



Can Organizational DNA Exclude Ethics?

THE METAPHOR OF ORGANIZATIONAL DNA

attempts to apply the all-inclusive biological characteristic known as DNA to the culture of organizations. While several examples involving organizational DNA have been published, one of the first uses of DNA in connection with the culture of an organization may have been in a speech by SEC Chair William Donaldson shortly after his appointment and confirmation.

Addressing the National Association for Business Economics in Washington, D.C., in March 2003, Donaldson concluded his remarks on the subject of good corporate governance by strongly emphasizing the importance of ethics to appropriate corporate culture:

“I hope that you will agree that the most important first step for a board grappling with the issues of corporate governance is not debating the issues of structure. Rather, it is defining the parameters of an inviolate corporate culture by answering simple questions: What kind of moral compass do we want guiding this corporation? *What ethical standard do we want embedded in this corporation’s DNA?* How will we demonstrate it in our every action? How can we protect the long-term interests of our investors?” [emphasis added]

More recently, the prominent management consulting firm Booz Allen Hamilton also used the DNA metaphor.

In its continuing research into how American corporations are managed, it used a unique approach to define organizational DNA. In contrast to the ethical framework chosen by Donaldson, Booz Allen virtually ignores the importance of ethics as a determinant of the overall culture of an organization.

In “The Four Bases of Organizational DNA,” an article

in the Winter 2003 issue of the firm’s *Strategy+Business* magazine, three Booz Allen consultants—Gary Neilson, Bruce Pasternack, and Decio Mendes—explain how “a company’s DNA holistically means weaving intelligence, decision-making capabilities, and a collective focus on common goals widely and deeply into the

fabric of the organization so that each person and unit is working smartly—and working together.” The authors note that each organization has an idiosyncratic way of doing things that influences how individuals within the organization perform, and it’s the individual behaviors that determine an organization’s success over time.

Neilson, Pasternack, and Mendes state: “Just as the double-stranded DNA molecule is held together by bonds between base pairs of four nucleotides, whose sequence spells out the exact instructions required to create a unique organism, we describe the DNA of a living organization as having four bases that, combined in myriad

*“Ethics is more than
just getting through the day
without being indicted.”*

—former SEC Chair
Richard Breeden

ways, define an organization's unique traits." Booz Allen believes that better execution of business strategies will be the key attribute of superior-performing organizations in the future. The four bases, as described by Neilson, Pasternack, and Mendes, are:

Structure—What does the organizational hierarchy look like?

Decision Rights—Who decides what?

Motivators—What objectives, incentives, and career alternatives do people have?

Information—What metrics are used to measure performance?

The absence in this analysis of any mention of core values as an important determinant of the culture of an organization is striking.

In "The Seven Types of Organizational DNA," appearing in the Summer 2004 *Strategy+Business*, the authors extended Booz Allen's concept of organizational DNA, stating: "Like the DNA of living organisms, the DNA of living organizations consists of four building blocks, which combine and recombine to express distinct identities, or personalities. These organizational building blocks—structure, decision rights, motivators, and information—largely determine how a firm looks and behaves, internally and externally." In their article, Neilson, Pasternack, and Mendes detail the results of more than 4,000 assessments from the Booz Allen Org DNA Profiler™ (www.orgdna.com), an online self-assessment tool. By taking individual employees' responses to 19 questions about their company's behavior in regard to the four building blocks of organizational DNA, the Org DNA Profiler classifies the respondents' organizations into one of seven distinct organizational

"species," or profiles:

The Resilient Organization is flexible and can adapt quickly to external market shifts while staying aligned with a coherent business strategy.

The Just-in-Time Organization is slow to prepare for impending changes, but, when necessary, it has the ability to "turn on a dime" and still keep sight of the big picture.

The Military Organization is generally managed by a team of hands-on senior executives who use the sheer force of their collective will to drive the company toward success.

The Passive-Aggressive Organization appears conflict free but actually is the type of company where "everyone agrees but nothing changes."

The Fits-and-Starts Organization is populated by intelligent, motivated, and talented people, but they rarely pull in the same direction at the same time.

The Outgrown Organization has outgrown its organizational model and is bursting at the seams.

The Overmanaged Organization is weighed down by layer upon layer of management, often giving rise to "analysis paralysis."

The results of analyzing the individual responses show that only 27% of organizations fit into one of the three organization types associated with being relatively "healthy" and free from dysfunction—Resilient, Just-in-Time, or Military. The report also presents the percentage of organizations by industry in the most common category, Passive-Aggressive.

We agree with the Booz Allen study that one of the primary measures of success should be the strategies that ensure achievement of the objectives an organization has set. We also agree it is true that, as the

Booz Allen authors suggest, "Execution has become the new watchword in boardrooms, as CEOs and directors watch sound strategies fail at the hands of organizations that cannot or will not effectively implement them."

It is unwise, however, to ignore how important it is to an organization's success that its management has the ability to articulate and then infuse a set of core values and the resulting ethical standards and code of conduct throughout the company. Motivation results from expression of the "soft" controls that unify an organization's ability to perform effectively. As stated in the COSO Principles, integrity and ethical values are critical to the establishment and maintenance of effective management controls. Effective management controls are the overarching keystones of superior performance and business success.

Does your organization have the benefits of the cohesiveness that an effective ethics and compliance program brings to its DNA?

Clients Demand Higher Standards from their Professional Advisors

Mirroring the continuing interest in raising ethical conduct in the workplace, clients of professional service firms are more concerned if the ethical standards of the consultants they employ are appropriate than they are about potential ethical missteps of their own employees. *Ethical Perceptions between Business and Professional Service Firms*, a white paper written by Linda Hanson and Bette Price, discusses the results from a survey of professional service clients conducted by the Institute of Management Consultants USA, Inc. The

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survey showed that clients also feel strongly that their consultants should have a long-term commitment to consulting and a client-verified track record in their field.

Reflecting the greater concern for questionable ethics of consultants, 40% of client respondents felt that professional service firms would lie to protect themselves, while slightly fewer (39%) felt their own employees would lie for the same reason. Additional ethical concerns brought up by the clients include:

- The professional service firm would overpromise expected results or benefits (46%),
- The firm would allow the scope of the project to expand or “creep” (25%), and
- Consultants wouldn’t serve the best interests of the client organization (32%).

Management accountants and financial managers should be aware of these critical aspects of their relationships with any professional service providers their organization may engage. ■

William Donaldson’s speech is online at www.sec.gov/news/speech/spch032403whd.htm. The Booz Allen articles can be found at its website, www.boozallen.com. IMC USA’s white paper is available at www.cmcglobal.org/Docs/IMCEthicsSurvey2003.pdf.

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