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Ethical culture starts at the top

Singapore Management University

ETHICAL CULTURE STARTS AT THE TOP

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In a world where people have little faith in businesses and executives, getting the C-suite to build a credible value system is critical

In the book *Into Thin Air*, an account of the fatal Everest expeditions of 1996, writer Jon Kraukaer recounts how two Japanese climbers pass incapacitated members of an Indian group, leaving them to die without offering any help. One of the Japanese climbers later said, “Above 8,000 metres is not a place where people can afford morality.”

While this was in relation to a mountain climb, **Paul A. Argenti**, Professor of Corporate Communication at the Tuck School of Business at Dartmouth, feels it defines, to a certain extent, how leaders view their roles.

“If you start off by thinking you’re above it all, that’s probably a recipe of disaster for creating an ethical culture across the C-suite,” he says.

Argenti spoke on the topic at a recent lecture organised by Singapore Management University’s Lee Kong Chian School of Business.

While he acknowledges the meaning of ethics could be interpreted in various ways by different people, he believes a quote by Greek philosopher Socrates–“The way to gain a good reputation is to endeavour to be what you desire to appear”–makes a good guiding principle.

“It’s pretty simple: you want a good reputation, you wouldn’t do something you would feel bad about,” Argenti explains.

GROWING AN ETHICAL CULTURE

So why don’t corporations put more thought into building an ethical culture?

It's because of naivete, Argenti tells *Perspectives@SMU*. "If they have never had any training or experienced (an ethical situation), why should we expect much of them? Once they have, however, I would be merciless if they messed up."

He feels organisations need to provide better ethical training than just a web-based test. "The best way is to do real training and make every effort to demonstrate clearly you are using ethical considerations in everyday decisions."

A company must have a clearly articulated values system, which should be closely connected to its strategy, he notes. One would think the C-suite would have strategy down pat, but that is not necessarily the case.

Argenti spent several months interviewing top executives from Fortune 100 companies. When questioned about values, their responses were either nebulous or one of ignorance.

"If you can't get the executive committee of a company to say what their strategy is, what are the chances of the person on the shop floor or working in the store… (being) able to define the strategy?" Argenti asks. "The value system ought to be very highly articulated and very clear so everybody would know how they are supposed to behave every day."

ETHICS CREATE VALUE

If companies can see this, they would be more open to building an ethical culture.

Argenti says, "I'm a pretty firm believer that if there isn't any value for business, they pretty much don't bother doing it… It can't be just 'it's the right thing to do'."

Ethics create value for businesses in the following ways:

- It helps to attract and retain talent. Argenti says millenials care more about values and ethics than previous generations when it comes to picking an employer. For several years, management consulting firm McKinsey & Company and investment bank Goldman Sachs were considered top-rated employers. Today, McKinsey is still at the top but Goldman Sachs, plagued by alleged improper practices since the late 2000s global financial crisis, has fallen from its pedestal. "(That) tells you how quickly–if a company is perceived in some way as lacking in values or ethics–they can fall off the map with that generation… I would think that over time, if you're not getting the very best and the brightest, it would make a difference."

- It influences consumer decisions. While much research may show this is true, Argenti notes, it may not be the case in reality. If a company is unethical but still offers low prices, consumers may not care.

- It helps to increase profits. Argenti says: "If I could believe that being more ethical would make me more money, I'm going to be a whole lot more ethical."

- It helps with risk management for shareholders. Companies, Argenti notes, pay too much attention to financial and operational risks when they should focus more on reputational risk. As U.S. tycoon Warren Buffet once said: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

PLAN FOR ETHICAL DILEMMAS AND LAPSES

This should be part and parcel of growing an ethical culture, but Argenti admits that moral dilemmas are not always easy to spot. Managers do not always have all of the information they need to make a decision, leaders may receive reliable, timely information but choose to ignore the signals, and they may choose to put the organisation's objectives (often financial) or their personal ones first.

Leaders also have to understand the pressure points that drive unethical behaviour. According to a report by a U.S. Ethics Resource Center study "National Business Ethics Survey: How Employees View Ethics in Their Organizations 1994-2005", the top reason for the compromise of ethical standards is pressure to meet unrealistic business objectives.

Citing the case of a US grocery chain, Argenti says, "It was the most successful grocery store chain in the US by ten-fold. Nobody could figure out how they were making the money." It was later exposed that the stores had raised products' sell-by dates and kept food on the shelves longer than they should.

"The CEO never said to them to raise the sell-by date. They just knew they had to make their numbers, they were willing to do anything."

VALUE-BASED LEADERSHIP IS CRITICAL

Referring to one of Buffet's famous quotes–"I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper – to be read by their spouses, children and friends…"–Argenti says, "He takes an active role in clearly communicating his ethical expectations to employees."

Buffet also famously said: "If you lose money for the firm, I will be understanding. Lose a shred of reputation for the firm, I will be ruthless."

"That says it all, right?" Argenti asks. "Do you think he's a fairly successful person? Isn't he one of the richest people on the planet?"

Former chairman of the U.S. Securities and Exchange Commission Harvey Pitt has also emphasised the importance of ethical leadership: "Particularly in this day and age of complex regulatory requirements… having effective procedures and policies is certainly necessary, but it's not sufficient. A company must also have the right people in leadership positions, leaders who are truthful, transparent, and fair, just as they expect their companies and employees to be. That means leaders must not only talk the talk, they must also walk the walk."

Argenti cannot agree more. Too often, he notes, devising a value statement for a company "becomes a yearly exercise where (executives) are just trying to get the words on the page". Disgraced Enron Corp had a beautiful statement, Argenti notes, yet "you can see that having it written down was not enough for this company to get it right".

Good leaders take it the extra mile. He cites how General Electric's CEO Jeff Immelt spent a year restating the company's values by getting executives from all over the world to meet and give their insights.

"That's the kind of emphasis the company put on (values)... I think that's what it really takes to get it right," Argenti says.