Organizational Ethics: Who Needs It?
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Agenda

- What is culture?
- What is “ethical” culture?
- Business value of a strong culture
- Current ethical landscape
- Responding to “excuses” and “myths”
- How to create and maintain a strong ethical corporate culture
What are Ethics?

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

Where Does Your Organization Stand?

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

Mark Twain, writer/philosopher

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

Potter Stewart, American jurist

"Rules of society are nothing; one’s conscience is the umpire."

Marie Anne de Vichy-Chamrond, French hostess and patron of the arts 1697-1780
“As officers...we are responsible for conducting the business affairs...in accordance with all applicable laws and in a moral and honest manner....

We want to be proud of ______ and to know that ______ enjoys a reputation for fairness and honesty and that it is respected.

______’s reputation... depends on our people, on you and me. Let’s keep that reputation high.”

Kenneth Lay  July 1, 2000
What is “Ethical” Culture?

“...it is the extent to which an organization regards its 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
(Ethics Resource Center,
Washington, D.C.)

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
U.S. Pentagon “troubled”
Call for renewed emphasis on “developing moral character”: more ethics training for senior officers

- Ethical “breakdown”:  
  30 sailors accused of cheating on exam for nuclear reactor instructors
- Culture of “undue stress and fear”:  
  92 Air Force nuclear missile corps members implicated in cheating
- Kickbacks:  
  1,200 Army recruiters investigated for suspicion of fraud

“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, American financier

“In looking for people to hire, look for three qualities: integrity, intelligence and energy. And if they don’t have the first, the other two will kill you.”
Warren Buffet
What Does This Have To Do With Ethics?

“… 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,
Business Ethics Professor

“Values are like fingerprints. Nobody’s are the same, but you leave ‘em all over everything you do.”
Elvis Presley,
American Rock ‘n’ Roll Icon
**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
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.”

On Rationalization and Justification

“When you choose the lesser of two evils, always remember that it is still an evil”

Max Lerner, American editor and political columnist (1902-1992)

“All bad precedents begin as justifiable measures.”

Julius Caesar, Roman general, statesman and writer (100-44 B.C.)
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 (original quote by Benjamin Franklin)
- Bad things will eventually be discovered
- Transparency as a practice in an ethical culture saves time, money, and reputation
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; 76% of employees in business have observed a high level of illegal/unethical conduct at work in the last 12 month
54% engineering school students; and
48% education students.
45% law school students acknowledge cheating

(Professor Donald McCabe, Rutgers University, May 2007)

(KPMG Organizational Integrity Survey)
Current State of Ethics (cont’d)

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

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
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)
  o orientation of new employees
  o special training for front line supervisors
  o talk about in recruiting and hiring process
• Create expectation of reporting issues:
  o don’t retaliate;
  o clear policy on non-retaliation;
  o publicize various ways to report, i.e. managers, hotline, HR;
  o front line managers to have discussions about value of reporting;
  o publicize results of investigations/learnings;
  o make improvements from failures; and
  o 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