

# The Ethics Revolution

As companies rush to grasp ethics, they must remember it's about more than rules.

BY MARJORIE KELLY

**"RULES ARE FOR MORAL INFANTS,** principles are for moral adults," says Mark Goyder, director of the UK think tank *Tomorrow's Company*. I might edit that slightly, to say rules are for moral *teenagers* — the kind of companies that push, push, push against the limits of the legal, thinking if they don't step over the line they're fine. These are firms like the ones the *Boston Globe* wrote about in June, who evaded local property taxes by reincorporating in Bermuda, then insisted they'd done nothing illegal. Or a company like KPMG, which sold abusive tax shelters for years, earning \$124 million in fees by depriving the federal government of \$1.4 billion in revenue — then told a 2003 Senate hearing the shelters "were consistent with the laws in place at the time." It's enough to make you roll your eyes and send them to their room.

In mid-June KPMG did admit its tax shelters were "unlawful" and said it took "full responsibility," firing the persons in question and setting up ethics programs. I wish I could say this was the action of a moral adult. But it struck me as the action of a scared teenager — respecting not the principle of the law, but the threat of prosecution, which could mean death for an auditing firm.

Teenage ethics are what a lot of firms are embracing these days. There's a massive ethics revolution underway, with companies falling all over themselves to hire ethics officers, announce ethics codes, set up whistleblower hotlines, and launch ethics training. In some cases these changes are part of deferred prosecution arrangements. In other cases, they stem from the 2002 Sarbanes-Oxley legislation, which on top of its account-

ing requirements directed public companies to set up ethics policies and hotlines.

Also at work is the ethics framework created by the 2004 revision of the Organizational Sentencing Guidelines. These guidelines say that if firms want leniency during a prosecution, they must have an effective ethics program in place. Among other things, this means directors and executives must assume responsibility for ethics, designate one individual to oversee ethics, and give that person sufficient authority and resources to do the job. More fundamentally, the guidelines say companies must create an *organizational culture that encourages ethics*.

This piece is the hardest for firms to grasp, and the most important. Most are "just going through the motions," says David Gebler, founder of *Working Values*, a 10-year-old ethics consulting firm in Sharon, Mass. "Companies think they can just throw together a program

with a code and courses." But the old computer adage applies, he says, "garbage in, garbage out."

Gebler says companies need a willingness to look at the culture that allows or even encourages unethical behavior. "Most unethical behavior is not done for personal gain, it's done to meet performance goals," Gebler emphasizes. It's done to benefit the company. And it stems from too aggressive financial goals, aggravated by poor communication and a culture that doesn't tolerate falling short.

If you turn that formula on its head, you have a picture of a morally intelligent company.

As Doug Lennick and Fred Kiel write in their new book, *Moral Intelligence*, the first hallmark of the morally intelligent organization is that it embraces responsibility for being of service to others. It doesn't think it's in business just to make money. Second, it allows individuals to acknowledge failures. It's a place where people feel respected and trusted, where they feel free to voice views that are unpopular, and where mistakes are treated as normal.

Such a company will also have ethics policies and reward systems. Rules remain necessary. But if we wish to be moral adults, running morally intelligent organizations, we must grasp that ethics is about the spirit of a place, and the spirit of our lives. As Lennick and Kiel say, moral intelligence is what directs our lives and companies to do something worthwhile. Without it, we're like sullen teenagers just going through the motions. Stay tuned. **BE**



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