

Integrity Continuity: Avoiding and Surviving (Un)Ethical Disasters

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Changing our Minds

- “It couldn’t happen to us” a false sense of security, pervasive in some top corporations.

Main Point of the Session

Ethical Disasters Necessitate Integrity
Continuity Planning

On what basis do you base your confidence of integrity continuity in your company?

- Do all of your people know how to act or behave ethically and appropriately in all situations and context? Do they know the rules for each situation?
- How do you know?

On what basis do you base your confidence of integrity continuity in your company?

- Do all of your people act or behave ethically and appropriately in all situations and context?
- How do you know?
- How do you know for certain?

Fact is More Frightening than Fiction

- Recent Ethical Misconduct Scandals make prospects of the “unthinkable,” realistic threats.
- Prudent Strategic Continuity Planning must consider risks of Ethical Misconduct Disasters.
- Scan the headlines of the past few years if you need a wake up call.

Can ethical misconduct really become a “disaster” for my company?



The News Headlines Report the Grim Stories of Ethical Misconduct Disasters



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The Need for Strategic Integrity Continuity Planning is seen in the headlines.

Texaco Settles Race Bias Suit for \$176 Million

By THOMAS S. MULLIGAN
and CHRIS KRAUL
Times Staff Writers

NEW YORK—In the glare of scandal, Texaco Inc. on Friday signed what may be the largest settlement of a racial discrimination lawsuit, agreeing to pay an immediate \$115 million in damages plus pay raises of at least 10% to about 1,400 black employees.

An unusual aspect of the settlement, valued by plaintiffs' lawyers at \$176 million in all, calls for Texaco to form a seven-member "equality and tolerance task force" that will give the plaintiffs a say in hiring and promotion policy at the giant oil company.

"The era of the 'good ol' boy



I suppose that one could ignore the risks of ethical misconduct scandals?



Whose Company is next?



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Ethical Misconduct Disasters

- Disrupt Business Operation
- Negatively Affect Performance
- Litigation
- Criminal Charges
- Labor Problems
- Reputation and Image damage
- Some companies never recover

Major Categories of EMD Risks

- Harassment & Discrimination (Ethnic, Sexual, etc.)
- Criminal & Illegal Activities
- Financial Improprieties (Fraud & Falsifying Records)
- Customer/Client Deception
- Bribery & Improper Influence
- Failure to Adhere to Policy/Regulations
- Corruption & Unethical Decisions
- Undisclosed Conflict of Interest

Don't most companies avoid these types of experiences due to law of averages?

- 62% of companies experienced a significant or major integrity continuity disruption between 1986-1996.

Is the time of ethics scandals in the past?

- CFO.com predicts many more ethical scandals – up to 20 “major” business ethical misconduct disasters every year

What about the “inherent ethics” of the managers and employees you hire?

- 76% of MBA graduates reported they were willing to commit fraud to enhance profit reports to management, investors, and the public.

What do employees think about their senior Management?

- Fewer than 50% of employees believe their employers have **high ethical integrity**.

Can't we see the icebergs on the horizon before we reach the danger?

- 30% of all employees report that they ***“know or suspect ethical violations such as falsifying records, unfair treatment of employees, and lying to top management.”***

Is there an integrity iceberg in your company's path?

- Percentage of employees aware of ethical misconduct or illegal activities:

Private Sector – 41%

Public/Government – 57%

Are there “un-reported” or “under-reported” risks as well?

- **60%** of employees state that they know, but have not reported instances of misconduct in their organizations.
- - lack of confidentiality policies
 - existing ones won't protect them
 - fear of “whistle-blower” retaliation

Assumptions of an Ethical Workforce?

- 2002 study of 12,000 High School students:
 - 74% admitted cheating on an exam at least once in the past year.
 - 38% admitted shoplifting at least once in the past year.
 - 37% admitted that they would lie “in order to get a good job.”

Sentencing Guidelines hold Executives and Senior Managers Accountable

- UFSGO instructs judges to consider organizational efforts to plan, train, and implement policies to mitigate, enact full-disclosure efforts, and cooperate with authorities.

Integrity Continuity Planning must go beyond compliance issues.

LeClair (1999)

“To comply with new federal regulations that hold both organizations and their employees responsible for misconduct, organizations must assess areas of ethical and legal risk that are, in reality, ethical issues. When firms communicate to employees that certain issues are important, the intensity of the issues is elevated. The more employees appreciate the importance of an issue, the less likely they are to engage in questionable behavior associated with the issue.”



Executive level Strategic Integrity Continuity Planning Gap

- 60% of Chief Executives and Boards of Directors fail to engage in strategic integrity continuity planning.
- 57% of companies “have never” incorporated integrity continuity planning at the strategic executive or board level.

Failing to plan strategically for Integrity Continuity.

- 54 % of companies do not have employee ethics compliance measurement in their performance appraisal criteria
- 56% of companies have never conducted an ethical behavior compliance audit
- 23% have never engaged senior management in ethics/compliance training efforts

Passive “Ethical Policies” Alone Are Inadequate

- Formal Codes of Conduct and Ethics are insufficient to prevent EMD or ensure Integrity Continuity
- Active Ethics Efforts Are the Key for Integrity Continuity
- Ethical concerns must be regarded as with other business disruption/resumption concerns

Integrity Continuity Must Be Part of the Strategic Planning Process

- *Creating a Culture of Integrity: The Corporate Conscience*

Strategic Integrity Continuity Management

LeClair (1998): “If your organization is dedicated to integrity management, then training and education should be used to reinforce the core values, cultural elements, and policies that buffer misconduct...Your organization must create a solid connection between its mission, ethical values, and culture and the policies and systems designed to prevent legal violations.”

Steps for Integrity Continuity Planning

1. Set Ethical Goals & Policies at the Strategic Level

Steps for Integrity Continuity Planning

2. Distribute & Train Rules,
Policies, Procedures, and
Disciplinary Process in Writing

Steps for Integrity Continuity Planning

3. Legal Requirements Compliance

Steps for Integrity Continuity Planning

4. Designate Ethical Compliance Manager

Steps for Integrity Continuity Planning

5. Monitor and Audit Conduct (Formal and Informal)

Steps for Integrity Continuity Planning

6. Supportive Climate for Ethical Conduct

Steps for Integrity Continuity Planning

7. Ethics Training Program

Steps for Integrity Continuity Planning

8. Cultivate Culture of Corporate Conscience

Steps for Integrity Continuity Planning

9. Consistency and Fairness in Enforcement

Steps for Integrity Continuity Planning

10. Immediate Response to misconduct – Follow Procedures

Common Problem

- In most cases Ethical Disasters involve employees who failed to follow their own internal Corporate policies and guidelines.

Minimizing EMD Risks

- Assess employee conduct
- Assess EMD response readiness – including all employees knowledge and familiarity with policies, rules, and protocol
- Conduct effective active ethical conduct training
- Evaluate effectiveness of ethical codes of conduct and training efforts

Assessing Employee Ethical Conduct and Decisions

- Ethical Conduct Audit[©]
 - gather information
 - establish reporting channels
 - assess culture
 - alert to “warning signs”
 - identify patterns of misconduct

Proactive Integrity Continuity Strategies

- Demonstrate Top Management Commitment to Integrity
 - Tie Performance Rewards System to Integrity conduct
 - Use of external consultants
 - Establish corporate ethics officer/team
 - Surveillance (panoptical) & Collaborative Participation
 - “Whistle-blower” channels & policies
 - Abide by and enforce disciplinary policy
 - Organizational transformation (OT) to create shared corporate conscience.

Importance of Active Ethics Training

“...ethics can be incorporated into the corporate culture by developing a corporate conscience” and “to demonstrate how ethical considerations can be factored into a manager’s decision-making process ... The extent to which already overburdened managers and employees are committed to ethical behaviors is largely the result of the presence of this ‘corporate conscience’ (Lerbinger, 1997).

Surviving Crises of Integrity

- Some companies simply don't survive
- Those that do survive – do so because of fundamental commitment to integrity.

Corporate Expectations of Integrity

- It should not be required to “bend the rules” to successfully perform one’s job tasks. Employees can and should act in ethical ways.
- Ethical decisions and behavior are facilitated by culture, attitudes, and actions of the other employees & managers.
- Integrity is a process and way of working. It can be trained and made a work habit.
- Ethical conduct is a dividend-paying long term investment, not an expense. Ethical misconduct is a fundamental breach of obligation to stakeholders.

Responding to Ethical Disasters

- Act Quickly & Decisively
- Detection & Immediate Action
- Know your own internal procedures & policies as well as the legal & regulatory requirements
- Follow disciplinary policy consistently & swiftly
- Contact and cooperate with law enforcement when appropriate.
- Review stakeholder agendas

5-D Guidelines for Employee Misconduct

- Document
- Discover
- Document
- Disciplinary action
- Disclosure

Ethical Scandals, Rumors, Gossip and the News Media

Generally: Disclosure is preferable “cover ups.”

Stay ahead of the story :

- *Say something* to employees, public, and media
- Do not disclose propriety information
- Limit personnel information
- Do not comment on ongoing legal actions or criminal investigations
- Never, under any circumstances say “**No Comment**” to the news media

For More Information Contact

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