Workshop: Practical Methods for Building an Ethical Culture

Agenda
- What are ethics?
- What is culture?
- What is "ethical" culture?
- Business value of a strong culture
- TAMKO case study — "The tornado"
- Current ethical landscape
- BREAK
- Exercise: responding to "excuses" and "myths"
- How to create and maintain a strong ethical corporate culture
- Exercise: Creating an Action Plan

What are Ethics?
- A set of moral principles
- The principles of conduct governing an individual or a group
- A guiding philosophy

Merriam-Webster Online Dictionary, 2009
Where Does Your Organization Stand?

“Laws control the lesser man”

“Laws control the lesser man… right conduct controls the greater one.”

Mark Twain

“Ethics is knowing the difference between what you have a right to do and what is right to do.”

Potter Stewart

What is Culture?

The set of shared attitudes, values, goals, and practices that characterizes an institution or organization

*Merriam-Webster Dictionary

What is “Ethical” Culture?

“…it is the extent to which an organization regards it’s values. Strong ethical cultures make doing what is right a priority. Ethical culture is often unwritten code by which employees learn what they should think and do.”

*Ethical Culture Building: A Modern Business Imperative, Research Report, ERC
“The quality of our expectations determines the quality of our actions.”

-- Andre Godin (1817 – 1888)
French industrialist & social experimenter

What Ethical Culture Looks Like

Employees:
- encouraged to act on values
- values are clear, positive, understandable
- take ownership of the values
- trust because feel free to communicate, respond to situations, and share
- act according to values even when no one is looking

“The misery caused by immoral leaders drives home an important point:

Ethics is at the heart of leadership”

*Craig E. Johnson

-- Craig E. Johnson
"Try not to become a man of success, but rather try to become a man of value."
Albert Einstein

"If you lose dollars for the firm by bad decisions, I will be understanding. If you lose reputation for the firm, I will be ruthless."
Warren Buffet

What Does This Have To Do With Ethics?

"B/c ethics is the foundation for law"
-- H. Woods Bowman, Ph.D.
Professor of public services mgmt. DePaul University

"A poor ethical culture breeds ethical breaches. Ethical breaches then often lead to legal violations. Too often accompanying both is financial collapse."
-- Marianne M. Jennings, J.D.
Legal Value of Culture
United States Sentencing Guidelines
Section 8B2.1(a) of the revised guidelines, November 2004:

A firm must "...promote an organizational culture that encourages ethical conduct...".

The Law Of Ethics

- Corporate governance matters
- Legally mandated ethics-corp. governance measures
  - In re Caremark (1996)
  - Federal Prosecutorial Policy Re: Organizations
- SOX – Internal controls & accountability
- FCA & whistleblower provisions
- S/H derivative lawsuits
- False Claims Act (FCA) Amendments
- Public expectations

Business Value of Culture

"...at the end of the day, your competitors can mimic and better your product offer. They can create stronger distribution systems than yours. They can outspend you in advertising and promotions. And, of course, they can always beat you up on prices. But the one thing a competitor cannot mimic or copy is a well-defined corporate personality."

Steven Howard
Corporate Ethics, Corporate Culture
Corporate Image
Business Benefits of Culture

- Reputation/public image
- More stable and consistent reaction to ever changing rules/laws
- Recruitment
- Less disruptive workplace
- Find problems more quickly and solve them
“A business culture built on **excellence** will most frequently outperform a culture in which [financial] success is the **singular objective.**”

— Peter Schultz  
former CEO of BMW and Business Consultant

One (of two) hospitals completely destroyed!
Streets impassable

Retail District (600 businesses) leveled
8,000 homes damaged or destroyed

18,000 vehicles destroyed

Joplin High School (and 5 other schools) destroyed
162 Dead

As a local company, how do you respond?

Do you have a legal obligation?
“This is about individuals and business helping however they can help. We thought it was important to do something early and now.”

David Humphreys, TAMKO President and CEO
Fox Business News speaks to TAMKO about its $1 Million donation to the local Red Cross

“I can't think of a better philosophy for a company... You really do represent what's best about America.”

Fox Business anchor

How Good People Rationalize and Justify Their Unethical Conduct

➢“They Don’t Pay Me Enough
➢“I Earned It”
➢“They Owe Me”
➢“They Can Afford It”
➢“Nobody Will Know”
➢“Nobody Will Care”
➢“Everyone Else Does It”
Exercise: Responding to Excuses or Myths

In groups, come up with a persuasive response to each of these statements that you might encounter in your organization:
1. There is no such thing as business ethics, just “do good”
2. Our employees are good people, so we don’t need to focus on ethics
3. Business ethics is just good guys preaching to bad guys
4. Ethics is a topic for academics and theologians, not business people
5. Everyone else is doing this ______, so what’s the harm?
6. This is just a small thing and no one got hurt, no harm, no foul
7. We can’t terminate her for that, she’s a superstar
8. It’s impossible to manage ethics anyway, it’s so vague
9. Business ethics is the same as social responsibility
10. It’s not illegal, so it’s not unethical, right?

Sign of Future Corporate Problems

- The Seven Signs of Ethical Collapse, Marianne M. Jennings, J.D.
  - Pressure to maintain those numbers
  - Fear & silence
  - Young’uns & a bigger than life CEO
  - Weak board
  - Conflicts
  - Innovation like no other
  - Goodness in some areas atones for evil in others

Sign of Future Corporate Problems

- Study on indicators of future problems for company, Corporate Executive Board, Compliance & Ethics Leadership Council, April 2007
  - Leading indicator by a wide margin was “culture of retaliation and discomfort in speaking up.” Reasons: fear retaliation, don’t know where or how to report, and feel useless because nothing will be done
“Truth” eventually becomes public

- Technology and the internet
- “Three people can keep a secret if two are dead” Hell’s Angels
- Bad things will eventually be discovered
- Transparency as a practice in an ethical culture saves time, money, and reputation

Benefits of Strong Culture

- Employee commitment because of management character/integrity, management welcomes advice and reporting, and training on acceptable behavior
- In less ethical culture, employees will not make extra efforts

  McDowell, “The Hidden Bonus in Doing the Right Thing,
  Directors’ Monthly, 9/06
  (Deloitte Consulting research)

Benefits of Committed Workforce

- Feel responsibility to report
- See value in following policies and procedures
- Group intolerance of bad actors
- “bad actors” less likely to advance and do serious harm
- More likely to make good decisions in new situations
Current State of Ethics

- 56% of MBA students acknowledged cheating, 54% engineering, 48% education, 45% law school  (Professor Donald McCabe, Rutgers University, May 2007)
- 76% of employees in business have observed a high level of illegal/unethical conduct at work in the last 12 months (KPMG Organizational Integrity Survey)

Current State of Ethics (cont’d)

- 65% employees don’t report violations; 96% feared being accused of not being team players; 81% feared nothing would be done; 68% feared retaliation  (Society of Human Resources Managers)
- High school students: 74% cheated on an exam, 93% lied to parents, 78% lied to teachers, 37% would lie to get a job, 38% took something from a store  (Josephson Institute of Ethics)

State of Corporate Ethics

- Ethical misconduct in general is high and back at pre-Enron levels
- Many employees do not report what they observe – fearful of retaliation and skeptical that their reporting will make a difference
- Number of companies successful in incorporating strong enterprise-wide ethical culture has declined since 2005. Only 9% of companies have strong ethical cultures

*Ethics Resource Center’s 2007 National Business ethics Survey
How to Create and Maintain a Strong Ethical Culture

"I would never suggest that ethics is simple. Not only does one have to know the right things to do – one must also have the moral fortitude to do it."
Norm Augustine, former Chairman, Lockheed Martin

"It takes 20 years to build a reputation and five minutes to ruin it."
Warren Buffett

“Nothing concentrates the mind like the prospect of a hanging.”
Samuel Johnson

“What you are thunders so loudly that I cannot hear what you say to the contrary.”
Ralph Waldo Emerson

Creating and Maintaining Culture

- Leadership: (1) active supervision by the Board including asking for reports and holding management accountable, (2) senior management must talk ethical, act ethical, and provide resources for program, (3) front line supervisors – mushy middle – must act and message the values:

  “A person’s individual moral framework is only the third most important factor in deciding what they’ll do. The most important is what does their boss do…second, they look at their peers…” Marshall Schminke,
Managerial Ethics: Moral Management of People and Processes
• Written statement of values – usually in Code, clear, understandable

• Constant communication and training on values – training in all appropriate forms, daily messaging in effective forms for the culture, discussions by front line managers, publication of failures and successes as learning tool (Business Ethics Bulletins)
  - orientation of new employees
  - special training for front line supervisors
  - talk about in recruiting and hiring process

• Create expectation of reporting issues:
  - don’t retaliate
  - clear policy on non-retaliation
  - publicize various ways to report, i.e. managers, hotline, HR
  - front line managers to have discussions about value of reporting
  - publicize results of investigations/learnings
  - make improvements from failures and publicize that happened because individuals cared to report

• Include metrics for values in the personnel evaluation process

• Include value requirements/statements in the procurement process with third parties and in processes dealing with customers and all other stakeholders

• Hold all levels of employees responsible for maintaining culture by auditing, monitoring, discipline, rewards

• Make clear that every activity, even in crisis, must be done within the values of the company

• Consistency in discipline – the minute the “best salesman” is given a pass in the moment the culture takes a downturn
• Measure and report status of ethical culture: risk assessments, surveys, focus groups, hotline reports, questions raised
• Make maintaining the ethical culture a part of every job description – responsibility to report, to be educated on risks in job, no retaliation, etc.
• No tolerance for disrespectful treatment of anyone – make clear what that means in your culture

Exercise: Creating an Action Plan
• Divide into groups
• Discuss and decide on at least ten specific actions that you could lead your organization in doing that would contribute to the building of an ethical culture
• Place those actions in a three year plan with specifics on who would be responsible for the action, when it would be done, how you would test its effectiveness
• Select a spokesperson to report back to the larger group