Survey Shows Need for More Ethics Awareness

WELL-INFORMED DIRECTORS KNOW A GREAT deal about the professional skills and experience of their executives—but not enough about their values and character. These findings are from "Assuring Ethical and Responsible Leadership: How to Meet the Challenge," which is based on surveys of board members and CEOs from leading U.S. public corporations, government and regulatory agencies, consultancy firms, academia, and the investment community. The study was conducted by Heidrick & Struggles, Lore International Institute, and Neisendorf & Associates, Inc. Financial managers and management accountants should compare the survey results with their experience in their organizations.

Perhaps the most striking finding from the study is the dichotomy of how ethics practices are perceived. Only 27% of directors said they had an excellent level of assurance that the right leaders were in place to lead their companies to "responsible commercial success," whereas a solid two-thirds of CEOs thought so. This difference is statistically significant.

Highlighting the increasing importance being placed on ethical conduct in the corporation, the study notes a *Corporate Board Member* survey of institutional and individual investors that reported that the top expectation for boards of directors was: "Upholding moral and ethical standards at the company." This responsibility was ranked higher than obtaining capital, overseeing mergers and acquisitions, and safeguarding competitiveness.

Another key finding of the study was that compliance means little without a culture of integrity. In a successful company, a shared sense of values and mission permeates the organization. A company can't use an off-the-shelf statement of generalized principles as the heart of its ethics program. Its program must represent real core values drawn from the unique character or DNA of the organization so that employees can relate to it and regard enforcing the ethical standards as part of their job. In other words, even superior compliance with a strictly legalistic set of rules has the possibility of loopholes and doesn't provide real value to the organization.

> ***"Trust but Verify"***
> ***—Old Russian Adage***

In remarks to the National Association of Securities Dealers, SEC Chair William Donaldson pointed out that "having a culture of doing what is right—in the absence of specific rules and even in the face of your competitors' choosing a different path—is vital." He added, "The courage and commitment of the firm's leaders is needed to question whether a particular firm practice—no matter what the lawyers say—is truly ethical or is truly in the best interests of customer or client. This culture can't be limited to the senior management level, it can't be limited to the compliance department, and it can't be limited to the clever wording of a corporate mission statement—it must be embedded in the firm's 'essential DNA' and shared by each and every employee."

The report on survey results set forth 10 suggestions that directors should consider to help ensure ethical behavior and responsible leadership:

- Vigorously oversee the corporate ethics and culture. The only way to guard against scandal is to make sure there is a culture of strong, positive values and integrity.
- Ensure the company has articulated values and that leaders live by them. You are responsible to see that those aren't just nice words posted on the wall.
- Conduct anonymous values surveys of employees. Set up safe and confidential channels for employees to raise concerns about potential ethics violations.
- Establish a board committee on human resources. Use this committee to expand board involvement beyond executive compensation to management succession, leadership development, performance management, and culture.
- Include character, integrity, decision making, and other values information in performance reviews and succession-management processes.
- Add values and character hurdles to the hiring process for executives. This includes extensive reference checks, interviews probing on candidates' ethics track records, and scenario-based interviewing to assess responsible decision making.
- Ensure that executive behavior encourages ethical conduct throughout the company. Establish the right "tone at the top" as an explicit aspect of executives' annual reviews.
- Examine your executive compensation system to ensure that it rewards the achievement of business results in a principled manner. The performance management process should measure both the "what" (performance against plan) and the "how" (adherence to corporate values).
- Get to know well the leaders in the top one and two tiers of the organization. If appropriate, accompany them on sales calls, call for status reports, or make time in your schedule to see them on a social as well as professional basis.
- Set in place consistent consequences for executive misbehavior and violations of your code of conduct. Show zero tolerance toward breaches of ethics.

Management accountants and financial managers should be alert to the presence or absence of these characteristics in their organization. They should be leaders in helping senior management and the board of directors understand the importance of strong leadership and healthy organizational values.

The study report also outlined a series of questions designed to determine how a company measured up in terms of its culture and organizational processes:

1. Has the organization identified its bedrock values?
2. Is the "tone at the top" of the organization one of sterling character and positive peer pressure?
3. Does your organization effectively and promptly deal with any leader who produces outstanding bottom-line results but does it outside the corporate values?
4. Are tools to assess character, integrity, and ethical management used in the hiring and promotion processes?
5. Do the organization's efforts in executive/leadership development and succession link up effectively?
6. Does candidate information include both results (the "what") and ethics (the "how")?

How does your organization measure up?

Ethics in the Classroom

One of my professor colleagues came to me the other day with an interesting ethical dilemma. A student came to her office to report that she had made an error in grading his multiple-choice exam. Somehow, the student had been given credit for an incorrect answer. She thanked him for his expression of complete honesty and moved to change the grade in her records.

His face immediately turned to shock. "What? You're really lowering my test grade? I never would have…" By not even finishing his sentence, the student showed his true colors of phony, rather than authentic, honesty. He expected praise for coming forward at no cost.

My professor colleague told me that others in the faculty thought the student should keep the higher grade. After all, it wasn't his fault that he received a higher grade than he earned. But my colleague felt she had to do the right thing and not treat the others in her class unfairly. It is the same as returning excess change given to you by a poorly trained cashier. Accepting and keeping for ourselves only what is rightfully ours is the real expression of integrity.

Was my colleague too strict with her student? ■

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