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Tyco: An Ethical Metamorphosis

Because of the sudden and untimely passing of Carl Menconi (see a tribute to his IMA service in “Perspectives,” p. 6), it was necessary for the IMA Board of Directors to appoint a new chair of the Ethics Committee. We are pleased to welcome Bob Rizzitello, a senior

director in the Corporate Controller’s Group of Tyco International Ltd. Tyco is a global, diversified company that provides vital products and services to customers in four business segments: fire and security, electronics, healthcare, and engineered products and services. With 2005 revenue of \$40 billion, Tyco employs approximately 250,000 people worldwide.

Rizzitello’s accomplishments at Tyco have included speeding up the global financial close and managing the global SOX deficiency process. He has been active in IMA as president of the Trenton, N.J., chapter and as a member of several national committees. Ethics is his first IMA chairmanship. Prior to joining Tyco in 2004, he ran the Corporate Accountability Practice of Capgemini, the large global consulting firm.

As you know, Tyco was among the companies affected by corporate

scandal in 2002 when members of the company’s previous management used company money improperly. Tyco former CEO Dennis Kozlowski was convicted in 2005 on 22 of the 23 counts he faced.

Against a dismal backdrop of corrupted ethics and failed governance, Ed Breen, Tyco chairman and CEO, began the process of ethical reform when he joined the company in the middle of 2002. Among his first moves was the election of a totally new and independent board of directors only three months after joining the company. Breen also got rid of 290 of Tyco’s 300 managers.

As one of his chief priorities, Breen set the goal of meeting the highest standards of corporate governance. Tyco’s corporate culture today is built on the premise that every employee is responsible for the conduct and success of the company. Breen has worked hard to in-

grain ethical business practices and personal integrity deep into the organization.

One demonstration of Tyco’s progress is the considerable improvement in its governance rating by consultants GovernanceMetrics International (GMI). In December 2002, Tyco’s rating by GMI was 1.5 out of 10. As a result of the company’s governance efforts, it rose to 9.0 in August 2005. GMI highlighted the company as one of the most dramatically improved.

The specifics of Tyco’s desire to rank as best-in-class for corporate governance are contained on its website and quoted here with permission. These details are important to management accountants and financial managers as an example worthy of replication. This is how a public company integrates high ethical standards into its strategies for building a successful business.

Tyco’s commitment to good governance is evident in its goal to “adhere to the highest standards of corporate governance by establishing processes and practices that promote and ensure integrity, compliance, and accountability.” In regard to employees, the company states it will

“attract and retain, at every level of the company, people who represent the highest standards of excellence and integrity.”

Tyco has also outlined an operating philosophy for the company’s board of directors, which it explains on its website: “The board, together with management, is responsible for establishing the firm’s operating values and code of conduct and for setting strategic direction and priorities. While Tyco’s strategy and leadership evolve in response to its changing market conditions, the company’s mission and values are enduring.”

Tyco’s four core values are:

“Integrity. We must demand of ourselves and of each other the highest standards of individual and corporate integrity. We safeguard company assets. We comply with all company policies and laws.”

“Excellence. We continually challenge each other to improve our products, our processes, and ourselves. We strive always to understand our customers’ businesses and help them achieve their goals. We are dedicated to diversity, fair treatment, mutual respect, and trust.”

“Teamwork. We foster an environment that encourages innovation, creativity, and results through teamwork. We practice leadership that teaches, inspires, and promotes full participation and career development. We encourage open and effective communication and interaction.”

“Accountability. We honor the commitments we make, and take personal responsibility for all actions and results. We create an operating discipline of continuous improvement that is an integral part of our culture.”

The mechanism for putting the four core values into everyday prac-

tice throughout the organization is a 40-page booklet titled *The Tyco Guide to Ethical Conduct: Doing the Right Thing*. It provides employees with a framework for understanding what is expected of them in terms of conduct and decision making. All Tyco employees are required to affirm annually that they have read and understand the *Guide* and will comply with its principles in their daily work activities. They must also declare they are not aware of any violation of the *Guide*’s principles.

The *Guide* suggests several avenues in addition to an individual’s supervisor and Human Resources Department that an employee can use to report ethical concerns: an international, toll-free ConcernLINE, the corporate law department, or Tyco’s independent Office of the Ombudsman. The *Guide* also states that employees have a duty “to report any violations of the *Guide*,” and that “it’s important to note that failure to report violations can have substantial consequences.” If employees are in doubt as to the appropriateness or ethics of any activity, the *Guide* suggests they ask themselves: “How would our customers, shareholders, or the general public look upon it?”

Tyco’s efforts don’t stop with the *Guide*, however. It is augmented by the *Tyco Guide to Supplier Social Responsibility*, which highlights the principles and behaviors that define relationships with supplier partners. Tyco expects its supplier partners to share these principles and behaviors and promote the application of these standards among those with whom they do business. If any ethical or legal compliance issues arise that might raise questions in a supplier partner’s mind, the partner has a responsibility to bring them forward.

Suppliers are urged to use the same methods for reporting wrongdoing that are available to employees.

Tyco also extends its commitment beyond business matters into the communities around the world where it does business, stating: “Our involvement as a global citizen is driven by a strategy focusing resources on issues and opportunities where Tyco can have an impact—health, education, and environmental sustainability. And, we are engaging the expertise of Tyco employees to leverage the impact of our financial contributions.” Its stated mission is to “strategically invest philanthropic resources to effect sustainable change resulting in healthy, vital communities where employees live and work.”

Additional details of Tyco’s ethics and governance initiatives are available at Tyco’s website, www.tyco.com, under “Mission and Goals,” “Governance,” and “Our Commitment.” ■

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