Ethical Business Cultures: Reaping What You Sow

Minnesota Crop Insurance Conference

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President and CEO
Center for Ethical Business Cultures

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About the Center for Ethical Business Cultures

**Mission**

To assist business leaders in creating ethical and profitable business cultures at the enterprise, community and global levels

**Background**

✓ 31 year old nonprofit organization
✓ Began partnering in 1988 with University of St. Thomas
✓ Member of the Advisory Group to the US Sentencing Commission
✓ Advises Boards and Executive Leaders on “Tone at the Top”
✓ Building a Bridge Between Thought and Practice Leadership

Why is it Important?

Organizations that build an ethical culture:

✓ Do it because it’s the right thing to do
✓ Outperform organizations that don’t
✓ Reduce their exposure to ethical lapses that cause breakdowns
Goals for the Session

- Examining and Learning How to Use Different Ethical Approaches in Business
- Scanning the Environment to Examine the Trends in Ethics in Business
- Insights into How Organizations Build and Sustain Ethical Cultures
- To highlight how building an ethical culture adds value to an organization
As the new mayor of Happy Hills, would you direct that this sign be:

- Taken down or altered?
- or...
- Not taken down?

**Ethical Approaches**

- **Consequences**
  - What will be the effects of the proposed action on any stakeholders?

- **Absolute Principles**
  - Will the proposed action be in alignment with universal ethical principles?

- **Synthesis**
  - Both stakeholder consequences and absolute principles must be considered.
Ethical Approaches

- Beyond the Absolute Principles and Consequential approaches:
  - Duties – Obligations to a community of common interests, i.e. fiduciary responsibility
  - Rights – Fair distribution of opportunities and wealth or basic freedoms and liberties
  - Interests – (Consequential) Harms and benefits to the interest of parties affected
  - Virtue – (Absolute Principles) A positive trait of character including prudence, impartiality, courage, justice, and belief/trust

Scanning the Environment
### Who Do You TRUST?

How much do you **TRUST** each institution to do what is right? (2008 - 2010)

<table>
<thead>
<tr>
<th>Percent</th>
<th>America’s</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US/Canada/Brazil</td>
<td>France/Germany/Russia</td>
<td>China/Japan/India</td>
</tr>
<tr>
<td>Business 2008</td>
<td>58/49/61</td>
<td>30/35/42</td>
<td>54/61/74</td>
</tr>
<tr>
<td>Business 2009</td>
<td>36/45/67</td>
<td>30/34/52</td>
<td>62/63/71</td>
</tr>
<tr>
<td>Business 2010</td>
<td>54/na/62</td>
<td>36/40/42</td>
<td>62/57/67</td>
</tr>
<tr>
<td>Govt. 2008</td>
<td>39/39/22</td>
<td>35/27/38</td>
<td>79/45/49</td>
</tr>
<tr>
<td>Govt. 2009</td>
<td>30/51/51</td>
<td>34/36/48</td>
<td>72/45/42</td>
</tr>
<tr>
<td>Govt. 2010</td>
<td>46/na/na</td>
<td>43/43/38</td>
<td>74/na/43</td>
</tr>
</tbody>
</table>

*Source: 2010 Annual Edelman Trust Barometer*

### Confidence in Leaders

*Source: Harris Poll March 8, 2010*
Ethical Breakdowns in the News

- Purdue Pharma
- Bristol Myers-Squibb
- Bank of America
- JP Morgan Chase
- Take-Two Interactive
- Software
- Royal Dutch Shell
- Reliance Communications
- The McLaren Group
- Mattel
- UBS
- Societe Generale
- PetroChina
- AGA Medical Co.
- Citibank
- Bear Stearns
- Sanlu
- Bernard Madoff

How Do You Measure-Up?

Rating the honesty and ethical standards of people and professions (very high/high):

- Nurses: 83%
- Medical Doctors: 65%
- Policeman: 63%
- College Teachers: 54%
- Bankers: 19%
- State Governors: 15%
- Lawyers: 13%
- Business Executives: 12%
- Congressman: 9%
- Car Salesmen: 6%

Source: Gallup Poll December 2009. Honesty and Ethics
Two Languages of Business

Financial Performance

Behavioral Performance

Misconduct at Work

Source: Ethics Resource Center’s 2009 National Business Ethics Survey

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Reporting Misconduct

![Bar chart showing reporting misconduct over years]

The Disconnect

<table>
<thead>
<tr>
<th>Overall</th>
<th>Senior Mgmt</th>
<th>Manager</th>
<th>Non-Mgmt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where I work, people do not “get ahead” unless their behavior clearly demonstrates company’s values.</td>
<td>66%</td>
<td>57%</td>
<td>48%</td>
</tr>
<tr>
<td>Where I work, ethical issues discussed w/o neg consequences.</td>
<td>77%</td>
<td>72%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Kenexa WorkTrends 2009

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Knowing you would never be caught, would you act unethically to make more money or get ahead?

<table>
<thead>
<tr>
<th>Year</th>
<th>No</th>
<th>Yes</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>42%</td>
<td>33%</td>
<td>25%</td>
</tr>
<tr>
<td>2004</td>
<td>44%</td>
<td>31%</td>
<td>25%</td>
</tr>
<tr>
<td>2005</td>
<td>59%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>2006</td>
<td>59%</td>
<td>41%</td>
<td>22%</td>
</tr>
<tr>
<td>2007</td>
<td>62%</td>
<td>38%</td>
<td></td>
</tr>
</tbody>
</table>

* * Yes and Not Sure combined

Source: Junior Achievement/Deloitte Poll December 2007

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Cheating Among MBA Students

- **56%** of MBA candidates surveyed admitted they had cheated at least once
  - “culture of greed within MBA schools”
  - “get it done at all costs”
  - “shifting priorities from meeting customers’ needs to protecting shareholders profits”

- **Over 16 years, on every study of cheating, except one, business students led the way**

Source: McCabe, Butterfield & Trevino, September 2006
**Top 5 Drivers of Unethical Behavior**

- Pressure to meet unrealistic business objectives
- Desire to further one’s career
- Desire to protect one’s livelihood
- Working within a cynical, demoralized environment
- Ignorance that the act was unethical

Source: AMA/HRI The Ethical Enterprise, 2006

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**Driving Ethical Culture:**

*The Regulatory Response*

- Sarbanes-Oxley Act of 2002
- Public Company Listing Exchanges
- United States Sentencing Commission

“...requirement that an organization shall - promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.”

Source: Amendments to the Sentencing Guidelines; May 10, 2004
A Collective View: The Regulatory Response

- Setting the “Tone at the Top”
- Ethical Culture
- Codes of Conduct
- Conflicts of Interest
- Disclosure/Transparency
- Board Independence
  - Audit
  - Compensation
  - Nominating-Governance
- Auditor Independence
  - Consulting
  - Audit and Tax

Building & Sustaining Ethical Cultures

Celebrating over 30 years of business commitment to ethical cultures.
What is an Ethical Culture?

- Based on Integrity
- Discerns and chooses right versus wrong
  - Laws and Regulations
  - Societal Standards
- Reaches for the higher standard in the gray areas when all options seem right

Characteristics in Building & Sustaining an Ethical Culture

- Leadership Effectiveness
- Values Driven
- Corporate Conscience
- Market Based
- Ethical Culture Law Based
- Self Interest
- Balancing Stakeholder Interests
- Process Integrity
- Long-term Perspective
- Evolving Enlightenment
- Assessment

Source: Based on Chapter 2 “Mindsets & Culture” in Conscience and Corporate Culture: Copyright © Kenneth E. Goodpastor
Leadership is the key ethical culture factor. Leaders must set the tone by “talking the talk” and “walking the talk.”

Top management is generally perceived to exert more pressure on “getting the results” and not on “how the results are achieved.”

This translates into get the results “at all costs.” “The ends will justify the means!”
Integrity Through Leadership

Integrity Relates to Employee Loyalty:

- 34% of employees rated as Truly Loyal vs. 36% as High Risk
  - 91% of truly loyal believe their organization was highly ethical
  - 35% of high-risk believe their organization was highly ethical

*Source: Walker Loyalty Report for Loyalty in the Workplace Sept 2007*

Laying the Foundation

- Mission
  - Purpose
- Vision
  - Image of the future
- Values
  - Principles that guide behavior
- Ethics & Compliance Codes
  - Legal and regulatory compliance and beyond
Values

✓ The shared norms and beliefs of the organization that define acceptable behavior
✓ Inspirational and directional in nature
✓ Gives individuals a context to reflect on how their personal values align

Ethics and Compliance Codes of Conduct

✓ The standards of behavior established to insure compliance with the law, regulations, and rules
✓ Prescriptive in nature with specific well defined expectations of behavior

Federal Sentencing Guidelines

✓ Established by the United States Sentencing Commission (USSC) in 1991 with focus on compliance
✓ Imposes fines, sentencing to probation, orders of restitution and public notices of conviction
✓ Offers incentives for organizations to “do the right thing”
✓ Updated to emphasize ethical conduct in 2004
The Seven Minimum Steps

1. Establish standards and procedures
2. Make high-level individuals responsible
3. Exercise due care in delegating authority
4. Provide communication and training
5. Utilize monitoring, auditing, and reporting
6. Consistently enforce through discipline
7. Take appropriate corrective action
Building the Ethical Culture

- Linking & aligning Mission, Vision, Values and Ethics & Compliance
- Leadership
- Education & Training:
  - Governing Authority
  - Senior Management
  - Mid Level Managers
  - Front Line Employees
- Connecting systems and incentives to values
- Surveying for feedback

Do Ethical Cultures Add Value?
Global Employee Perspectives: The Ethics Index

- Ethics themes benchmarked through Kenexa's WorkTrends™ with employees around the world
- CEBC Ethics Themes:
  - Senior management practices ethical conduct
  - Company serves interest of multiple stakeholders
  - Co-workers behavior consistent with values
  - Able to discuss ethical issues/concerns
  - Must demonstrate company values to get ahead
- The Ethics Themes: Integrated to form an Ethics Index
  - Globally:
    - By Country
  - U.S.:
    - Multi year trends
    - By Industry
    - By Job Type
    - Correlated to business performance and employee engagement indicators

U.S. Integrity/Ethics Trends

- Multiple stakeholders
- Sr. mgmt supports ethics
- Co-workers live values
- Ethics discussed freely
- Must live values to advance

Source: Kenexa WorkTrends™ 2008

Note: values represent percent favorable
The 1st Element
Laying the Foundation

Data Illustration:

The behavior of the people I work with is consistent with my company’s mission, vision and values.

<table>
<thead>
<tr>
<th></th>
<th>Executive</th>
<th>Manager</th>
<th>Frontline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>75%</td>
<td>63%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: Gantz Wiley Research WorkTrends 2008

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### The 2nd Element

**Effective Leadership**

#### Data Illustration:

My senior management supports and practices high standards of ethical conduct.

<table>
<thead>
<tr>
<th></th>
<th>Executive</th>
<th>Manager</th>
<th>Frontline</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>78%</td>
<td>73%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Source: Gantz Wiley Research WorkTrends 2008

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Where I work, ethical issues and concerns can be discussed without negative consequences.

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<th>Manager</th>
<th>Frontline</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>77%</td>
<td>72%</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: Gantz Wiley Research WorkTrends 2008
**The 3rd Element**

*Balancing Stakeholder Interests*

- **Data Illustration:**
  
  *My company strives to serve the interests of multiple stakeholders not just the shareholders (financial performance).*

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<tbody>
<tr>
<td></td>
<td>77%</td>
<td>72%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: Gantz Wiley Research WorkTrends 2008

**The 4th Element**

*Process Integrity*

- **Data Illustration:**
  
  *Where I work, people do not “get ahead” unless their behavior clearly demonstrates my company’s values.*

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<tr>
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<th>Manager</th>
<th>Frontline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>67%</td>
<td>57%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Gantz Wiley Research WorkTrends 2008
Impact of Ethics
U.S. Employees

Strong Ethical Culture □ Weak Ethical Culture

Pride Overall satisfaction Advocacy Retention Reputation improvement Performance improvement

Source: Kenexa WorkTrends™ 2008

Note: values represent percent favorable

Questions?