Swimming Naked

Oklahoma Business Ethics Consortium
2010 Summer Symposium

Donna Miller, SPHR

Principal

Executive Resource Center, LLC

e r c

executive resource center

Warren Buffett

- "You only find out who is swimming naked when the tide goes out."

Objectives

- Review results of 2009 ethics survey
- Review unique ethical risks in bad times
- Identify typical warning signs and reasons for bad behavior
- Determine why employees don't stop or report bad behavior
- Review Price Pritchett's *Ethics of Excellence*
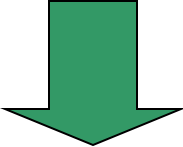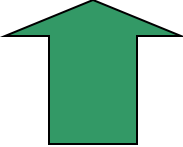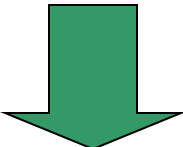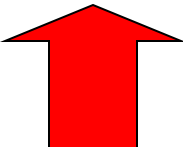- Learn how to create a culture that drives ethical behavior

Ethics Resource Center's 2009 National Business Ethics Survey

- 78% of those interviewed said they or a colleague had been affected by company efforts to weather the US recession
- Misconduct at work is down from 56% in 2007 to 49% in 2009
- Whistle blowing is up from 58% in 2007 to 63% in 2009
- Measures of ethical cultures are stronger, rising from 53% in 2007 to 62% in 2009
- Pressure to cut corners is lower from 10% in 2007 to 8% in 2009
- Only retaliation against those who reported misconduct increased (a negative trend)
- This pattern has occurred before during the dot-com bubble, 9/11 and a string of corporate scandals led by Enron
- We need to be on the alert when the economy gets better

Percentage Point Changes in Key Measures

| 7 ppts	⬇	Observed Misconduct
5 ppts	⬆	Reporting of Observed Misconduct
2 ppts	⬇	Perceived Pressure to Commit a Misconduct
3 ppts	⬆	Perceived Retaliation as a Result of Report of Misconduct

Percentage of Employees Observing Misconduct in Previous 12 Months

	Did Not Experience Company Tactic	Did Experience Company Tactic	Percentage Increase
Adjusted Work Schedules	46%	63%	38%
Layoffs	47%	61%	30%
Compensation Benefits Reductions	46%	66%	43%
Hiring Freezes	44%	62%	39%
Early Buyouts	50%	67%	35%
Production Slowdowns	48%	62%	29%
Plant Closures	52%	64%	24%

Percent of Employees Observing Various Types of Misbehavior
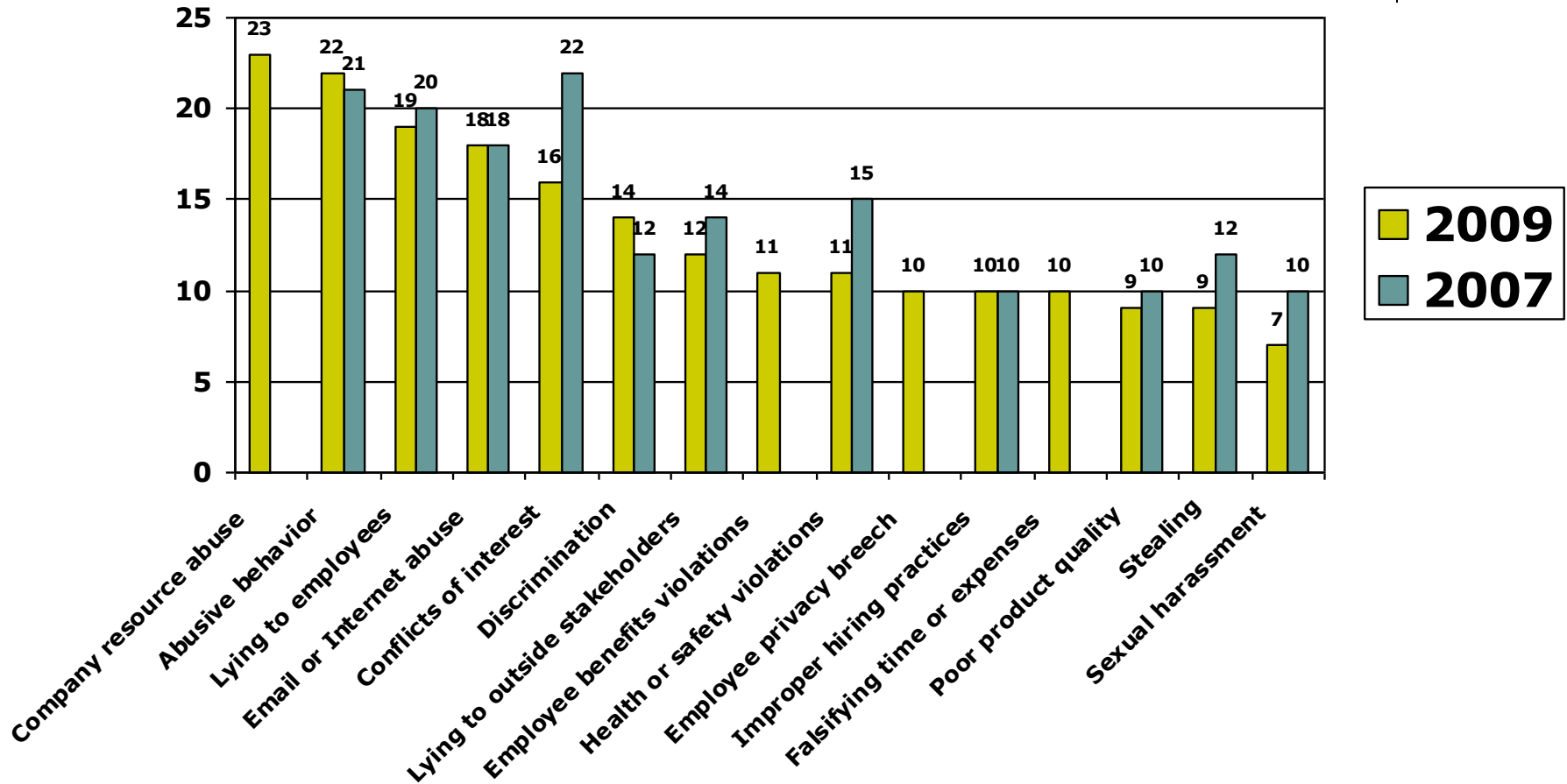
Source: Ethics Resource Center 2007 and
2009 National Business Ethics Survey

Unique Risks in Bad Times

- High pressure to perform
- More concern with accomplishing objectives than how they are achieved
- Desire to save one's own job over those of colleagues
- Pressure to cut costs at all costs
- Desire to advance or protect careers
- Hoarding of information to increase job security
- Outside demands from organizational stakeholders
- Confusion and uncertainty are the norm
- People are tentative, cautious and self-protective
- Employees feel threatened, insecure and vulnerable

# Misconduct is More Common in Negative Work Environments

- Lack of satisfaction with information from top management
- Lack of trust that top management will keep promises and commitments
- Lack of satisfaction with information from supervisors
- Lack of trust that supervisors will keep promises and commitments
- Lack of trust that coworkers will keep promises and commitments
- Rewards for employees who are successful even if it is through questionable means

Ethical Challenges

- What ethical challenges might come up in times like these?
    - Communicating appropriately
    - Doing things that put jobs at risk
    - Cutting costs by cutting corners
    - Keeping quiet about misbehavior
    - Stepping over the line to get or keep business
    - Stepping over the line to get or keep a job
    - Breaking agreements
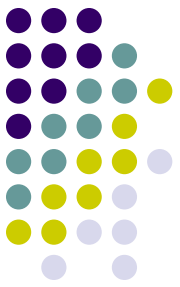
Rationalization Brainstorming

- Given this, what rationalizations might people have in their own minds for behaving unethically?
    - An executive not sharing all of his or her concerns about the business with the marketplace
    - An employee not saying something out of fear that his or her job would be eliminated
    - A supervisor not reengineering processes that could take costs out of the business because some of the operational efficiency would come from a reduction in headcount
    - A commissioned salesperson giving a government customer an expensive personal gift in exchange for renewing his contract with the company
    - A Human Resources Representative telling her sister that her brother-in-law is going to lose his job

Rationalization Brainstorming

- If it's necessary, its ethical
- The false necessity trap
- If it's legal and permissible, its proper
- It's just part of the job
- It's all for a good cause
- I was just doing it for you
- I'm just fighting fire with fire
- It doesn't hurt anyone
- Everyone is doing it
- Its OK if I don't gain personally
- I've got it coming
- I can still be objective

Source: Josephson Institute of Ethics: *Making Ethical Decisions*

Source: Ethics Resource Center 2007 and
2009 National Business Ethics Survey

# "Why do 'Good' Managers Make Bad Ethical Choices?"

- Belief that the behavior is not "really" illegal or immoral
- Belief that the behavior is in the individual's or corporation's best interest
- Belief that the activity is "safe" because it will never be found out or publicized
- Belief that since the activity helps the company, the company will condone it and protect the person who engages in it
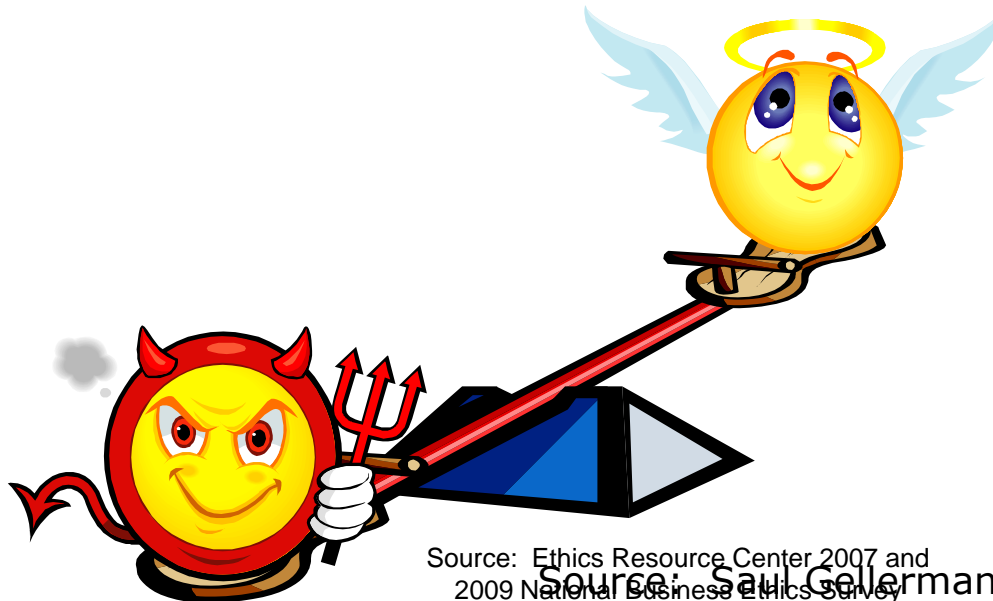
Source: Saul Gellerman – Harvard Business Review
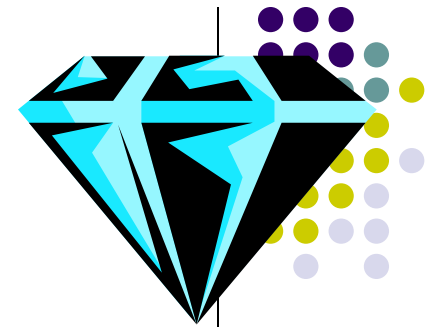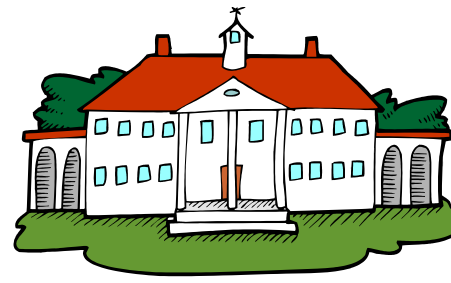
Warning Signs

- Pressure to maintain numbers at all costs
- Employee fear of losing their jobs or being punished for reporting ethical lapses
- Leaders surrounding themselves with people who are too attached to their lifestyles and trappings to challenge questionable decisions
- Weak boards that are out of touch or beholden to other board members
- Cultures that allow conflicts of interest (i.e., nepotism)
- Innovative cultures believing that universal standards are beneath them
- Sense that goodness in some area atones for bad behavior in others

Source: Knowledge@WPCarey

Sourc... ...d
200...

14

Red Flag Behavior (reported by 14%)

- Falsifying or manipulating financial information
- Overriding routine procedures (altering cut-off dates, holding the books open, misdating revenue)
- Ignoring unusual activities happening at higher levels (i.e., side agreements, unusual business deals)
- Creating fictitious vendors or invoices
- Stealing or misappropriating assets
- Submitting false or misleading invoices to customers
- Entering into contracts that lack proper terms, conditions or approvals
- Violating contract terms with customers or suppliers

Reasons Employees Don't Stop or Report Bad Behavior

- Fear of repercussions or feelings of futility
- The behavior is in a grey area between right and wrong
- People have different views of what is and isn't ethical
- The reporting process is difficult or risky
- Bad behavior that is least likely to be reported:
  - Improper hiring practices
  - Discrimination
  - Giving or accepting bribes, kickbacks or inappropriate gifts
  - Email/internet abuse and
  - Lying to employees, customers, vendors or the public

Transparent Organizations Fare Better – Set the Tone at the Top

- Provide public access to information
- Accept responsibility for your actions
- Make decisions more openly
- Establish incentives for leaders to uphold these standards
- Keep promises and commitments
- Reward performance that supports a transparent way of doing business

The Ethics of Excellence by Price Pritchett
Have a code for the Road
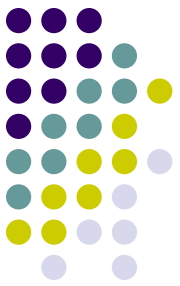
- Specify the dos and don'ts

Source: *The Ethics of Excellence* by Price Pritchett

Obey the law…but don't hide behind it

- It is only the first step
- Can step way over the ethical line and be inside the law

"In law, a man is guilty when he violates the rights of another. In ethics, he is guilty if he only thinks of doing so."
-Immanuel Kant

Source: *The Ethics of Excellence* by Price Pritchett

Do the right thing when there isn't such a thing

- We all see things differently
- "Right" is not always absolute
- Circumstances can corner you
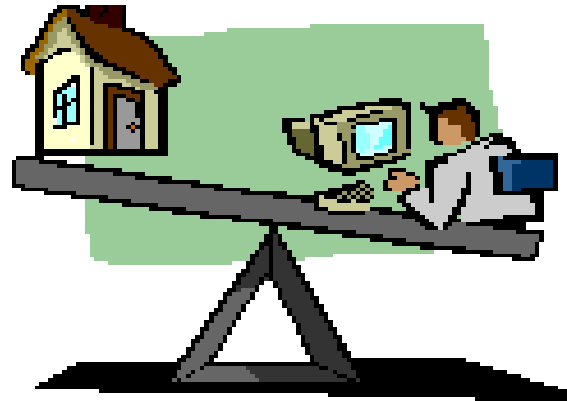
Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Listen to your conscience although you can't always trust it

- People's consciences vary
- When we run into conflicts between ethical "shoulds" and selfish "wants" we figure out how to con our conscience

Source: *The Ethics of Excellence* by Price Pritchett

Talk it out with others but choose your others carefully

- Discuss it with those whose ethics you admire; those you respect for honesty, fairness and integrity
- Discuss with people who have an opposing or different point of view
- Find people that will tell you what you need (versus want) to hear

Source: *The Ethics of Excellence* by Price Pritchett

Prepare to be punished for honesty

- People may respect you but not like you for your honesty
- You will struggle with inner conflict
- You will aggravate people
- The system may not be on your side
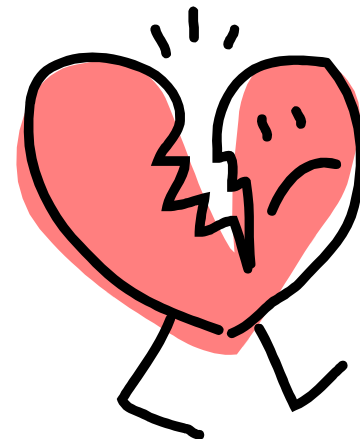
Forms of Retaliation

Percentage of Those Retaliated Against

Legend:
- **Employees Gave Cold Shoulder**
- **Supervisor/Managers Excluded Person from Decisions/Work Activity**
- **Verbally Abused by Management**
- **Almost Lost Job**
- **Verbally Abused by Other Employees**
- **Not Given Promotions or Raises**
- **Relocated or Reassigned**
- **Other**
- **Demoted**
- **Physical Harm**

X-axis: 0, 10, 20, 30, 40, 50, 60, 70

Source: Ethics Resource Center 2007 and
2009 National Business Ethics Survey

Table Discussion

- Have you or a close friend or family member been punished for honesty?

- What did you learn?

- Would you do it again?

- How could you support others facing this type of dilemma?

Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

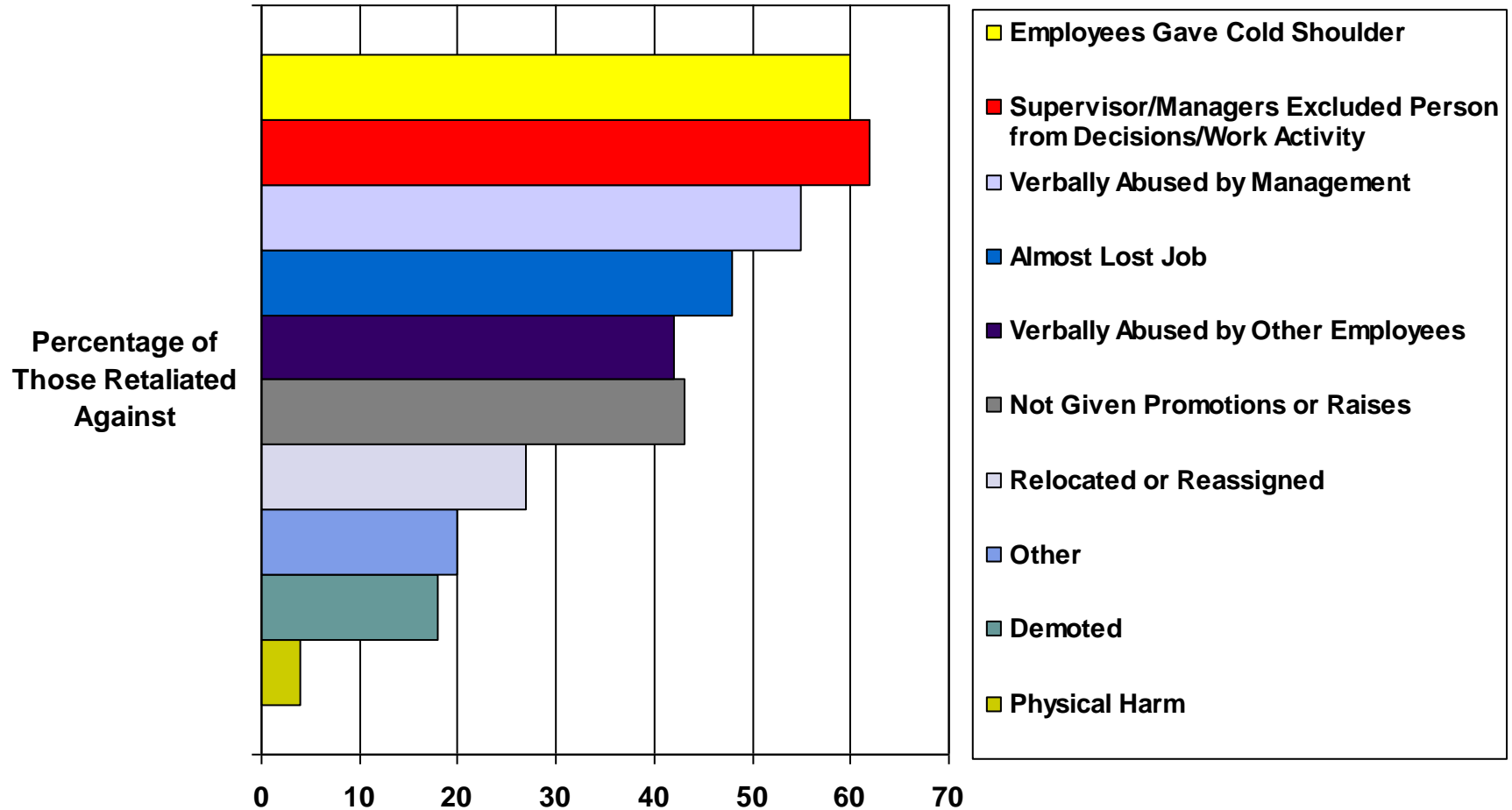Source: *The Ethics of Excellence* by Price Pritchett

Stay out of ethical debt

- Think long-term, not short-term
- Weigh today's appeal with tomorrow's punishments
- It is easier to do right than undo wrong

Source: Ethics Resource Center 2007 and
2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Sweat the small stuff

- Minor violations weaken your reputation
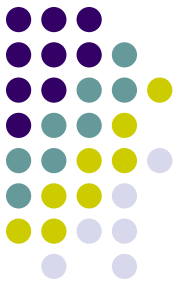
Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

React to smells

- Dilemmas sneak up on you
- Prevent rather than cure
- If something smells, stay away or get rid of it

Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Be a cheerleader for ethical champions

- Showcase people who fight for high standards
- Spread the word about good deeds
- Encourage the courageous

Source: *The Ethics of Excellence* by Price Pritchett

Permit mistakes so you don't promote cover-ups

- Give people permission to make mistakes so that they won't cover them up
- Level with people; go public with what is wrong
- Honesty saves energy and attention

Source: *The Ethics of Excellence* by Price Pritchett

Mind more than your own business

- Set, promote and enforce the ethics of excellence
- Anyone whose hands aren't clean can get the place dirty

Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Learn to live with shades of grey

- Many ethical issues are fuzzy and blurred
- Often, there are tradeoffs and compromises
- You can't keep everyone happy

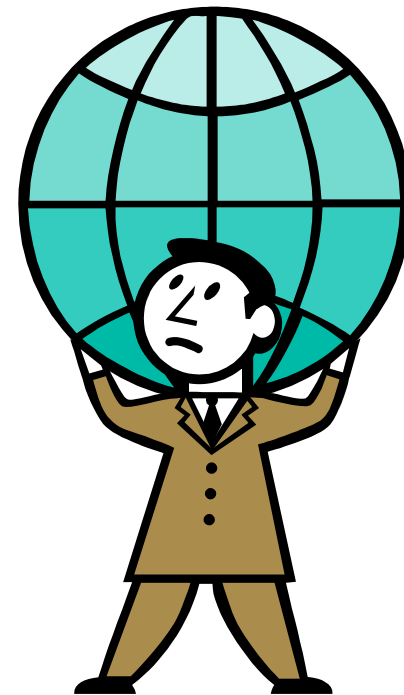Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Bear the blame for your behavior

- Ethics is a personal discipline
- You can't delegate character and integrity

"While we tend to judge ourselves by our intent, we tend to judge others by their behavior."
– Stephen M.R. Covey

Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Let pride be your guide

- How would you feel if your actions made the evening news or hometown paper
- What if 20/20, your children or your parents found about it?

Source: *The Ethics of Excellence* by Price Pritchett

Don't say what you believe; show what you believe

- Talk is cheap
- It is easier to fight for principles than live up to them
- When the heat is on "walk the talk"
- Don't just talk a good game; play a good game

Source: Ethics Resource Center 2007 and 2009 National Business Ethics Survey

Source: *The Ethics of Excellence* by Price Pritchett

Where does the buck stop?

- The buck stops here
- We can't blame "they"
- "They" can't fix things, "we" can

Source: *The Ethics of Excellence* by Price Pritchett

Ethics Resource Center Recommendations (Sarbanes-Oxley Requirements are in teal)

- Communicate written standards for ethical conduct (and have employees sign in writing)

- Train on company standards of ethical workplace conduct; particularly what is expected of the individual discovering such behavior

- Establish a mechanism for seeking ethics related advice or information

- Give employees a way to report misconduct anonymously

- Discipline those who violate the organization's standards or the law (and communicate repercussions in training)

- Assess ethical conduct as a part of employee performance appraisals

Source: Ethics Resource Center 2007 and
2009 National Business Ethess Survey

Creating an Ethical Culture

- Three most important ethics related actions are:
    - Setting a good example
    - Keeping promises and commitments
    - Supporting others in adhering to ethical standards
- Organizations with the best chance of success
    - Have a high level of self-knowledge of their own strengths and vulnerabilities
    - Focus training on specific employee behaviors that influence culture

Keys

- Ethical leadership
- Supervisor reinforcement
- Peer commitment
- Embedded ethical values
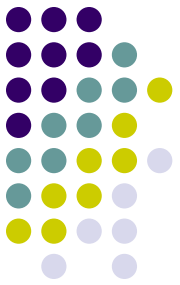
Let Your Life Be Your Message

"We must be the change we want to see in the world."
- Mahatma Gandhi

"MY LIFE IS MY MESSAGE"
Man of The Millennium

Contact Information

Donna Miller, SPHR

Principal

Executive Resource Center, LLC

(405) 255-9289 cell

(405) 715-3600 work

dmiller@executiveresource.com

Website: http://executiveresource.com

e r c
executive resource center