations, which it believes should lead to a new era of corporate compliance. The amendment to the guidelines (Section 994(p) of title 28, USC) strengthens the criteria an organization must follow in order to create an effective compliance and ethics program.

The amendment provides that organizations must promote a culture that encourages ethical conduct and a commitment to compliance with the law. In particular, boards of directors and executives are required to assume responsibility for the oversight and management of compliance and ethics programs. Effective oversight and management presumes active leadership in defining the content and operation of the program. At a minimum, the amendment explicitly requires organizations to identify areas of risk where criminal violations may occur; train high-level officials, as well as employees, in relevant legal standards and obligations; and give their compliance and ethics officers sufficient authority and resources to carry out their responsibilities.

Other governance initiatives have set forth ethics requirements, including provisions in the Sarbanes-Oxley Act of 2002 and the revised listing standards for corporate governance set forth in late 2003 by the New York and NASDAQ Stock Exchanges.

A white paper by PricewaterhouseCoopers (PwC), "Integrity-Driven Performance: A New Strategy for Success Through Integrated Governance, Risk, and Compliance Management," has resulted from these developments. It introduces new research to support the premise that good governance—really a commitment to an ethical business environment—is a strong driver of business performance. The paper describes the necessity of balancing governance, risk management, and compliance processes with an emphasis on business integrity, values, and ethics integrated throughout an organization. Using the phrase coined by SEC Chair William Donaldson, the culture of ethics that the board of directors articulates for the organization must permeate "the spirit and very DNA of the corporate body itself—from top to bottom and from bottom to top." (From "Speech by SEC Chairman: Remarks at the 2003 Washington Economic Policy Conference," available at www.sec.gov/news/speech/spch032403whd.htm.)

PwC describes the operating model that is helpful in bringing about integrity-driven performance. It's founded on three core principles:

- Effective integration of governance, risk, and compliance (GRC) processes, which fosters a culture of business integrity and accountability.
- Integrated GRC processes should link to value and coordinate people, processes, and technology so that an integrity-driven performance strategy is embedded within the fabric of the organization.
- Integrity-driven performance requires that businesses put stakeholders first, supporting the letter and spirit of laws and regulations.

Use of this strategy suggests that business integrity, ethics, and values don't detract from business performance. In fact, they add to it.

The white paper describes four enablers that are necessary to attain a level of integrity-driven performance:

- Initiate changes as necessary to instill or emphasize a culture of business integrity and ethical values.
- Embed an integrated governance, risk, and compliance approach into core business processes.
- Deploy the capability to measure performance and calculate value through the right metrics.
- Leverage technology to enable processes to be effective and efficient.

In many organizations, this may involve a substantial change in strategic direction as well as in implementing policies and practices. The finance function would be a major driver for initiating and then ensuring compliance with several of these enablers.

According to PwC, culture, integrity, and ethics are the foundation for sustainable value. Core values should guide decision making at critical junctures, such as when there are no rules, when rules are unclear, or when existing rules would lead to the wrong conduct. Also, business integrity implies a consistency of philosophy and actions:

- Leaders drive consistent governance, ethics, risk management, and compliance processes across the organization to meet strategic goals.
- The culture balances open thinking with adherence to standards.
- Integrity and compliance are valued as core competencies.
- Leaders consistently communicate, demonstrate, and reward the right way of doing business in accordance with core values.

The tone at the top is a critical motivator for appropriate behavior in all areas of the organization.

The GRC Operating Model described in the white paper requires the board and senior management to assure that the following attributes are in place:

- Organizational values, ethics, and behavioral expectations are known, clearly communicated, and alive in the organization.
- Strategic business objectives are understood, and the organization's people, processes, and technology are aligned to support the achievement of those objectives.
- Risk appetites and tolerances within business units and across the enterprise are appropriate and aligned with the expectations of leadership and stakeholders.
- Key risks have been identified and assessed and are being actively managed and mitigated.
- Adequate culture, process, and technology controls are in place to ensure performance and reporting expectations are met.
- Information reported to management, the board, and stakeholders is accurate, reliable, timely, and complete.
- Compliance exceptions are identified, and actions are taken in a timely manner.
- The right operating model is in place to drive sustainable performance and realize stakeholder value.

Although responsibilities for implementing many of these attributes transcend functional areas, successful leadership by the finance function is critical. Widespread advocacy by finance is one of the keys for full adoption by the entire organization.

Findings from previous research sponsored by PwC are also included. A survey of large corporation senior executives found that forward-thinking organizations believe an integrated approach to GRC is a value driver and a source of competitive advantage. Respondents linked it closely to superior performance, value, and cost management.

The public offering of Google shares has provided an example of an organization that has used the strategy of emphasizing stakeholder interests and principles of integrity and ethical values as performance drivers. A letter from the founders was contained in its IPO registration statement filed with the SEC. (The letter can be found in "Letter from the Founders," *The New York Times*, April 29, 2004.) It was called an "Owner's Manual for Shareholders of Google."

It announced that Google's core values are "Don't Be Evil" and "Serving our end users is at the heart of what we do and remains our number one priority." The letter states Google's strategy of developing services that improve the lives of as many people as possible. The company intentionally provides most of its services for free. The founders advised readers that Google will be managed for the long term without concern for meeting short-term forecasts.

The letter also described the company's ambitious plans for altruism:

- "We aspire to make Google an institution that makes the world a better place."
- "We are in the process of establishing the Google Foundation."
- "We intend to contribute significant resources to the foundation, including employee time and approximately 1% of Google's equity and profits in some form."
- "We hope someday [the foundation] may eclipse Google itself in terms of overall world impact by ambitiously applying innovation and significant resources to the largest of the world's problems."

The time may be approaching when an integrity-driven performance strategy is widely viewed as the ultimate "best practice." Your ethical stance is important. ■

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The PricewaterhouseCoopers White Paper, "Integrity-Driven Performance: A New Strategy for Success Through Integrated Governance, Risk, and Compliance Management," is available online at www.pwcglobal.com/extweb/service.nsf/docid/C8753369ED2D193E85256E1B001C03D6.