

Building an Ethical Framework

10 questions to consider in encouraging an ethical corporate culture.

By Thomas R. Krause and Paul J. Voss

Although we are now several years into the new and landmark regulatory environment that mandates an organizational culture of ethical conduct, there remains little guidance on how to get there. Many companies are engaged in a scramble to create a paper and electronic trail to ward off prosecution, rather than in a well-designed effort to promote or govern the culture of their organizations. While procedure is essential, the lesson we have learned from organizational change efforts is that leadership, rather than rules, finally determines behaviors and their outcomes.

This article suggests 10 primary questions every executive should ask—and expect to have answered thoroughly and well—in order to initiate a culture that encourages and sustains ethical conduct. These questions are meant to be asked and answered among leaders themselves, as well as with employees throughout the organization.

1. *What is the relationship between ethics and other performance metrics in the company?* The relative cost of preventing a protracted ethical dilemma or full-fledged scandal is exponentially lower than the costs associated with fixing ethical problems. For example, see “The Cost to Firms of Cooking the Books,” by J. Karpoff, D. Lee and G. Martin, forthcoming in *The Journal of Financial and Quantitative Analysis*, for a study of the substantial costs in fines and lost market value to almost 600 firms subject to SEC enforcement before the enactment of the Sarbanes-Oxley Act. Current research demonstrates that ethical companies are more competitive, profitable and sustaining than unethical companies. The challenge for the ethical leader is to find that connection and reveal it to the organization.

2. *Have we, as required by the 2004 federal sentencing guidelines, offered ethics training for all of our employees? Does the training provide more than rote introduction of the company’s code of conduct?* Ethics training comes in all shapes and sizes, with the most successful moving from theory to practice and from the conceptual to the real. Companies must first settle on an ethical vocabulary, define terms and establish core values. Live case studies can then help leadership and management “solve” relevant ethical dilemmas, both real and hypothetical.

3. *What is the relationship between exercising sound ethics and retaining great talent?* Fortune magazine’s annual list of the top 100 companies to work for contains a wide variety of companies with no obvious common denominator. Salary, benefits, career opportunities, location and profession all vary. What they do have in common is trust between employee and employer. Ethical behavior with and among employees, then, can lay the groundwork for attracting and retaining the best talent.

4. *Have we conducted a “risk assessment” to determine our exposure to major ethical damage? What is our potential Enron?* While each company may have its unique “ethical nightmare,” most companies face similar ethical exposures (e.g., to theft and accounting irregularities). Companies must examine the potential hazards of perverse incentives (e.g., compensation based 100 percent on financial goals) and the various “unintended consequences” of policy, procedures and protocols. Companies can reduce or eliminate adverse incentives by never rewarding, intentionally or unintentionally, improper behavior.

5. *How can we be proactive in the area of ethics, culture and corporate citizenship?* Leaders need to own and

shape the culture as much as they manage, for example, quality initiatives. Research literature identifies several characteristics predictive of ethical outcomes: management credibility, upward communication, perceived organizational support, procedural justice and teamwork. Well-tested diagnostic tools allow leaders to measure these characteristics and specific behaviors that foster the culture desired.

6. *What tone should executive leadership set regarding ethics, integrity and transparency?* Setting an example is just one part of the executive leadership's responsibility. What leaders say, think and feel affects the tone as much as their actions. Mistrust, cynicism or indifference from topmost leaders can erode others' loyalty to the organization, to its mission, to employees and to shareholders. Left unchecked, this tone from the top can also potentially push ethical leaders out the door.

7. *What does management need from the board of directors and senior leadership to enhance and buttress corporate ethics?* Employees who see the governing board and executive leadership as unconcerned will discount any directives about ethics that come from them. Consistency and authenticity from the board and executive leadership play a signal role in establishing an ethics initiative. At a minimum this means providing a reasonable budget of time, talent and money.

8. *Who is driving ethics and compliance in the company?* The recent American Management Association report *The Ethical Enterprise* (2006) shows that ethical companies do not happen by accident. Companies need to designate internal drivers who move along the discussions, training and initiatives, producing ethical outcomes.

9. *Do we have consistency of message between and among the board, the CEO, the senior executive team and the associates in terms of ethics and culture?* We all need to be on the same page, but finding the proper tone and guidance can be tricky. Establishing a common vocabulary can help with this process. For example, what does it mean to act unethically? What is an ethical dilemma? Who were Aristotle, Plato and Machiavelli, and how can they help provide a vocabulary for our company? What ethical model do we want to follow? What can we do to make it stick?

10. *What roadblocks now discourage ethical conversations and the implementation of ethical practices, procedures and protocols?* Most people want to act with ethics and integrity, "to do the right thing." Yet our current approach to ethical conversation often does not advance our thinking or practice past our own perspectives. The object of dialogue, as advocated by physicist David Bohm, is "not to analyze things, or to win an argument, or to exchange opinions. Rather, it is to suspend your opinions and...to listen to everybody's opinions, to suspend them, and to see what all that means.... And if we can see them all, we may then move more creatively in a different direction." (For more information, see "On Dialogue," Ojai, Calif.: David Bohm Seminars, 1990.)

Starting the Conversation Asking these 10 questions at board meetings, in leadership team meetings, and in the course of day-to-day interactions with employees engenders a climate that leads, over time, to zero tolerance for ethical lapses and impropriety. They also help executives assure their own diligence and oversight of ethical risks and threats, and deliver on their promise to employees, shareholders, customers and the community at large.

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