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Column: IBD's 10 Secrets To Success

Be Honest And Dependable; Take Responsibility

Heading Off Misconduct

By Steve Watkins

Ethical misconduct in the business world is creeping back. That's one of the key findings of the Ethics Resource Center's latest National Business Ethics Survey. The group surveyed more than 1,000 businesspeople about ethics. The number of people who said they saw misconduct at their firm rose from 52% in 2005 — the last time the study was done — to 56% this time. That puts it above the 55% reading in 2000, before the Enron scandal brought business ethics to the forefront.

"It's surprising and disappointing," said Patricia Harned, president of the Arlington, Va.-based Ethics Resource Center. "It is a significant rise."

Many experts thought the post- Enron movement would boost ethics. "The fact it hasn't is troubling," she told IBD.

The problem? Companies are devising internal programs such as those required by Sarbanes-Oxley. They don't necessarily help build an ethical culture, she says.

The study backs up Harned's contention. Firms that pushed ethics had less misconduct than those that focused on just compliance. A strong culture, which focuses on how people deal with day-to-day issues, can reduce misconduct by 75%, the study found.

"There's a huge difference between the formal corporate culture and the informal culture," said Kevin Jackson, professor of business ethics at Fordham University. "You can set up all the formal hoops to jump through, but people will see it for what it is."

How to build that culture?

* Start at the top. Strong ethical leadership filters through the firm.

"Senior managers need to recognize that almost every decision they make has an ethical component," Harned said.

They should also look for chances to show what the culture is. Those examples could range from how you handle layoffs to your reaction when employees deliver bad news.

* Supervisors must reinforce ethics. Be sure supervisors maintain the right tone. Have them encourage employees to give bad news when needed. That opens the process. "If the boss sends a vibe that he doesn't want to hear bad news, there's no incentive for me to deliver it," Jackson told IBD.

The study found that many workers don't report misdeeds when they see them because they fear the company will retaliate.

"That's a major concern," Harned said. "If management doesn't know there's a problem, it can't do anything about it."

* Be consistent. Do what you say, Jackson says. That's the only way to encourage honest communication.

"It's all in the execution," he said. "You can do a lot of training, but then there's this big blind spot. Maybe typical ethics training is too rigid."

* Get ready for change. New technology can create a challenge, Jackson says. Questionable situations arise that training hasn't addressed. Lightning-fast technology in trading stocks, for example, can create ethical issues in how to deal with keystroke errors or mistaken orders.

"It's like the Wild West out there," Jackson said.