

Corporate Ethics - Are you the next Enron?

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The Corporate Ethics Questionnaire: How does your company compare?

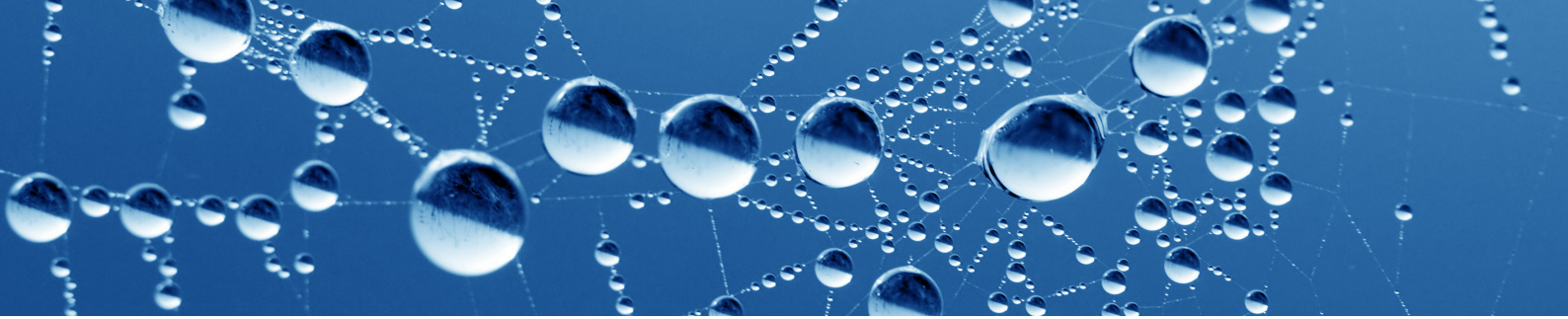
Ethics has risen spectacularly as a key corporate issue in recent years. It's not just the bad guys - Enron, World Com, Maxwell - that have focused attention, but also the good guys too:

- Marks & Spencer has recently announced a £200m investment to make the company carbon-neutral within 5 years
- GE has launched a major investment initiative, 'Ecomagination', to create sustainable business, as well as some creative financial products including a 'carbon-reducing' credit card
- TNT has teamed-up with the UN's World Food Programme to provide an emergency response team for disaster relief, playing a big role in the recent Bangladesh floods

While some of this shift is undoubtedly internally driven, there are also an increasing number of external drivers, including:

- The 2006 Companies Act, which introduced a requirement for all public companies to report on social and environmental matters
- The fact that NGOs and others are also now much sharper about putting pressure on those who they consider have stepped outside the mark; media-savvy activists can now utilise YouTube and other viral communication tools to great effect
- There is also peer pressure - signing up to the principles of Tomorrow's Company, for example, enables you to rub shoulders with senior executives from BT, John Lewis, Marks & Spencer, Cadbury-Schweppes and the like

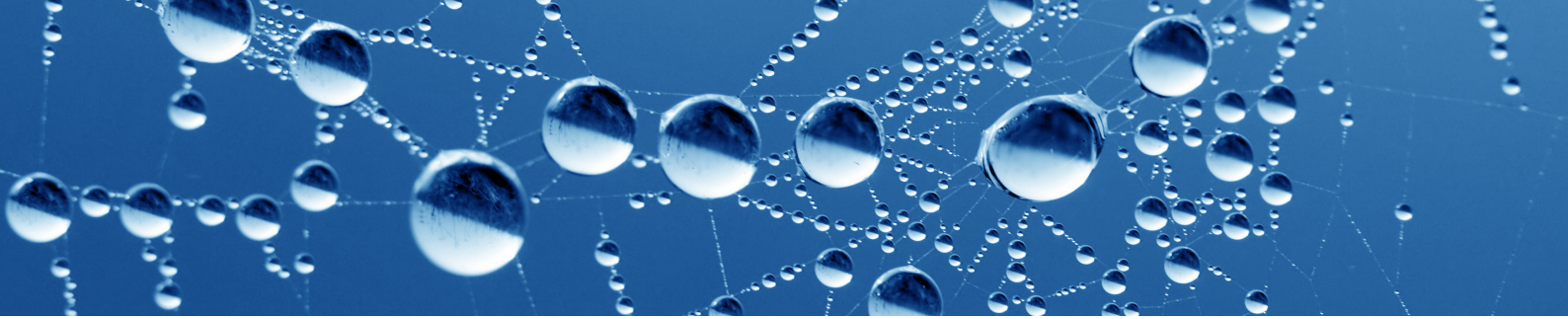
Ethics, therefore, is getting harder and harder to ignore. There is also an increasing body of evidence that suggests that when it is seen as an investment and integrated into operational working and strategic planning, there are big business benefits to be gained. This evidence includes recent research done by the Institute of Business Ethics for businesses in the UK (www.ibe.org.uk/dbepsumm.htm and www.ibe.org.uk/dbep%20revisited.pdf), which broadly concur with a bigger study done earlier by Verschoor in the US (www.socialfunds.com/news/article.cgi/article832.html).



Also the research done by Jim Collins ('Good to Great') showed that without exception all the 'best' companies he studied are value-driven rather than having an exclusive concern with making money (they still make more money than others, but not by making it a driver of their business.) Not all of the values in question were necessarily directly ethical ones, but those companies that chose ethical values (eg Merck and Johnson & Johnson) found it a lot easier to bring others (both inside the company and outside of it) along with them. Evidence from clients we ourselves have worked with recently in BCG, for example BBC, Reuters, Capespan and Nokia, strongly corroborates this finding too.

What our experience also strongly suggests is that the more deeply ethics is integrated into the life of the company; the greater is the opportunity for direct business benefits to be gained. This experience and other related research has indicated 5 distinct levels of corporate ethical engagement:

- 1. Exclusion.** This has been the traditional corporate stance, voiced most clearly by Milton Friedman in 1970 - for him and for most corporate at the time, "the business of business is business" and companies' sole purpose is therefore just to make profits for shareholders. Ethics is simply excluded.
- 2. Compliance.** Here the company's ethics are externally driven by legislation or other factors. Compliance is seen as an overhead cost, but sometimes considered more positively as a necessary hygiene factor.
- 3. Business Integration.** At this level ethics is integrated into company systems and processes. This is where audits, measures and targets play a role. Ethics becomes just the way we do business around here. This will be reflected in KPIs, balanced scorecards, etc. Management & Leadership Development will also integrate these ethical concerns. The company's ethics become part of its lived brand.
- 4. Strategic Driver.** Here ethics in one form or another becomes an integral part of strategic thinking and planning at board level and below. New business opportunities opened up by the company's ethical orientation and business practices are actively pursued. Ethics becomes an enabler and the company's ethics seen as a business asset which increases profitability rather than as an overhead cost.
- 5. Industry Advocate/Leader (and beyond.)** At this level the company uses its ethical leadership to influence both the sector as a whole or other external stakeholders. For example, following the disaster at Union Carbide's chemical plant at Bhopal in India in the 1980s, Dow Chemicals, along with others, set up Responsible Care - a charter covering all areas of the industry's work - which all other major companies have now signed-up to, and which has influenced legislation accordingly in the years that followed.



The Corporate Ethics Diagnostic Questionnaire

This indicative questionnaire covers the ethical dimension of five key areas of corporate culture: artefacts, behaviour, mind-set, emotional ground and motivational roots. It is a much shortened version of a diagnostic instrument that a number of clients have found useful in ascertaining the level or depth that ethical issues are dealt with in the company. So it is not directly about what is a good and what is a bad company as such - it is possible (though not at all likely) for a Level 4 company to be a poor ethical performer or a Level 1 company to perform well. In addition to telling you where you are, it has also proved to be a useful springboard for focussing on the key next areas of development.

(nb: Level 5 - Industry Advocate/Leader has been excluded from the current version.)

'gbrw' = Good/Bad or Right/Wrong.

Each of the following questions is followed by four characteristic responses. Score each response with '2' if it true for your company, '1' if it is partly true and '0' if it is not true at all

(a) The company's statements of Core Values/Vision:

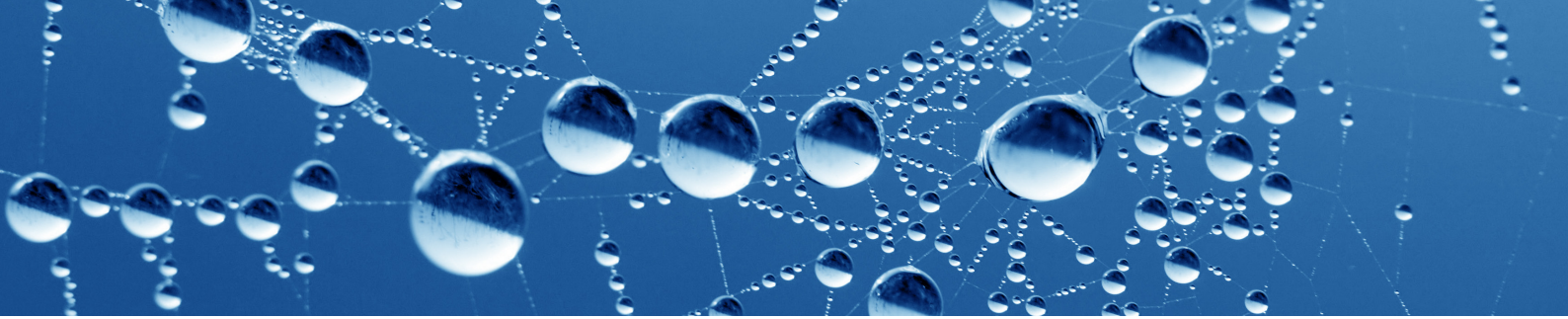
1. Either don't exist, or exclude any reference to gbrw
2. Make at least some reference to gbrw, but staff surveys reveal that only a minority of staff or managers are even aware of it/them
3. Get quoted in some operational managers' interactions with each other and with staff
4. Are seen by influential senior managers as a business asset

(b) Behaviours are commended or criticised as being gbrw:

1. Rarely, and only 'instrumentally' i.e. in so far as they impact on business goals such as profit, market share, etc
2. Occasionally, when legal considerations trump business goals
3. Sometimes or even often, being picked-up in regular management systems and processes - appraisals, performance review, balanced scorecards
4. Sometimes, when they are seen as having a critical impact on key strategic assets/drivers

(c) People's mental assumptions about gbrw in the company are that:

1. it's about what you leave behind when you come to work
2. it's what the Legal Dept reminds us about
3. it is relevant to day-to-day operations
4. it is about the company's strategic future



(d) People’s excitements, passions, concerns about gbrw:

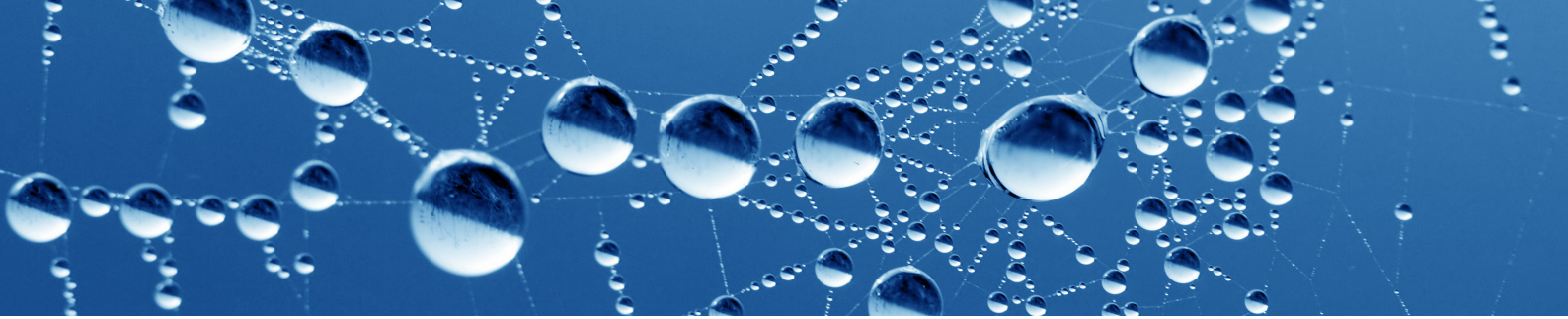
1. Are only about the things that happen outside of work
2. Act as a check-list on business-as-usual
3. Can and do come into play on some occasions through day-to-day operational systems and processes
4. Contribute to and influence strategic thinking and planning

(e) A key purpose of this company is:

1. To maximise shareholder value to the exclusion of all other goals
2. To maximise shareholder value within what is socially and legally permissible
3. To be a good corporate citizen as well as benefitting all our stakeholders
4. To be successful through doing good

Scoring

	Responses			
Question	1 (Exclusion)	2 (Compliance)	3 (Business Integration)	4 (Strategic Driver)
a				
b				
c				
d				
e				
Totals				



Interpreting the results

1. First of all look at the totals in each column. 7-10 = high; 4-6 = middle; 0-3 = low
2. If you have middle or high scores in column 1, the company's current level is Exclusion, whatever the score elsewhere. The level is also Exclusion if there are low scores in columns 2, 3 and 4, whatever the score in column 1
3. If you have high scores in any of columns 2, 3, 4, and at least middles in the other two, the one which is the furthest to the right gives you the company's current level
4. If you have no highs but one or two middles, and if your middles are in columns 2, 3 or 4, the one which is furthest to the left gives you the company's current level

Where do you go from here?

One of our key findings is that it is difficult to progress sustainably up the levels from 2 to 3, 4 and beyond without having established a firm basis at the lower level first. For instance, if you haven't secured things at the Compliance level, any advances you make at the Integration level - where you are making 'doing things right' part of the normal, unconscious practice of the company - will be vulnerable to set-backs which will undermine and discredit your efforts. The key task here - and indeed at all the levels above Exclusion - is to complete the tasks relevant to the level you are at before venturing on to the tasks at the next highest level.

This is not just about vulnerability to set-backs; getting people actually involved in the processes relevant to your existing level is also, very often, the best way of motivating and preparing them for the move to the higher level. Beginning with Compliance, for example, can get people thinking about how the costs of complying can be reduced if getting things right becomes built-in to the way people work in the first place, much as quality control processes can lead naturally to a quality assurance mindset. Accordingly, the principal way to increase the company's level of corporate ethical engagement is not so much to exhort people to think differently (though it is a useful 'nice to have' if they do), but rather to get real about where you are and simply to engage people in the actual process - though always with clarity about the next goal ahead, and awareness of the key new tasks and issues that this will involve.

But, you might ask, why try to up the actual level of your company's ethical engagement? After all, as we mentioned above, it is possible (though less likely) that a company at a lower level like Level 2: Compliance, could be more ethical than a company at any of the higher levels. Why not just concern yourself with getting people to perform more ethically? The answer is that it is not just about good or bad behaviour, but about the proven link between ethical level and business success - the higher the level, the stronger is the link between ethics and business performance. And that means that ethical drivers are just much much more powerful the higher the level that you get to. Ethics which drives business success, which in its turn then drives stronger and deeper ethical commitments, is a great recipe for sustainable ethics as well as sustainable business, and well worth having!