

## Sarbanes-Oxley: Is Corporate Compliance or Corporate Culture The Solution to Ethical Crises? The Cost of SOX May Exceed the Benefits

Enron, WorldCom, Tyco—and now Parmalat—have strengthened public support for legislation that demands corporate transparency, accountability and ethics. Through the Sarbanes-Oxley Act (SOX), the U.S. is rendering CEOs and CFOs accountable for the accuracy of financial reports and for establishing adequate disclosure controls and procedures for such disparate functions as human resources, compensation and environmental compliance. Technology suppliers have responded with an array of software, architecture and information security solutions to facilitate the accuracy and security of the many transactions that underlie a financial report. The cost of compliance has risen exponentially.

Few CFOs believe that the Sarbanes-Oxley Act will make another Enron less likely. However, there is growing evidence that changes in corporate culture can contribute substantially to the support of ethical behavior within corporate America.

### Can Corporate Culture Prevent an Ethical Crisis?

Research shows that ethical lapses are caused more by unhealthy corporate values and beliefs than by individual misbehavior. International Survey Research (ISR) has found that “Ethical (or unethical) behavior does not exist in a vacuum, but is part of a broader organizational culture that develops over time. Viewed in this light, recent scandals do not merely represent unethical acts by a few unethical executives, but broken organizational cultures that allow this kind of activity to occur, and indeed to thrive.”<sup>1</sup>

If corporate culture guides behavior more consistently than any formal rules, what kind of an environment should a CEO cultivate in order to reduce the risk of unethical behavior? According to ISR, the aspects of corporate culture that are likely to put a company at risk include an environment in which:

- **Discussion of company values is seen as a public relations ploy rather than a true commitment**
- **Acting with integrity is seen as an obstacle to success rather than a vehicle to it**
- **Open debate and questioning of the status quo is discouraged**
- **Bad news is “spun” rather than confronted head-on, and there is a “shoot the messenger” mentality, particularly as one goes up the chain of command**
- **Information of all kinds is hoarded rather than shared**

- **Behavior of high-performing employees is not questioned and the ends are emphasized (particularly the financial ends), while the means are largely ignored**
- **The external environment- including customers, investors, and the general public- is something to be manipulated, rather than respected**
- **There is an exclusive focus on short-term financial results, often matched with unrealistic performance expectations.**

Reports show that most of these conditions were thriving in Enron and the other corporations now before the courts.

### Ethics Are Good for the Business

Although recent events have highlighted the financial consequences of questionable accounting practices, other facts suggest that ethical behavior is not only the right thing to do but also positively impacts the bottom line. For example, a recent study by DePaul University found that companies explicitly committed to an ethics code return shareholder value at twice the rate of other companies. Investment reports show that 17 organizations known to be facing ethics crises have lost share price at four times the rate of the Dow Jones Industrial Average. ISR found in its study that a higher percentage of employees from financially high-performing companies view their management as trustworthy enough to be believed, feel that the core company values are clear, and perceive that the company acts with integrity in its external dealings with customers, suppliers, and the public.

Concerns over the ethics of corporate executives may at one time have seemed “soft” or largely irrelevant. We now know that ethics are directly connected to shareholder value.

### Measurement Matters

Regular monitoring of employee values and opinions is able to reveal departmental or company-wide beliefs that may lead to ethically questionable behaviors—thus enabling companies to intervene before those behaviors are rewarded and replicated throughout the organization. The perceptions of customers, shareholders and suppliers may also be monitored to provide a full picture of potential problems; reveal discrepancies between the views of employees and those of external stakeholders; and steer action planning to address those discrepancies.

“Companies need to assess whether healthy cultural practices are taking hold, which are and which aren't, if they're working in certain parts of the organization and not others, and if the emphasis needs to be changed as the culture shifts. Monitoring is the missing link that is required to ensure that the lessons of Enron, WorldCom and the other companies embroiled in ethical crises are never forgotten.” says William Sliwa, CEO of ISR.

<sup>1</sup> International Survey Research (ISR), “Ethics and Organizational Culture: How Corporate Culture Impacts Stakeholder Security”, Sept., 2002 (This study is based on employee surveys conducted in 72 companies from 1999-2002.)

### Advancing the case for creating Values-Driven Culture

<konvergeandknow> has always emphasized the need for a resilient corporate culture within the knowledge economy. The public demand for corporate transparency has now made a values-driven culture indispensable for legal as well as competitive reasons.

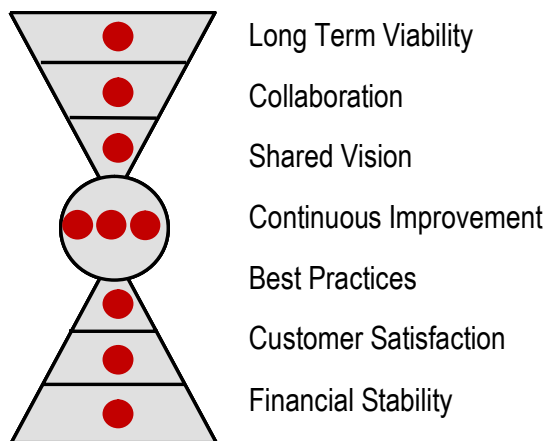
In response to this need, <konvergeandknow> assists organizations in measuring and mapping their values and strengthening their cultures through workshops for values-based management and the use of survey instruments such as the CTT<sup>®</sup> Culture Assessment Survey.

In a test carried out by McKinsey & Company, where this instrument was used in parallel with 30 structured consultant interviews, the online survey was found to provide a more comprehensive and insightful analysis, and more credible results at a fraction of the cost. The survey requires only fifteen minutes to complete, and when it is administered over the Internet, costs are the same for 100, 1000 or 5000 employees. The survey is available in seventeen languages.

#### Three survey questions are asked:

- Which of the following values/behaviors best reflect who you are?
- Which of the following values/behaviors best reflect how your organization operates? (Participants choose from a customized template that includes the organization's espoused values.)
- Which of the following values/behaviors most represent for you an ideal, high performance organization?

The results provide a comprehensive diagnostic of the alignment of personal, current culture and desired culture values. The results are plotted on a chart depicting seven stages of organizational evolution.



It has been generally acknowledged that espoused values are rarely lived and seldom resonate with anyone (leaders, managers or employees) in the enterprise. When employees are asked to pick ten values from a list of 100 that have been customized for their organization, typically less than 10% choose the espoused values and less than

15% consider those values to be ideal organizational values. Part of our engagement focuses on imparting leadership skills to senior management so that core values are lived through actions and words. The following framework demonstrates this:

- Conduct company-wide values surveys with every employee;
- Involve the senior managers in an executive workshop on values-based management where the initial results are presented;
- Coach each manager to run a values workshop with his or her team/department;
- Create a “Values Mapping” booklet for each employee;
- Run a feedback process to ensure every employee has input into the formulation of the organization's core values;
- Review the feedback and make a presentation of the final results to the entire organization;
- Institutionalize this process for other strategic initiatives.

Many of our client organizations who adopt a values-based management philosophy routinely invite their customers, suppliers and new employees to participate in values surveys.

#### Measurement is Great. Action is Better.

While monitoring corporate values is essential, it is not sufficient to shape a dynamic culture with strong ethics. However, enterprise leaders can use their cultural audit to develop a scorecard that will guide priorities and actions throughout the organization over time. This scorecard should address all the elements required by a successful and sustainable organization.

#### In Conclusion...

While the Sarbanes Oxley Act may not be the ideal response to recent corporate scandals, it is a predictable response given the impact that Enron and its successors have had on market value and shareholder confidence. Legislation is an expensive but a familiar solution. Leading cultural transformation is less familiar and perhaps more personally challenging. But creating a vibrant and ethical culture promises not only to increase transparency and accountability. There is also substantial evidence that ethical, values-based cultures are critical for creating sustained stakeholder value.

Now that is worth investing in. 

**know**>