Measuring Ethics in your Environment

Ethics

\'eth-iks\ n 1: the discipline dealing with what is good and bad and with moral duty and obligation 2: a set of moral principles or values

I cannot teach anybody anything; I can only make them think.

-Socrates
An Ethical Corporate Climate…

“is either developing or deteriorating, enriching itself or impoverishing itself. It needs constant care and attention.”

- Study by the Woodstock Center, Georgetown, University
Ethical Lapses: Options Scandal

- 200 Companies under some level of SEC scrutiny
- Internal probes of 153 companies
- Seven officers indicted
- Two officer convicted
- Two General Counsel pleas
- 42 Executive / Directors resigned
- Amount of misstatement of income due to options scandal: $5.3 billion

James Bandler & Kara Scannell, “In Options Probes, Private Law Firms Play Crucial Role”

Were These Tough Choices?

- Capitalizing ordinary expenses
- Backdating Options
- Embezzlement
- Insider Trading
- Fraud
- Spying
Enron

“In early 1999, a tour with analysts of Enron’s new energy services floor was staged to make it look bigger than it was. Mr. Fastow wanted to play music from ‘The Sting’ during a dry run as a joke”

“Fastow Has His Moments in the Sun, and Some Big Banks Pay Dearly”, New York Times

WHY?

What Drives Good People at Great Companies to do really unethical things?

“Common sense is not so common”

-Voltaire
What does Business Ethics include?

- Governance
- Culture
- Leadership
- Corporate Social Responsibility
- Workplace Issues
- Product & Brand
What does *Business Ethics* include?

- Governance
- Culture
- Leadership
- Corporate Social Responsibility
- Workplace Issues
- Product & Brand
- Human Resources
- Training
- Strategic Planning
- Ethical challenges
What does *Business Ethics* include?

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- Culture
- Leadership
- Corporate Social Responsibility
- Workplace Issues
- Product & Brand

- Sustainability
- Labor
- Supply Chain
- Environment

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- Labor practices
- Employment practices
- Working conditions
- Health & Safety
- Disclosure
- Work/Life Balance
What does Business Ethics include?

- Governance
- Culture
- Leadership
- Corporate Social Responsibility
- Workplace Issues
- Product & Brand
- Consumer safety
- Reputation
- Intellectual Property
- Marketing & Sales practices
- Product recall
- Responsible Gaming

Ethics embodies…

- Standards of conduct that indicate how one should behave based on moral duties and virtues, which themselves are derived from principles of right and wrong.

So you need to know right and wrong (values/principles), and then do it (action)
Never let your sense of morals get in the way of doing what's right.  
Isaac Asimov

Always do right—this will gratify some and astonish the rest.  
Mark Twain
The IIA

Code of Ethics…Internal Auditors
• 4.2 Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.

The Standards: 1312 – External Assessments
• External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:
  – The need for more frequent external assessments; and
  – The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

Ethics in the Workplace: Much Change?

KPMG Survey 2000
• 76% of employees observed a high level of illegal or unethical conduct at work in the prior 12 months
• 49% of employees observed misconduct that, if revealed, would cause their firms to significantly lose public trust.

KPMG Survey 2005
• 74% of employees observed a high level of illegal or unethical conduct at work in the prior 12 months
• 50% of employees observed misconduct that, if revealed, would cause their firms to significantly lose public trust.
The Code of Conduct

The Code of Conduct: 20 Questions

- One Code or Two?
- Does the Code cover newly developing risks?
- Has the Code kept up with changes in the law?
- Can employees raise questions about concerns?
- Do employees certify to the Code?
- Does the Code include examples?
- Is the format inviting and effective?
- Does the Code talk about values?
- Is the Code’s organization useful?
- Are there finding aids in the Code?
The Code of Conduct: 20 Questions

- Does the Code lead to other information sources?
- Did the Code get the right input?
- Is there a communication plan?
- Has the Code entered the electronic age?
- Does the Code's message reach 3rd parties?
- Is the Code Global?
- Is the Code translated?
- Does the Code include things that no longer make sense?
- Does the Code go to all employees?
- Is the Code ethical and Legal?

1 Adapted from an article by Joe Murphy & Win Swenson (at Ethikos)

Ethics in Life

- Don’t we already know right from wrong?
- The value is in knowing where your line is drawn......before you cross it!

- Where are your lines drawn?
Why do good people sometimes do unethical things?

- **Multiple Roles**: in different roles we sometimes hold ourselves to different standards (home vs work)
- **Courage**: sometimes it is hard to do what you know is right
- **Camouflage**: sometimes one’s motivations are hard to see
- **Confusion**: sometimes we just do not have all of the information we need and in the end our choice might look unethical

Why do good people sometimes do unethical things?

- **Consensus**: sometimes we question our choices if everyone is acting differently
- **Error**: We all can make mistakes. It’s not necessarily evident of a bad intent.
- **Selectivity**: We cannot endure a detailed analysis of every single decision. Sometimes we choose not to spend the time on one, but that one turns out to be the case where it was warranted
Change to Ethical Reasoning

• Issue: identify the dilemma
• Facts: obtain all unbiased facts
• Alternatives: what choices do you have?
• Stakeholders: who has an interest? What are the motivations? Who holds what power?
• Impact: what is the impact on each stakeholder?
• Guidance: obtain guidance from your organization
• Action: now what? Take Action!
• Monitor Outcomes

How do you assess the “control environment?”

• The control environment is evaluated based on the following factors:
  – Integrity and ethical values
  – Commitment to competence
  – Board of directors and audit committees
  – Management’s philosophy and operating style
  – Organizational structure
  – Assignment of authority and responsibility
  – Human resource policies and practices

= “Culture”
Red Flags in the culture assessment/audit

- What are the red flags that evidence a poor tone at the top?
- What are the red flags that evidence poor corporate governance?
- Why are they red flags?
- How do you audit to find the red flags?

Cautions: How to Avoid Culture Disaster/Ethical Lapses

Don’t build in incentives to lie and cheat
- Not always bad people but bad policies
Even a company-wide compliance system doesn’t prevent ethical complacency
- Andersen
Lapses can happen at highest levels
- Enron
Beware of good results or relationships
- If I’d have liked him less, I would have investigated him more
Cautions: How to Avoid Culture Disaster/Ethical Lapses

Mistakes can happen in the blink of an eye
– If we are not going to have time, our core values need to be so well grounded that you can always trust your instincts.

There is such a thing as listening to the lawyers too much.
– Enron

Things can always get worse!
– First thing you choose to do is critical

Don’t be afraid to be the skunk at the garden party
– Don’t think a complaint doesn’t matter if it’s the only one (may be the one that fells the giant)

Traits of a healthy business function

• Openness and open lines of communication
• Environment of accountability and personal responsibility
• Freedom for risk-taking within appropriate limits
• Willingness to tolerate and learn from mistakes
• Unquestioned integrity and consistency
• Pursuit of collaboration and integration
• Courage and persistence in the face of difficulty
What’s Coming?

- 11% of college students reported cheating in 1963
- 49% of college students reported cheating in 1993
- 75% of college students reported cheating in 2005-2007
- 50% of graduate students reported cheating in 2006

Josephson Institute, 2006

What’s Coming?

- 60% of high school students cheated on an exam in the last year
- 62% of high school students lied to a teacher in the past year
- 82% of high school students lied to their parents in the past year
- 33% copied something from the internet
- 28% stole from a store in the past year
- 23% stole from a parent of relative

Josephson Institute, 2006
What’s Coming?

• 60% of high school students cheated on an exam in the last year
• 61% of high school students lied to a teacher in the past year
• 81% of high school students lied to their parents in the past year
• 34% copied something from the internet
• 27% stole from a store in the past year
• 21% stole from a parent of relative

Josephson Institute, 2010

What’s Coming?

• Answered all questions on this survey completely honestly…

74%

Josephson Institute, 2010
Adult Impacts? You Bet!
High School Character and Adult Behavior:
People who cheated on exams in High School are:

- 3X more likely to lie to a customer
- 3X more likely to inflate an insurance claim
- 2x more likely to inflate an expense claim
- 2x more likely to lie to or deceive a boss
- 1½X more likely to cheat on taxes

Josephson Institute, 2006

Why Think About Ethics?

A MIND ONCE STRETCHED BY A NEW IDEA NEVER REGAINS ITS ORIGINAL DIMENSIONS.

- Oliver Wendell Holmes