



INTERNAL AUDITORS ASSOCIATION
Corporate Ethics and the Impact on the Organization

JUNE 25, 2008

Hubert Edwards
bertz@coralwave.com

ETHICAL DISCLOSURE

- Portions of this presentation has been adapted from a presentation “Corporate Ethics: How to Stay Out of Jail” by Mike McCarty, Marty Rayle, Mike LaFitte, Steve Rothman, Joe Ellsworth (www.corenetglobal.org).
- The rest of the presentation represents research from other sources some of which are noted herein.
- Most of this presentation does not constitute original thoughts.

UNETHICAL BEHAVIOUR OF TITANIC PROPORTIONS



AN ETHICAL MOMENT AT THE LPIA – NASSAU, BAHAMAS

© Original Artist

Reproduction rights obtainable from
www.CartoonStock.com

I DON'T HAVE ANY
BAGGAGE TO CLAIM



DEFINITION OF “ETHICS”

People have been talking about “Ethics” for a long time but...what is it? And why has it taken on such an important role

A standard definition of “Ethics” is:

- A system of moral principles or values.
- The rules or standards governing the conduct of members of a profession, group, organization, etc.

The Daikin Group's definition of corporate ethics is to ensure company-wide compliance with all that is required to contribute to sound corporate activities that meet society's expectations in a changing social environment (www.daikin.com)

DEFINITION OF “ETHICS”

Ethics is defined as:

Careful reflection upon issues of right and wrong and on questions of whether given actions will enhance or diminish human happiness or well-being.

The results of that reflection, [is then] expressed as rules or as a code.

Codes of Ethics is very important in guiding and securing ethical behavior

WORKING DEFINITION

A Business or Corporate :

Any concern or activity designed or undertaken to create value for its owners.

- Businesses are in the business of making money.
- To achieve sustainable profitability companies or enterprises must achieve competitive advantage over their rivals
- Corporates seek competitive advantages
- Corporates try to outdo each other strategically

THREE SCHOOLS OF BUSINESS ETHICS

- ***The Poker School*** - "It's a Game".
- ***The Idealist School*** - "Do the right thing, even if it hurts."
- ***The Pragmatist School*** - "What goes around comes around."

ISSUES TO CONSIDER

How ethics and integrity can co-exist with the sometimes paradoxical drive for profit. The term **Corporate Ethics** can be argued to be an **oxymoron!**

- It is a combination of “inherently” contradictory words and concepts.

But Consider:

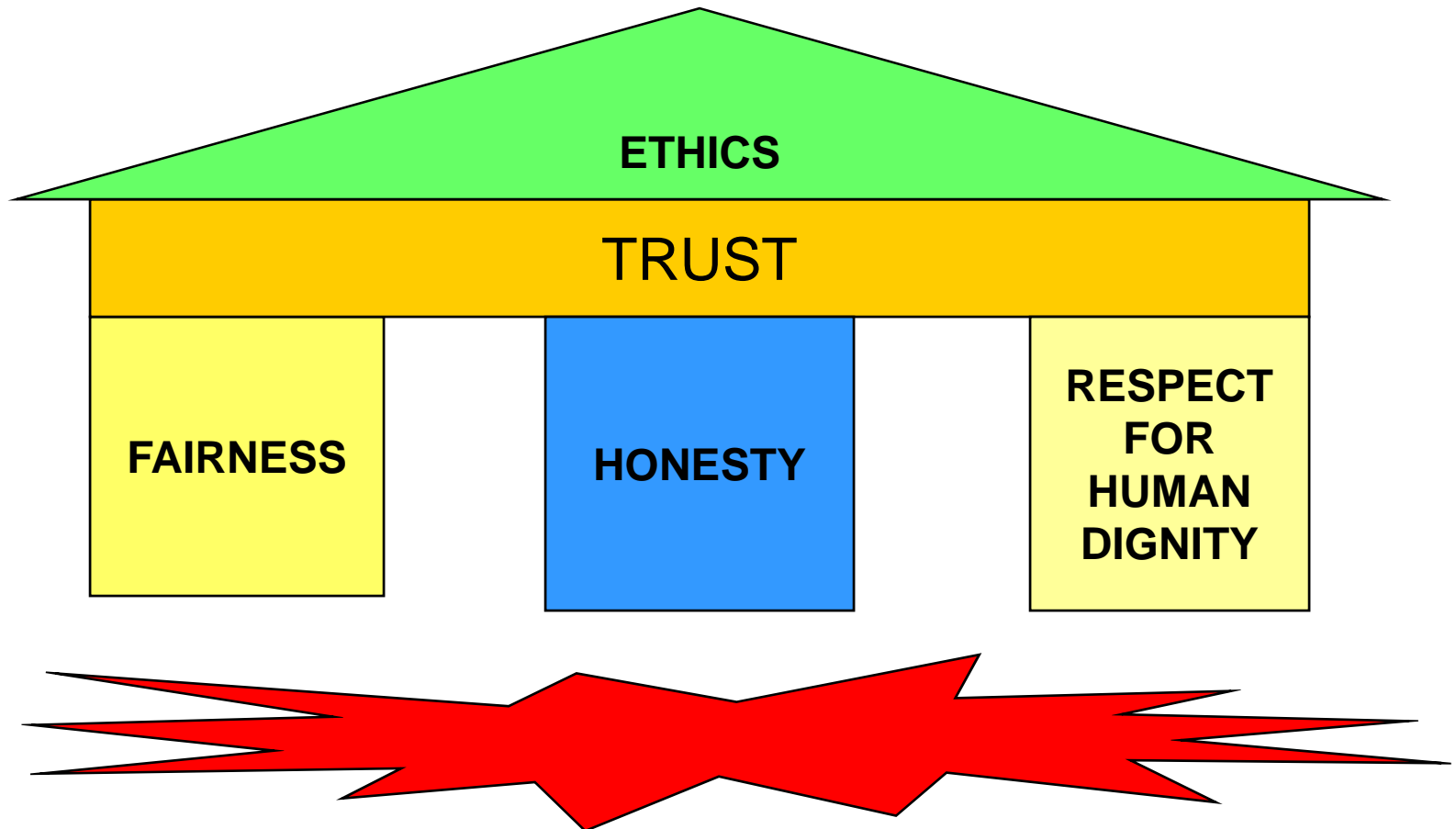
- Ethics as a competitive advantage
- **Effective Risk Management**
- Ethics as a strategic imperative
- **Effective Corporate Governance**
- Corporate social responsibility
- **Effective Internal Control**
- Social investing
- **Appropriate Control Environment**
- The Green Revolution

IS THERE AN IMPLICIT CONTRADICTION BETWEEN PROFITABILITY AND ETHICAL PRACTICES

THE CONTRADICTION

- concept of business is fundamentally based on the principle of competition for limited resources.
- maximizing one's gains at the expense of others.
- This ultimately has the effect of creating certain groupings, such as those who have and those who have not, the victors and the losers.
- This is really paramount to "eliminating the enemy" i.e. other human beings.
- The concept of ethics is based fundamentally on moral principles.
- Principles of right and wrong as dictated by *trust*.
- Trust itself is based on the ethical principles of *fairness, honesty and respect for human dignity*

HOUSE OF ETHICS



CORPORATE ETHICS

The application of ethical reflection and principles to business /corporate situations.

- ***Corporate ethics is not a different system of ethics***
- **Ethical practices applied to the corporate environment results in the body of ethical behavior**
- **Ethics and Integrity cannot be legislated, hard to enforce**
- **Top-down and bottom-up relationship**
 - Company sets the tone
 - Management leads by example
 - Staff/People deliver

RESOLUTION OF DILEMMAS

The resolution of ethical dilemmas are significantly facilitated by rules and codes and enhanced by the potential for “punishment”

- **Ethical practice does not only make sense its strategic (e.g. CSR)**
- **Ethical corporate behavior adds economic value to a company**
- Value increases by earning trust of three main constituents
 - Investors
 - Customers
 - Employees

The resolution lies in the critical fact that companies are created to add value for stakeholders

Companies which neglect to abide by ethical corporate practices destroys value and eventually “dies” – ENRON

THE “ETHICS CHECK” QUESTIONS

- **Is it legal?** - will I be violating either civil, criminal law or company policy?
- **Is it balanced?** – Is it fair to all concerned in the short term as well as the long term? Does it promote win-win relationships?
- **How will it make me feel about myself?** – Will it make me proud? Would I feel good if my decision was published in the newspaper? Would I feel good if my family know about it?

• SOURCE - THE POWER OF ETHICAL MANAGEMENT – KENNETH BLANCHARD/NORMAN VINCENT PEAL

FIVE PRINCIPLES OF ETHICAL POWER FOR ORGANIZATIONS

- **Purpose:** the mission of our organization is communicated from the top. Our organization is guided by the values, hopes and a vision that helps us to determine what is acceptable and unacceptable behaviour.
- **Pride:** We feel proud of ourselves and of our organization. We know that when we feel this way, we can resist temptations to behave unethically.
- **Patience:** We believe that holding to our ethical values will lead us to success in the long term. This involves maintaining a balance between obtaining results and caring how we achieve these results.
- **Persistence:** We have a commitment to live by ethical principles. We are committed to our commitment. We make sure our actions are consistent with our purpose.
- **Perspective:** Our managers and employees take time to pause and reflect , take stock of where we are, evaluate where we are going and determine how we are going to get there.

- SOURCE - THE POWER OF ETHICAL MANAGEMENT – KENNETH BLANCHARD/NORMAN VINCENT PEAL

Know These Guys

- Enron
 - Worldcom
 - Tyco
 - Global Crossing
 - Martha Stewart
 - Ken Lay
 - Skilling
 - Jérôme Kerviel (Société Générale)
- Global Crossing
- Qwest
- Arthur Andersen

Who Are The Good Guys?

Business Ethics Magazine ranks the “100 Best Corporate Citizens”

- Evaluated on the basis of
 - Corporate governance practices
 - Diversity policies
 - Employee relations
 - Environmental practices
 - Human rights issues
 - Product quality and safety

- Average total return to shareholders for 3 years .

Top 10 of the 100 Best Corporate Citizens - 2007

- Green Mountain Coffee Roasters Inc
- Advanced Micro Devices Inc.
- NIKE Inc.
- Motorola Inc.
- Intel Corp.
- IBM
- Agilent Technologies
- Timberland Co
- Starbucks Coffee
- General Mills Inc.

Companies on the List All Eight Years

Intel Corp
Timberland Co
Starbucks Coffee Co.
Herman Miller Inc.
Cisco Systems Inc.
Pitney Bowes Inc.
Southwest Airlines Co.
Cummins Inc.
Ecolab Inc.
Brady Corp.
St. Paul Travelers Cos. Inc.

Why Have an Ethics Program?

- Strengthen financial performance.
 - Enhance your company's reputation and strengthen your brand.
 - Recruit the best employees and reduce employee turnover.
 - Avoid law suits, judgments and fines.
 - Reduce exposure to activist pressures and boycotts.
 - Strengthen quality, planning, human resources, and production management systems.
 - Define, emphasize and reinforce the corporate culture.
- ...And, Do the Right Thing.

MEASUREMENT ?

- Does these rules actually measure what professional conduct should be or do they merely lay out minimum standards for compliance.
 - Mere compliance does not guarantee that your actions will be viewed as ethical.
 - Ethics can be in the eyes of the beholder
 - The expected action can be largely situation specific.

TEN PRINCIPLES FOR POSITIVE CORPORATE ETHICS

- Corporate Ethics:
 - Are built on Personal Ethics
 - Are based on Fairness
 - Require Integrity
 - Require Truth-telling.
 - Require Dependability

TEN PRINCIPLES FOR POSITIVE CORPORATE ETHICS

- Business Ethics:
 - Require a Business Plan
 - Apply internally and externally
 - Require a Profit
 - Are values-based
 - Come from top management

WRAPPING UP

- Good companies practice good corporate ethics
- Leadership and commitment to Ethical behavior starts with Board of Directors and Senior Management
- Controls and Policies are required – but the execution remains the people
- Those who have it will win and be rewarded, those who do not will be punished significantly

IMPLICATIONS AND TAKEAWAYS

- A positive relationship exists between social (ethical) performance and financial performance.
- Evaluating ethical performance solely on financial performance risks ignoring other benefits and beneficiaries.
- It's time to move beyond the question of “Does Ethics Pay?” and toward the action-driven inquiry, “How can managers be equipped to meet rising demands
(BRT on Ethics)

END NOTE

Questions?

Hubert Edwards

www.riskregforum.org