

Ethics and Risk Management in a Global Environment

**BENTLEY COLLEGE AND
STATE STREET CORPORATION
PRESENT**

**The Bentley Global Business
Ethics Symposium
Monday, May 23, 2005**



STATE STREET®

ETHICS AND RISK MANAGEMENT IN A GLOBAL ENVIRONMENT

The Inaugural Bentley Global Business Ethics Symposium
sponsored by State Street Corporation

In Memory of Timothy B. Harbert '76
Chairman and CEO of State Street Global Advisors and
Trustee and Alumnus of Bentley College

The Bentley-State Street Symposium, the first in a multi-year partnership, is intended to unite business and higher education in the common goal of building a strong ethical foundation from which to serve our many constituencies and communities. The event brings together international experts and thought leaders from the academic, corporate and non-government organization (NGO) worlds for in-depth discussions of current practices and challenges in business ethics and corporate responsibility. The purpose of the day-long event is to both learn and inform by:

- exploring current practices in other institutions, countries and cultures;
- identifying ways to enhance issues of ethics and corporate responsibility in business education and in outreach to the corporate community; and
- disseminating this experience throughout the academic and practitioner worlds.

With over 30 speakers and panelists and an audience of approximately 140 academic and corporate participants, the May 23, 2005 Symposium provided the opportunity to explore a wide range of issues related to ethics and risk management in a global environment.

The Symposium series is hosted by the Bentley Alliance for Ethics & Social Responsibility (BAESR). Formally launched in January 2004, the Alliance's mission is to *amplify and extend the work of the autonomous centers and initiatives on campus, supporting and encouraging greater awareness of, respect for, and commitment to ethics, service and social responsibility in faculty research, curricula and campus culture*. Coordinated by **Anthony F. Buono**, Professor of Management and Sociology at Bentley, a unique feature of the Alliance is its integrative focus on ethics, social responsibility and civic engagement. In pursuit of its mission, BAESR's efforts focus on:

- Supporting and encouraging collaborative and applied transdisciplinary *research* that has the potential to significantly affect current practice.

- Influencing *curriculum* development and pedagogical innovations intended to make our students more ethically sensitive and socially aware.
- Ensuring a broad application of these principles and ideals in *campus life*.
- Attempting to foster life-long *civic engagement* among our students.
- Seeking to work closely with external organizations – *partnering* with academic and professional associations, corporations and not-for-profit organizations in pursuit of these goals.

This collaborative effort is dependent on the commitment of a broad range of stakeholders, including Bentley faculty, staff, students and alumni, as well as business executives, corporate partners, and other relevant associations and colleges and universities.

The BAESR initiative is built on “five core pillars” in the Bentley community that continue to operate as autonomous entities, but collaborate under the aegis of the Alliance:

- ***Center for Business Ethics***: Founded in 1976, the Center for Business Ethics (CBE) is an internationally recognized Center that promotes ethical leadership, conduct and cultures as critical to an effective and legitimate role for business in society.
- ***Bentley Service-Learning Center***: Established in 1990, the Bentley Service-Learning Center (BSLC), which has built a national reputation (recognized by *US News & World Report* and the Campus Compact & Princeton Review’s [2005] *81 College’s with a Conscience*), seeks to promote academic learning, to develop socially responsible working professionals, and to assist community partners in serving the human needs and interests of their constituencies.
- ***Cronin International Center***: Created in 1987, the Cronin Center prepares students to be ethical and responsible participants in the global business environment, promotes faculty teaching and research in global issues, and fosters partnerships with universities, companies and governments around the world.
- ***CyberLaw Center***: Established in 2002, the Center focuses on exploring the vast legal, social and ethical issues relevant to cyberstudies and e-commerce.
- ***Institute for Women in Leadership: Ethics, Social Justice, and Cultural Diversity***: Newly created in 2003, the Institute focuses on strengthening the presence of women in society and fostering partnerships with the business community that highlight and address issues on women in leadership.

Combined with a series of programs and activities across the institution, this initiative has led to a four-part approach that attempts to shape and influence a sense of ethics, service and responsibility throughout (1) the curriculum, (2) campus life, (3) the university's research agenda, and (4) in outreach to the academic, corporate and not-for-profit worlds.

SYMPOSIUM HIGHLIGHTS:

ETHICS AND RISK MANAGEMENT IN A GLOBAL ENVIRONMENT

Following welcoming comments by **Anthony F. Buono**, *Executive Director of the Bentley Alliance for Ethics & Social Responsibility*, and **Robert Galliers**, *Provost and Academic Vice President at Bentley*, **Joseph W. Chow**, *Executive Vice President and Chief Risk and Corporate Administration Officer at State Street Corporation*, gave the opening address on the importance of ethics and risk management at State Street.

Chow began his comments by remembering Tim Harbert, a Bentley trustee and Chairman and Chief Executive Officer of State Street Global Advisors (SSgA), the investment management arm of State Street Corporation. He noted that "Tim's untimely passing last year has brought a great sense of loss and sadness to his friends, colleagues, and admirers at State Street and the many people who were touched by his kindness, intellect, and humor from all corners of the globe. Under Tim's able leadership, SSgA grew to become one of the world's largest investment managers and significantly expanded its portfolio of products – and reflecting Tim's values, the expansion of offerings of Socially Responsible Investment funds... He personified State Street's corporate value in engaging our communities worldwide."

Ethics and Risk Management at State Street

Chow noted that as a leading global provider of asset servicing and investment management services to institutional investors – with over 9 trillion dollars in assets under custody and 1.4 trillion dollars of assets under management – State Street's customers "are among the most sophisticated institutional and individual investors in the world, and include investment managers, mutual funds, pension plan sponsors, large corporations and not-for-profit organizations." In providing services for institutional investors globally, Chow underscored that "State Street must manage and control certain inherent risks, and the business we are in requires us to demonstrate to our clients that we are the kind of quality institution they can entrust with their assets. In the current environment of heightened legal and regulatory requirements and scrutiny, and reflecting on the recent cases of corporate misdeeds and questionable conduct, it is critical that we maintain our reputation for quality, integrity, and the highest ethical standards – a reputation that has been established over many years. We view our reputation as our most precious asset and one that every company should be focused on maintaining and enhancing to achieve long-term, sustainable, success."

Chow stressed that “ethics is principally about values,” noting that “business ethics is a company’s attitude and conduct toward its employees, customers, community, and stockholders. Each of these constituencies relies on and expects a company to conduct business in a manner that reflects values that embrace high ethical standards at their very core, in ways that treat people honestly and fairly.” “But,” he continued, “that is not good enough. It must also meet the risk management and compliance parameters set forth by the institution. State Street believes that *good citizenship* is essential for our long-term success. It enables us to impact communities around the world in a positive way. As our Chairman and CEO says, ‘good citizenship is important not just because it’s the right thing to do, but because it’s good for business.’ We believe that everyone benefits when a company relies on an ethical foundation to guide its decision making.”

Drawing on State Street’s *Statement of Corporate Values*, Chow explained that “State Street is a global, culturally diverse company with a proud heritage of commitment to our clients, stockholders, strategic business partners, and society. We operate with absolute integrity and strive to achieve consistent excellence in everything we do; recognizing that, in the end, we succeed only if our clients succeed. We manage to achieve long-term growth. We respect our fellow employees, and we actively engage with our communities around the world.”

“While conceptually this [values] statement makes a great deal of sense, [one can question] *how* a company instills these behaviors into its employees and ultimately makes it an integral part of its corporate culture. What can a company do to ensure ethical behavior given that it is impossible to legislate and control the behavior of every employee, in every instance, and, in State Street’s situation, in all of the more than 20 countries in which we have a physical presence?”

Chow noted that “State Street’s response is to promulgate our philosophy and corporate culture through a number of complementary activities that reinforce each other – such as setting high standards for corporate governance, clearly defining a Standard of Conduct, and devoting attention and resources to risk management and compliance programs, through the implementation of policies, processes and training.”

Turning to the issue of corporate governance and the 2002 Sarbanes-Oxley Act, Chow argued that, “the spate of questionable behaviors of corporate executives and the spectacular, infamous business failures in the corporate and financial sectors over the past several years have led to intensified focus on Corporate Governance... The requirements of the Act are numerous and complex and these details have been widely discussed, particularly within the circle of academicians and practitioners represented here.” Focusing, therefore, on what he referred to as the “most important aspects of the Act,” he underscored that State Street has been operating in

accordance with sound corporate governance principles for many years, which he emphasized, “reflects the core values of our institution.”

“The vast majority of our board of directors has been comprised of independent directors for years. Our Examining and Audit Committee has been comprised of independent, knowledgeable, and active members for years, well before Sarbanes-Oxley’s requirements called for ‘financial experts.’ And our general auditor has reported directly to the Examining and Audit Committee of the board – also for years.”

“Certainly, there are specific requirements that we must meet to comply with the spirit and letter of the Act such as Section 404 – in the assessment and testing of internal control – which will bring additional assurance that our risk management and control are as good as we think they are. And we have devoted substantial resources to these efforts to ensure compliance.”

“We believe we have good values and sound governance structure – but how do we communicate the company’s values and expectations to our employees? The fundamental principles of personal and business integrity that we must abide by are expressed in our *Standard of Conduct*. It applies to all employees globally. Every employee is expected to understand and comply with the Standard of Conduct, and all applicable policies and regulatory and legal requirements.”

Chow noted that State Street’s *Standard of Conduct* is organized along two themes – (1) “how we conduct *business*” and (2) “how we conduct *ourselves*” He pointed to the firm’s “clear standards, which cover a broad array of topics, from the treatment of confidential and proprietary information, and a commitment to compete in an open and fair manner, to full compliance with applicable laws and regulations and respect for the culture and customs in every jurisdiction we conduct business globally.” He argued, however, that simply codifying a Standard of Conduct is “not enough to ensure ethical behavior. On a practical level, the ‘rubber meets the road’ when we make day-to-day business decisions. No set of rules can anticipate every conceivable situation. Also, in many instances, the laws and regulations are not always clear. Here is where we fall back on our fundamental corporate values. Are we comfortable with the integrity of our decision? Have we been intellectually honest? Is the decision consistent with our long-term goals and not one that is convenient or profitable in the short-run? Will we be as proud with our decision two or three years from now, perhaps under different societal expectations and regulatory environment from those prevailing today?”

Chow argued that if such values and standards are to be translated into action, organizations must have effective risk management and compliance programs. As he suggested, “In my experience, effective risk management and compliance must begin – again – from the top of the house, from the Board of Directors and senior management of the company. The value system

that the board of directors and senior management convey through actions, programs and communication will go a long way to shape the organization's culture and resulting attitudes. In this regard, the old adage 'actions speak louder than words' holds true."

In State Street's risk management and compliance framework, "the board sets strategic directions and approves risk management and compliance policies. Management is responsible for policy recommendation and implementation and the day-to-day discharge of risk management and compliance responsibilities. In our management structure, two dedicated corporate units, Enterprise Risk Management and Corporate Compliance provide support and oversight to business units in the identification, analysis, and management of risk. And these efforts are supported by, and tightly coordinated with, our legal and audit functions. In this structure, risk and compliance officers are deployed at the business unit level where they are close to where risks need to be identified and managed – close to where business decisions are made, close to our customers, and close to where operational processes are conducted."

"But we don't leave the management of risk solely to the business units. They are overseen by corporate level risk and compliance officers, independent from the business units, to ensure that business decisions are well-balanced – between the need to grow revenues and the need to ensure that risk and compliance parameters are met. In so doing, our goal is to optimize the value of the corporation over the long-term – again, consistent with our corporate values."

As he continued, "Certainly, any good risk and compliance program must include training as a key component. To this end, we are increasingly looking towards the use of automated, web-enabled tools for this purpose, in addition to other more traditional methods of delivery. Reflecting on our risk and compliance efforts, ultimately it is not the technical or quantitative tools that drive our success – it is the art of exercising sound judgment consistently over time – again and again. It is about commitment to quality, honesty and integrity by the board and senior management, which translates into an effective corporate governance structure with proper balance and control. It is about defining and clearly communicating our values and expectations and maintaining and enhancing an effective risk and compliance organization to ensure the corporate culture and value system permeates the entire organization. At the end of the day, risk management is everyone's business within an organization."

In conclusion, Chow noted that "Business ethics and risk management are hot topics these days. And it is our responsibility to further the knowledge of the field, both in theory and practice, in academia as well as in the corporate world, and to ensure that the intensified attention on these issues is not merely a fad but something that will contribute, not just to the betterment of the business community, but to our society-at-large, in the years to come."

BROADENING OUR UNDERSTANDING OF RISK MANAGEMENT

The opening panel, moderated by **Michael Hoffman**, *Executive Director of the Center for Business Ethics* (CBE), focused on changing perspectives on risk management. **Barbara Kipp**, *Partner and Global Leader of Ethics and Business Conduct at PricewaterhouseCoopers (PwC)*, began by explaining that over the past ten years there has been a basic shift in the concept of risk management from “insurance” to a greater emphasis on institution-wide “preventive risk management.” At PwC, for example, she noted that their efforts have moved away from focusing on “preventive risk management for specific parts of [their] business to a much broader view and more integrated definition of risk.”

Kipp explained that this shift is largely due to the “fundamental interrelation of different types of risks,” including compliance risk, financial risk, legal risk and reputational risk, which she characterized as the “mother of all risks.” Drawing on research conducted by PwC, Kipp pointed out that companies and their senior management are increasingly focused on “enterprise risk management” (ERM), realizing that risk management must be a company-wide, iterative process that involves all parts of the business rather than a limited, one-time event. Focusing on the concept of ERM, she briefly examined the underlying activities – including identifying risks, making judgments on risk tolerance, establishing processes to control and manage risks, and comparing and prioritizing risk-related activities.

An important part of this process, Kipp continued, is for organizations to create strong crisis management capabilities as a way of preparing an organization to deal with “unplanned risk.” Since risk elimination is impossible – suggesting that “there is only so much you can plan for” pointing to the 2005 tsunami as an example – it is important for a firm to define its “risk tolerance” in each significant area of activity. The challenge, she noted, is to “maximize value by aligning strategy and direction to achieve an acceptable level of risk in each of these areas.” At PwC, she explained that detailed interviews at all levels of the firm – focusing on issues that “keep you up at night” – are undertaken on a regular basis as a way of developing a clearer “picture for the organization and for management to be able to make judgments and define their risk tolerance.” She concluded her comments by emphasizing the critical role that ethics plays in establishing an effective ERM program.

Stephen Potts, *Chairman of the Board of the Ethics Resource Center*, continued the discussion of the ethical component of risk management. He noted current trends in the risk management arena reflect an increased emphasis on compliance, pointing to Sarbanes-Oxley and the Federal Sentencing Guidelines as examples. Although this focus is necessary, he noted that it has also “tended to deflect considerable focus from ... the underlying values that support that framework of compliance requirements.” To illustrate his point, he turned to his experience when George H. Bush appointed him as Director of the U.S. Office of Government Ethics. Potts

was charged with creating a Code of Conduct for 2.5 million federal employees – in essence, a code that would cover more people, in more varied roles than any other in existence. A *Notice of Proposed Rule Making* about the code drew over 1300 comments, and when it was initiated in 1991, he knew it would be subjected to significant questioning and interpretation.

Reflecting on his experience, he noted that “the first question that came up was about the ‘\$20 exception rule’ for gifts, a point that was included to “avoid people being sued because someone had given them a pen or invited them for lunch.” The question concerned whether the tip and tax were included in the twenty dollar limit, which prompted the *Washington Post* to print a column about the “Ethical Lunch.” As he noted, he was “half upset and half optimistic.” Clearly the downside was the risk of trivializing the Code, but on the positive side the resulting conversation was an effective way of getting people to know and talk about the new Code of Conduct. As he concluded, “any code of conduct is going to be gamed,” thus it is critical to incorporate training programs that focus on the values, purpose and underlying principles behind the rules. This experience “emphasizes the importance of setting up a system where employees, in advance of taking actions, are able to ask for advice and get an opinion.” Lamenting our present situation, he returned to his initial point about the dangers of “forgetting about the underlying values.” As he noted, it is “very important for all of us to be worried about going down this path... a company’ reputation is its most important asset, and it is crucial that its underlying values are understood by all organizational members.”

Scott Harshbarger, *Former Massachusetts Attorney General* and currently overseeing the Governance Practice at *Proskauer Rose LLP*, continued the emphasis on ethics and corporate governance. Reflecting on, and extrapolating from, his experience as an Attorney-General running for Governor of Massachusetts in 1998, he noted that the common critique of AG Eliot Spitzer’s prosecutions of Wall Street firms as being “political” is certainly misguided. “You don’t run for Governor in any state basing your campaign on prosecuting the biggest industry and the largest employers in your state, represented by the best law firms and most sophisticated PR firms, and think that that’s a brilliant recipe for success – unless you have solid evidence of serious fraud and criminality!” Of course, it has turned out that in almost all of the highly publicized cases, there were serious ethical and legal violations, and all have been “low-hanging fruit.” This conduct would not be tolerated in the public sector, he noted, so “why are – and were – they still tolerated in the corporate sector?” To further illustrate his position, he turned his attention to the myriad of additional recent examples of unethical and illegal behavior in dozens of public companies in every industry sector, including mutual funds, the NYSE exchange, insurance, airlines, health care, non-profits, and repeated examples of Board misconduct, ineptitude or lack of independence on a range of issues from accounting restatements to excessive executive compensation. Within each example, he raised the question as to whether it was a legal or ethical violation, noting, “How did such a massive breakdown in ethical conduct occur?”

Harshbarger argued that these problems are inevitable in any “closed institutional setting, where money and power intersect without checks and balances.” Noting that corporations have figured out how to monitor almost every kind of business practice, he questioned “why can’t we monitor ethical performance and why can’t we financially incent ethical behavior?” As he argued, “prevention is the best and cheapest form of public protection.” Concluding on a promising note, he argued that the current “... pain and crisis have created an opportunity ... for the corporate sector, with its excellence and its leadership, to actually step up and develop models that really work... There are accepted and valuable ‘best practices’ in the corporate governance and risk management area – including boards of directors that are actually independent, ethics and compliance systems that really work, fair executive compensation packages, and regular independent assessments and audits of corporate governance systems – that can and should be basic good business practices in this era of new realities.”

ETHICS, RISK MANAGEMENT AND CORPORATE GOVERNANCE

Moderated by **John Hansen**, an *attorney and a Research Fellow with Bentley’s Center for Business Ethics*, the panel examined boards of directors and governance issues from three perspectives – corporate governance in international settings, the responsibility of gatekeepers, and the role of director self-evaluation as part of the risk-management process. Examining the challenge of governance in a global context, **Patricia Werhane**, *Wicklander Chair of Business Ethics at DePaul University and Ruffin Professor of Business Ethics at the Darden School, University of Virginia*, noted that “our operative mindset affects how we think about corporate governance and obviously how we think about the moral responsibilities of companies to their shareholders and their other stakeholders.” She began by contrasting two governance models, a (1) a pre-Sarbanes-Oxley (S-OX) model, in which the corporation, management and board are surrounded by its stakeholders and (2) a post-S-OX model, in which our “mindset... about fiduciary relationships inside a firm ... has changed.” In the post-S-OX paradigm, the board is more closely aligned with shareholders, with greater attention placed on enhancing shareholder value. Werhane argued that these approaches to governance fall short of the complex realities of today’s global business world.

She suggested that an alliance/partnership model is a much more appropriate approach for conceptualizing board decision making in a global setting. Since a corporation and its mission are anchored in a web of relationships, the reality is that no single entity dominates. Instead each party is motivated by its role in this web of relationships and the “mission” of the resultant alliance. Werhane suggested that this way of thinking is especially important in global settings, since it treats stakeholders with respect and serves as a basis for creating greater value added for all stakeholders.

John Boatright, *Baumhart Professor of Business Ethics at Loyola University Chicago*, continued the panel discussion, turning attention to the role and responsibility of gatekeeper institutions (e.g., accounting firms, law firms, banks) in the risk-management process. Boatright argued that since these gatekeepers constitute a vital component of risk management, emerging issues concern the extent to which these gatekeepers should be (1) held morally and legally responsible for their actions and (2) involved in regulatory activities. He noted that while involving these gatekeepers in the regulatory process is becoming increasingly necessary, there are several risks and drawbacks in attempting to hold these gatekeepers morally and legally responsible.

In the sixty years following the 1933 and 1934 securities acts, intermediaries were prosecuted as secondary violators for “aiding and abetting” their clients’ acts of fraud. However, in 1994, the Supreme Court ruled that only the party that actually makes a material misrepresentation was guilty of fraud. Many intermediaries believed that this ruling created a “safe harbor” that sheltered them from legal liability. However, Boatright argued that in the fraud trials following the Enron scandal, banks are now being prosecuted as primary violators. As a result banks can no longer rely on their intermediary status as a “safe harbor.”

Requiring gatekeepers to be legally responsible for governance-related decisions, however, could force intermediary firms to settle law suits for small sums rather than fight them and risk ruinous settlements. Additionally, liability would also force intermediary institutions to collect far more information than is actually needed for the business transaction, which imposes significant costs on them. Finally, some may refuse to deal with certain clients because of risk factors, or clients may refuse to provide such detailed information and forgo the loan.

The factors considered in determining primary party liability for an intermediary are lack of due diligence, overlooking the fact that the transactions have no legitimate business purpose, and the extent to which they actively participate in the activities. Accordingly, Boatright called for a comprehensive strategy involving all gatekeeper institutions to reduce fraud.

Laurence Stybel, *co-founder of Stybel Peabody Lincolnshire*, concluded the panel by presenting an overview of his recent study of board self-evaluation. While the majority of boards (72%) he studied felt that such evaluation provided an opportunity for the board to assess how well it is advancing the interest of shareholders, relatively few of these boards (21%) actually conducted an annual evaluation. While he called for more annual self-evaluations by boards, he pointed to a number of dilemmas and pitfalls that could easily undermine the evaluation process. For example, Stybel noted that boards should view evaluation as a process rather than an event, which also has the potential of resulting in a “regulatory mindset,” frustration and burnout. Boards need to be open and honest in such evaluations, but this could create problems as minutes would inevitably resurface should litigation occur. The process can also lead to demoralization if

not undertaken properly. Stybel also cautioned that if boards are required to conduct self-evaluation the “process may never move beyond compliance.”

His solution to this paradox is for boards to use a contingency approach to such evaluation in which the boards themselves must evaluate their goals for self-evaluation and identify the key variables that should be focused on and balanced with each other. As he concluded, only after this framework is in place can a board of directors’ self- evaluation prove truly effective.

SUSTAINABILITY:

ETHICS, RISK MANAGEMENT AND THE “TRIPLE BOTTOM LINE”

Panel moderator **Lisa Newton**, *Professor of Philosophy and Director of the Program in Applied Ethics at Fairfield University*, began by explaining the “triple bottom line” as the basic components of sustainability – economic, ethical, and environmental. Economic sustainability obtains if the company generates a profit; ethical sustainability obtains if the rights of all the stakeholders are protected. “Environmental sustainability requires that the use of resources, especially non-renewable resources, can be continued indefinitely.” Newton explained three ways in which a triple bottom line is achieved: (1) In the best case, there is a convergence of goals so that saving the environment and protecting rights also saves money; 2) even if does not really save money, protecting the environment can be justified if it produces good public relations; and 3) when neither of those conditions applies, then we have to have reasonable regulations that require all companies, on an equal footing, to contribute to environmental protection.

Dirk Matten, *Professor of Business Ethics and Director of The Centre for Research into Sustainability at Royal Holloway, University of London*, picked up on this theme and focused on the challenge of the triple bottom line (TBL), sustainable development, risk and the relevance of ethics for risk management in the TBL framework. He emphasized the importance of balancing the environmental, economic, and social aspects of business because of the effect that any one of these areas has on the others. Risk, he noted, is of primary concern in a sustainability context. Yet, because the definition of risk is “socially constructed,” stakeholders might reward the company for a particular action in one cultural context and penalize the company for that same action in another context. Thus, companies need to manage the evolving societal definition of risk by staying keenly aware of stakeholder preferences. As he argued, “Stakeholder dialogue or collaboration... create[s] a framework in which the company is able to talk with stakeholders... [and] get permission... from the stakeholder” thus enhancing stakeholder relationships.

Another resource for risk management in this realm lies in institutional bodies because they provide general “rules that shape human behavior” and “reduce uncertainty by creating a structure for interaction.” Within this context, he argued that “ethics are key for risk

management.” Quoting James Lovett, Matten noted that “The way that we define what is socially and environmentally sustainable has a very strong ethical dimension.” Arguing that ethical values “change over time and space,” he suggested that “at the end of the day... the trust stakeholders put in you as a company... is crucially dependent on the fact that they agree with your ethical values.” However, despite its heuristic simplicity the triple bottom line is a rather “fuzzy idea” that requires balancing social and environmental risk and the risk of uncertain consequences. “Ethical issues come into the debate at the point where we define... the publicly accepted level of sustainability.”

Mette Morsing, *Associate Professor and Director of the Center for Corporate Values and Responsibility at the Copenhagen Business School*, provided insight into a study examining “how companies enact themselves as ethical and trustworthy organizations to their stakeholders.” Morsing argued that social responsibility is one of six ways to measure a corporation’s image, and among Scandinavian countries is “one of the strongest drivers” of corporate reputation. She found that the more closely a corporation is associated with corporate social responsibility, the better it is perceived by the public. Her study, however, also revealed that the general public prefers the company not pontificate about its socially responsible behavior. This paradox leaves the company “in a communication dilemma,” as half of the population prefers that company reports include references to its socially responsible behavior while the other half prefers it does not.

Drawing on this work, Morsing proposed that companies satisfy both preferences by publishing an annual social responsibility report, some of which looks very similar to a magazine, as a “more neutral and perhaps even objective document that is being brought forward to the stakeholders by the corporation” – despite the fact that it is generated by the company. Although this type of reporting is primarily for external purposes, it also impacts internal stakeholders. The report is an occasion for management to explain to internal stakeholders the opportunities that are available to contribute to the triple bottom line. She noted that such reports could even create a sense of community and “increased authority,” heightening the “self-worth” of the company. She cautioned, however, that upper management must make a clear commitment to the process as employees could respond negatively, questioning the relevancy of corporate social responsibility to their particular job.

Takaji (Ted) Hishiyama, *Principal of the Center for Corporate Behavior*, concluded the panel. As a former senior executive of Mitsubishi Oil Company, Hishiyama provided insight into the Japanese perspective on environmental sustainability by explaining two age-old Japanese concepts: Kyosei and Mottainai. As he noted, “Kyosei means... living and working together harmoniously into the future.” One aspect of Kyosei is protecting the environment and recognizing that humans do not own the earth; rather it belongs to *all* living species. Mottainai literally translated means “too precious to waste.” Hishiyama argued that resources are too

valuable to be carelessly disposed of and proposed that the current economic model be changed from “mass production, mass consumption and mass disposal” to the four “R’s” – “reduce, reuse, recycle, and repair.”

He explained that Mottainai and Kyosei have three specific environmental implications for the Japanese. The first is to promote “harmonious relationships between human life and nature.” The challenge in this regard is to reduce greenhouse emissions to a specified level. The Japanese government, for example, has requested that citizens maintain a room temperature of 82.4 degrees during the summertime in an effort to achieve this goal. Second, the population is decreasing, which is causing a reduction in the labor force and consumer base. Thus the challenge is to improve “socioeconomic vitality” through “better work/life balance, raising labor productivity, introducing foreign labor and increasing women’s job status.” Finally, the Japanese plan to participate in global community efforts, sharing solutions on a global basis in an effort to improve the environment.

CORPORATE LEADERSHIP AND ETHICAL BEHAVIOR: ETHICS AND RISK MANAGEMENT AT DELOITTE & TOUCHE

The Symposium’s luncheon speech was delivered by **William Bacic**, *Managing Partner New England, Deloitte & Touche*, who noted the event as a “welcome addition to the national dialogue on corporate ethics.” His comments reflected on “the connection between corporate leadership and ethical behavior, at the highest levels.” As he suggested, “That is a bond that must never be broken. For the sake of our businesses and our investors, it cannot be.”

Reflecting on his 27 years in the public accounting field, Bacic noted that he has “seen [the] profession change in ways I could never have imagined.” Far too often, he lamented, we are “reading about our profession on the front page of the *Wall Street Journal* – and not in flattering ways. The scandals of the past few years have been hard on those of us who truly love our work and what this profession stands for. I think it is fair to say that there has been – and continues to be – a lot of soul searching about how we arrived at this state of affairs. There is no issue more critically important ... than addressing the loss of confidence in the accounting profession and restoring the public’s trust.”

Raising the question of what it means for an organization “to be ethical,” Bacic noted that “lots of companies have thoughtful codes of conduct. Many hang their slogans on the wall, or say they value their employees and encourage them to do their very best. But how do you really know if a company puts its ethical principles not only on paper, but into practice? I do not think there has ever been a time when that question has been more important – to the leadership of major businesses, to the employees who support them, and to the investing public that depends on us for honest, accurate financial information. Nor do I think there has ever been a tougher

time to manage risk. Globalization brings new tests to any multinational company. We are all facing a confluence of new and difficult challenges.”

Reflecting on the past four years, which he noted “have been difficult ones for my profession and for the business community as a whole,” Basic turned his attention to the “seismic shifts in the way we operate,” from Sarbanes-Oxley and the newly created Public Company Accounting Oversight Board (PCAOB), to new rules adopted by the Securities and Exchange Commission and the major stock exchanges. As he suggested, “Some companies believed then, and continue to believe, that these measures are an overreaction – too much regulation and unrealistic expectations... and it is true, you won’t hear a lot of praise for ‘Sarbox’ coming from the C-suites of most corporations. The cost is very high, even prohibitive for some smaller companies. Some of my friends and colleagues in Boston-based companies – clients and non-clients alike – grumble about the time and expense, the drain on their internal staffs. I feel that pain. I know it is a very difficult time for many of them. But we are also in a cleansing period, and putting all of our internal controls under a kind of microscope is a good thing.”

“Studies – including one Deloitte did last year – show that audit committees are meeting more often, and that the length of those meetings is increasing. These committees are asking the tough questions. They are challenging management, demanding key financial details, setting the proper tone. Corporate boards are also making sure that more of their directors are independent. A recent study by the National Association of Corporate Directors showed that from 2001 to 2003, the number of boards with more than half of their directors being independent grew from 61 to 74 percent.”

“Our profession has done a turnaround in the Sarbanes-Oxley era. Yes, we are now a regulated profession, and that is something relatively new for all of us. But I think it has helped us restore some of the confidence investors have in our work. All this is good for corporate governance, for our profession, and for the investing public. That can only leave a positive imprint, in the aftermath of corporate scandals and the doubts they have raised. Public accounting firms have a unique mandate to make sure that the companies listed on the stock exchanges file accurate reports. That is the basis of our financial system. That is what the investing public expects of us.”

“As public accountants, we do occupy a unique role in organizations – one that gives us access to privileged information. But an audit is only a snapshot of a company, taken at a specific moment in time. We are not there 24/7, 365 days of the year. For the most part, we see things after the fact. And, while tougher regulations can prove to be medicinal, there are still limitations to our knowledge as auditors. The public has the impression that the outside auditor knows all, and that when something goes wrong, it must be the fault of the accountants. The

truth of the matter is that if someone is bound and determined to lie, cheat, and steal, they can probably get away with it. For a while, anyway.”

“Our financial systems are not perfect. Capitalism attracts ambition, and, unfortunately, also fosters greed. That is why we have checks and balances, and many sources of oversight – including the regulators, lenders, and investor groups, as well as the auditors. Are there tensions and conflicts? Of course. But that is the way it must be for this system to work.”

Bacic then turned his attention to what he referred to as the “Three C’s” – those key elements that are “absolutely essential to any company wanting to be successful and ethically more secure” – culture, controls, and consequences. “The first, *Culture*,” he suggested, “may be intangible [but] we know it definitely exists. Each company is different. Each has its own corporate personality. Ultimately, I believe creating an ethical culture comes down to the company’s leadership, and their ability to convey – through their actions and examples – the right way to do things. An ethical culture means a lot more than words and empty slogans. Enron had a fine Code of Ethics. It was bound into a beautiful volume, which you can buy on eBay as a collector’s item. It did not keep a determined group of cheaters at the top from destroying what was once a great organization.”

“The second ‘C’ is *Controls*. Businesses today are required to renew their focus on internal control and the systems of checks and balances that safeguard the integrity of financial data. There were a lot of companies that thought the new rules and requirements were overbearing and unnecessary. But once they got into the details, they found that there were real weaknesses [in their organizations], that their control systems needed to be fixed. There is a lot of remedial action taking place right now.”

“Finally, the third ‘C’ is that there is an awareness of *Consequences*. Corporate America must realize that there are costs. As disturbing as it is to watch the current parade of corporate executives on trial, I value the message it conveys – that there is accountability at stake, and a price to pay.”

“We can talk about regulation and strict codes of conduct, but ultimately integrity begins at home. I’m sure we all have personal accounts of ethical dilemmas we’ve faced in our career, and I faced one early in my own.” Bacic then shared an ethical dilemma in which he stayed with his conviction, which resulted in a restatement of financial statements, a serious consequence to a public accounting firm. As he noted, “My concern was making sure the financial statements were accurate, that the public was well served by our audit. I tell you this story not as self-congratulation, but because it speaks volumes about the ethical pressures we face daily in my profession – and how, with very few exceptions, we do the right thing.

“At Deloitte, we like to use the phrase ‘tone at the top,’ and I think that defines the approach and commitment we bring to the workplace on a daily basis. We, at Deloitte, see this as a critical time – an opportunity to renew and strengthen the moral underpinnings of our entire profession, to close the expectations gap, to clarify our goals, and to reclaim our role as guardians of the public trust.”

“We have taken a number of significant steps at our firm to reinforce that culture. For as long as I’ve been with Deloitte, we have been committed to integrity, honest communications, and open and healthy debate. But I would describe this commitment to ethics and integrity as implicit, rather than explicit. What do I mean by that? It was embedded in everything we did, but we did not really talk about it much. It was part of our DNA. It was something we took for granted.”

“We realized this had to change. One of our first steps has been to bring the topic of ethics out into the daily lives of the people at Deloitte. How do you do that with 32,000 people working in 80 offices around the country – not to mention 120,000 people in 150 countries on a worldwide basis? That’s a good question. We have a number of formal mechanisms in place. First, we have an ethics training program that encourages our employees to think of their actions and daily challenges in ethical terms. Second, we have an ethics helpline that makes it possible for employees to seek guidance or report alleged violations confidentially. And third, we have a code of ethics and professional conduct that is personal, unambiguous and explicit about the expectations we have of one another.”

“We have also taken a number of other steps to enhance our ethics program. We created the position of Chief Ethics Officer. My colleague Harold Tinkler has enthusiastically embraced that role and has become a staunch advocate nationally for higher corporate integrity. Perhaps most importantly, we have become more upfront about the importance of ethics and the way we resolve conflicts. Our partners and managers are speaking out about the dilemmas they face – frankly and forcefully. We are encouraging all our professionals to be open, to talk about it, among our peers and with our clients. If our employees are not clear about whether they are making the right call, they have a right – no, an *obligation* – to air their concerns. There is no client large enough to risk our reputation. In fact, we have walked away from clients – literally given up the business – when we could not come to an agreement with management on critical accounting matters.”

Reflecting on the future, Basic concluded by taking “a stab at a few predictions. First, there will be more corporate scandals. I wish it weren’t so, but it is an inevitable part of our marketplace. Even with the best control systems, there are still some people who do not get the message and succumb to greed. Second, there will be calls for more regulation of our profession. We have seen the impact of Sarbanes-Oxley, the PCAOB and tougher SEC enforcement, but I

think we need to take a more measured approach to adding another layer of regulatory controls. Third, the public accounting profession will be more outspoken about ethics and integrity in order to protect the investing public. They will have an even closer relationship with their audit committees to rebuild the public trust. We have learned the importance of being upfront about this. Ethics has become an explicit part of our daily practices and procedures – rather than just an implicit understanding – and it is going to stay that way.”

“The bottom line is that what we – as a profession – have to offer our clients is different from other kinds of companies. We do not manufacture cars, or coffee-makers. Our ‘product’ is judgment, advice and the experience of our people. Our dynamic, sometimes flawed financial system needs us for that intangible value we bring. This is an opportunity for public accounting professionals to refocus, to reclaim an essential role in sustaining our economic system and maintaining the public trust. When business historians 20 years from now look back, will they say the leaders of corporate America, their independent board members, and the public accounting profession understood the message and acted on it? Or will they say that it was back to business as usual?”

“Albert Einstein once said that, ‘Relativity applies to physics, not ethics.’ We cannot rebuild our ethical foundation half-way. We have got to do it all the way. No cutting corners. No passive efforts. Ultimately, I believe we will not only restore the public trust, but the actions we take today to reinforce integrity and ethics will preserve the trust of the investing public for generations to come.”

ETHICS, RISK AND STAKEHOLDER MANAGEMENT

Moderator **Robert Frederick**, *Professor of Philosophy and Chair of Bentley’s Department of Philosophy at Bentley College*, began the session by asking the panel to reflect on the day’s events. **James Post**, *Professor of Management at Boston University*, drew on the comments posed by the morning’s plenary session on “Broadening our Understanding of Risk Management,” explaining how those ideas shed light on the “vast universe of stakeholder risk.” Post identified several themes that emerged from the presentations, including the “relationship between risk and uncertainty,” “the importance of compliance,” and “the relationship between citizenship, values, and ethics.”

Post argued that the amount of uncertainty that exists for decision makers has changed. “Today we have to think in terms of enterprise risk,” whereas in the past decision makers thought more about specific risks. Secondly, firms and their managers must carefully determine what they need to do to comply with external standards. This has become especially important in light of the scandals that have occurred over the past five years causing stakeholders to lose trust in institutions. The last theme Post identified was the relationship between citizenship,

values, and ethics, and the way these ideals shape the foundation for cooperative enterprises. Companies, he argued, must have an ethical foundation and their values must represent the “underpinnings” of that ethical foundation. Regardless of the extent of a company’s code of conduct, issues not covered by the code will inevitably arise and firms must have a “moral compass” to guide decision making. The compass comes about by the moral values to which the organization is “wedded.”

Post added that while there has been an incredible “downward spiral of behavior” which has destroyed institutions, wealth, and trust, this decline has also caused a stakeholder-oriented perspective that considers how ethics and a commitment to values must be the foundation in building a successful business.

Lee Essrig, *Director of External Relations for the Ethics Officer Association (EOA)*, explained the EOA’s thinking about and response to “risk at the top.” The EOA, which is an organization for those individuals who manage ethics and compliance programs in their companies, supports ethics officers in their role as the company “conscience” in overseeing implementation of values and ethics programs. They also must articulate this role to a broad range of external stakeholders, underscoring the organizational expectations about how the firm should conduct its business. Essrig explained that it is occasionally noted that it would appear that those at the “very top” somehow remain removed from the day-to-day demands of “running an [ethics] program.” One way ethics officers can change this perception is to alert upper management to the issues that get attention from key stakeholders, such as regulators, and advise managers on ways to prevent those problems from occurring within the organization. As part of the hiring process, for example, she noted that businesses are placing less of an emphasis on hiring candidates based purely on their financial acumen and are examining broader, non-financial factors in candidate selection and management compensation. There is an increasing focus on the importance of organizational culture and “tone at the top.”

Ethics and compliance officers must also work with “all levels of the organization” to develop a partner relationship with internal stakeholders. Ethics officers need to be able to “communicate... and form partnerships and bridges and... break down the silos that exist in organizations to really convince people... they need to take ownership of the ethics and compliance program.” As she concluded, the ethics officer must be someone with whom individuals feel comfortable consulting and raising issues.

Tom Donaldson, *the Mark O. Winkelman Professor at Wharton*, argued that the internal focus of compliance and risk management has become so great that managers may forget about the other types of risk they face eventually causing “blowback.” The term blowback has its roots in politics and is used to describe a policy that produces the opposite effect of its stated intention. As an example, Donaldson explained that while Sarbanes-Oxley is intended to benefit investors,

it may very well not be worth the additional direct costs to the firm and indirect costs to the shareholder. Since an investor is only better off if the cost of S-OX compliance provides significant improvement, incremental improvement in the quality of information may not justify the expenditure.

Donaldson argued that Sarbanes-Oxley tends to be “done in a mode of black letter rules” which does not necessarily produce the desired effects. Individuals, he lamented, are capable of finding new ways to violate the rules. Using the recent scandals as an example, he underscored that each scandal involved a different type of fraud – Enron was different from Tyco, which was different from WorldCom. Furthermore, most of the controls are “downward focused.” When a scandal occurs, however, it is often at the top of the organization where controls are lacking. He argues that from the investor’s perspective the “bang is not worth the buck.”

Donaldson cited recent survey results that showed “two-thirds of US workers say they do not identify with their employer’s business goals.” To aggravate matters, the impact of the black letter compliance approach to S-OX most significantly affects the responsibilities of the “middle and lower parts of the organization.” He then turned to several ideas for mitigating some of the problems caused by S-OX: (1) boards of directors and management teams must spend more time overseeing their organizations, (2) transparency in big business must exist, (3) employees should have more participatory control, and (4) the way we conceptualize business must be redefined for the next generation of managers.

Donna Wood, *the David W. Wilson Chair in Business Ethics at the University of Northern Iowa*, concluded the panel by focusing on two innovative programs global companies are investing in to deal with stakeholder risk. Of particular interest to Wood is the phenomenon of “dismantling, disrespecting, and gutting... governmental capacity” that has occurred in the US for the past thirty years. As a result, citizens are left to wonder who will aid them in solving the “large-scale, long-term social problems that... threaten to rip our world apart.” Wood argued that “It is not true that corporate social responsibility can take the place of government.” As an example, she pointed to the multiple, large-scale social problems affecting our world today including the AIDS/HIV crisis in Africa.

Wood describes two companies that have established programs to cope with the HIV crisis in Africa; one is located in Denmark and the other is in Britain. The first company donated money from its corporate foundation to sponsor AIDS education (e.g., posters in the bathroom, condom machines). The other company initiated a more involved program which included partnering with nonprofit organizations to provide the necessary pharmaceutical medications to employees and their families at reduced prices. The company is also funding research on HIV/AIDS. The contrast between the companies is clear, and the latter company has clearly engaged in a riskier but potentially more influential socially responsible activity.

CORPORATE REPUTATION AS A STRATEGIC ASSET

Panel moderator **Michael L. Michael**, *Senior Fellow at the Center for Business and Government at Harvard University's Kennedy School of Government*, began by noting that reputation, despite its importance in the corporate world, is very difficult to measure and manage. He argued that one of the underlying complexities is that the “custodians” of a company’s reputation are often in “marketing, sales, and public relations, not necessarily upper management.”

Michael also sought to distinguish “reputation” from “identity” and “image.” Identity is defined by the firm to determine its own values, and is used internally. Image, by contrast, is the way that the company seeks to project itself (including its identity) to the outside world. Finally, reputation, Michael argued, is the “flipside” of image – a reflection of how stakeholders and the public perceive the company. As he suggested, “While a company can perhaps dictate its identity and image, it cannot dictate its reputation. Reputation can be managed, but not controlled.” Managing a company’s reputation, however crucial, will not ensure that the reputation is precisely what the company desires it to be. A core challenge facing companies, according to Michael, is to develop and implement a plan to manage both the company’s reputation and those factors beyond its control that affect that reputation.

Joan Elise Dubinsky, who serves as the *Ethics Officer for the International Monetary Fund*, suggested that “reputation rests on two pedestals, character and external observation.” Reflecting Michael’s introductory comments, she noted that although character can be controlled, external observation cannot. Character is the “essence of the organization” and onlookers cannot be forced to perceive this essence in a particular way. “To say that reputation is a strategic asset... implies control where it does not exist,” she argued. “Character is the strategic asset,” and if firms focus on their character “reputation will follow.”

Dubinsky warned that if a company’s focus is external observation rather than character, “a significant part of the equation” will be missed, and observers will ultimately question the substance of what the organization is telling them. This is not to suggest that one can disregard other’s opinions, which she argued would be “arrogant at best and shameless at worst,” but such efforts must be based in the realities of organizational character.

Drawing on her experience with the International Monetary Fund (IMF), Dubinsky illustrated her point by noting that the IMF has the responsibility to deliver what is often unpopular advice about a nation’s economic policy. She noted that “countries do not excitedly anticipate news from the Fund,” thus for roughly 50 years the IMF thought it better to remain quiet as much as possible. However, after a period of crisis the Fund discovered that transparency and communication are very important, and the transition to transparency required a fundamental shift in the IMF’s core character.

Dubinsky elaborated on the difficulty of managing reputation from a global perspective. The IMF is owned by 184 countries, and the money that is paid into the Fund by the member countries is used as a “rotating loan to keep emerging market countries afloat.” Given the sheer size of the IMF, it is nearly impossible to forge “a common set of values that works in all countries at all times.” As she concluded, developing common values that transcend nationalism, politics, and religion can be very difficult. Using prohibition against conflict of interest as an example, she pointed out that an underlying challenge is that the appearance of a conflict of interest is often culturally determined.

Denise Drace-Brownell, *Senior Counsel and Managing Director of DDB, Associates, LLC*, explained that although there are many ways to build an image, the best approach may be through what she termed “consistent messaging over time.” She maintained that the same principle applies to the issue of reputation. No company and no public relations program can manufacture a reputation for ethics. Ethics are rooted in performance, usually repeated performance, which is visible and tested in the court of public opinion. To sharpen her point, Drace-Brownell described Johnson & Johnson’s corporate responsibility credo, which was instituted in 1943 by Robert Wood Johnson, and has been at the center of J&J’s management philosophy and practices ever since. Because of their consistent behavior, she argued that J&J enjoys a powerful reputation for being an ethical company.

Drace-Brownell then discussed the strategic and tactical advantages that accrue to companies that establish themselves as being ethical organizations. Pointing to decades of research conducted by noteworthy experts in the field, she argued that companies with a reputation for being trustworthy and credible are able to recover quicker in crises. As she underscored, the trust and credibility of a source are far more important to gaining cooperation in a crisis than the actual (risk) numbers themselves. Social responsibility, in addition to ethical behavior, is also beginning to be seen as an asset to building one’s business. For instance, globalization requires that companies gain the cooperation of foreign governments, and social responsibility can accelerate that. Noting Cargill’s activities in India, which focused on teaching farmers to increase crop yields, she suggested that the initiative helped to overcome the (initial) resistance to their entering the seed market.

Ethical organizations are able to build better relations with key stakeholders – like government officials, customers, and employees – which translates into better performance results for the company. She argued that the process of building consistent ethical behavior within a company can improve operating performance and can add value to strategic decision making. Drace-Brownell stated that her experience showed her that rewarding and working to improve ethical performance generates enthusiasm and a sense of ownership among the employees – which leads to better business performance. As she concluded, over the long term building and maintaining an ethical culture ultimately enhances shareholder value.

Mark Sparano, *Managing Director and Chief Risk Officer of U.S. Trust*, continued the discussion by describing reputation as a “foundational asset” rather than merely a strategic asset. As he argued, “If you don’t have a good reputation as viewed by external stakeholders such as clients, shareholders and regulators, then you can forget about any tactics or strategies that you want to deploy. Your foundation is flawed.” Reputation must first be established, and then other, more dynamic strategies and tactics can be built upon that foundation.

Sparano suggested that integrity must be woven into a “company’s moral fiber.” He argued that rules and regulations are intrinsically flawed in this regard and thus ineffective in producing sustainable moral behavior. “Robust integrity,” on the other hand, is intrinsic and foundational. Unfortunately, companies typically do not consider the impact that reputation and integrity can have on their business – until something occurs that challenges these core principles and puts the company at risk.

He concluded his comments with several examples of firms that “self-imploded” due to a lack of integrity and “robust” reputation. He argued that “if you don’t have the tools [for integrity]... on point, all the time, you are doomed to failure.” These tools include the “tone at the top,” consistent corporate messaging, and the ability to manage crises. Drawing on U.S. Trust, Sparano noted that the firm conducts an annual survey of wealthy individuals in the U.S. to discover and understand their views about the most important attributes of a full-service wealth management/investment management company. He pointed out that the survey results consistently show that the most important factor is ability to trust the organization; much further down the list is investment performance.

DEVELOPING AN ETHICAL INFRASTRUCTURE

Keith Darcy, *Executive Director of the Ethics Officer Association* and moderator of the panel, began the session by commenting on the 1991 modifications to the U.S. Sentencing Guidelines – which he noted have readily encouraged the development of corporate ethics and compliance programs. **Patricia Ellis**, *Vice President of Business Ethics and Compliance at Raytheon Company*, then explained the importance of the ethics program at Raytheon. She noted that a company “can have the best ethics program on paper...” but that it requires organization-wide leadership support for the enterprise to truly have a “culture of integrity.” Ethical decision making must be linked to the company’s values. Most importantly, Ellis argued that an ethical tone must be established at the top of the organization: “If there is one key element that you must have” for a successful ethics program “it is leadership commitment.”

Ellis noted that implementation of the ethics program occurs every day at Raytheon. As examples, she pointed out that Bill Swanson, the company’s CEO, speaks about values and

ethics 90 percent of the time. Annual employee education at Raytheon comprises both ethics and compliance training, with an underlying goal of providing employees with a framework for decision making and problem solving. If an ethical violation does occur, corrective action is taken immediately and corrective action suitable to the offense is administered. Raytheon also regularly conducts a survey which evaluates employee attitudes and perceptions of ethics at the company. The results allow her to determine Raytheon's effectiveness in communicating its values to the employees. As she concluded, the ethics program at Raytheon strives to get organizational members to take "ownership for ethics." If a company is to successfully create an ethical infrastructure, its ethics programs must be centered "in the business."

Duane Windsor, the *Lynette S. Autrey Professor of Management in the Jesse H. Jones Graduate School of Management at Rice University*, pointed to the ethics program at Raytheon as a good working model that attempts to ensure "employee compliance with both laws and regulations and stakeholder expectations." He argued "the purpose of [such efforts] is to defend the bottom line through trust, reputation, and insulation from liability." He also drew on the Raytheon example to explore central themes in developing an ethical infrastructure: (1) what is the relationship between rules and principles?; (2) what is the relationship between compliance and integrity?; (3) what is the position of the ethics officer in the organization?; and (4) what is the role of top leadership?

Windsor reminded the audience that while trust and reputation are very fragile assets, they are, nonetheless, the chief assets of a company. An underlying problem is that since the ethics officer (EO) position is dependent on trust, the EO's ability to serve as a "watch dog" on top management is often impeded. Accordingly, Windsor suggested that a firm's general counsel, chief financial officer, and auditors are better suited as internal compliance entities.

A "difficult problem" with ethics programs, he continued, is that they raise fundamental questions about *how* an EO should produce evidence of moral integrity when (1) emphasis is placed on compliance and (2) the general social attitude toward top executives has become "distinctly hostile." Windsor suggested there are only two ways of developing such evidence. The first is that the company must assert that moral integrity is more important than money, and, secondly, the company must have firmly established and articulated values. He concluded his comments by applauding the Raytheon policy's ability to address each ethical violator individually. He argued that an important aspect of the disciplinary process and effectiveness of the overall ethical program is the ability to "rehabilitate offenders" whenever possible.

While the issues surrounding the development of an ethical company infrastructure have also become an increasingly important topic in Europe, European companies tend to emphasize values-based decision making over compliance-based rules. According to **Joan Fontrodona**, *an assistant professor in the Department of Business Ethics at IESE Business School in Barcelona*,

Spain and Academic Director of IESE's Center for Business in Society, the primary difference between U.S. and European “ethics” programs is the latter’s focus on social responsibility. Yet, while Europeans more closely align social responsibility with values-based decision, the actual implementation of these programs is “less frequent” than ethics program implementation in the U.S.

Drawing on his experience with European companies, Fontrodona argued that business ethics and social responsibility programs are “not just a matter of practices and policies” but rather a way of thinking that requires “a new paradigm.” If we, as a society, want to inculcate business ethics and social responsibility in the mainstream of companies, a paradigm shift in attitude must occur. Companies must engage in these ideals for their intrinsic value rather than ways of maximizing shareholder value. Reinforcing Patricia Ellis’ comments about ethics programs at Raytheon, Fontrodona argued that companies must align ethical strategies with the values of the company. Employees in a company must have “shared values,” ensuring that organizational members “behave according to the... characteristics and attitudes that are formulated in these programs.” Formal documents and policies are important, but are simply not sufficient to create an ethical culture.

AUTOMATING ETHICS: THE ROLE, POTENTIAL AND LIMITATIONS OF INFORMATION TECHNOLOGY

Donna Fletcher, *Associate Professor of Finance and Director of Bentley's Risk Management Program*, moderated the panel that examined the role of information technology (IT) – its limitations and potential – in ethics and compliance programs, especially in the wake of Sarbanes-Oxley. **Diane Wolff**, *President and Founder of The Blue Sage Group*, a consulting company with expertise in implementing processes for corporate governance and ethics compliance, focused her comments on “life behind the front line.” Reflecting on when she first began her career, she was told by a manager that “everybody lies,” and from that point on she knew that “ethics and corporate governance were critical to long-term organizational success.”

Drawing on her early work designing a Sarbanes-Oxley compliance program for a troubled high-tech company, she suggested that S-OX “had the hint for becoming the next Y2K.” To underscore her point, she noted that most companies are spending a million dollars for every billion dollars of revenue to be compliant with Sarbanes-Oxley. The main components, section 404 and 302, she argued are very expensive to implement, therefore “compliance on Sarbanes-Oxley act has an impact on all of us,” as these costs are being passed along to everyone in the marketplace.

Of primary concern is reducing the costs of compliance and/or getting a return on your investment in compliance. Wolff argued that one way to do this is to leverage IT, nothing that when attempting to “automate ethics” one must consider “the ability of companies to understand the decision-making process up and down the organization.” Drawing on her experience working with firms to implement S-OX, she found that “the process of becoming compliant” is basically the same as the “process of implementing governance.” A firm must understand the decision-making process in order to (1) understand what is working within the organization as well as to (2) determine the needs of the organization and (3) match them with the appropriate IT infrastructure for both the business processes used to manage the company and the compliance process itself. Occasionally, she noted that it is necessary to redesign entire business processes, thus we should be aiming at standardizing the process. Many companies find software solutions the most cost effective way “to create a repeatable, sustainable model” for both compliance management and business process automation. However as each company is unique, efficient project management skills are still required and decisions made during the process must be based on appropriate diagnosis and assessment.

Charles Le Grand, *Founder of CHL Associates*, drew on his 30 years experience in the field of security, reliability, auditability, risks and assurance issues in IT. He noted that he started his career a programmer analyst, moving into internal auditing because he wanted to “understand how... [to] ensure that we were using technology appropriately.” He recalled that “from the earliest day it was really a matter of communicating things that people just did not understand.” Unfortunately, the problem of “not knowing what we *can* do with technology” and “not knowing what we *can't* do” is still very common and must be addressed.

Le Grand explained that “in terms of using technology ethically and in terms of using it to ensure ethics within the organization,” through IT-based systems we have the ability to check up on what “everybody does, anytime, anywhere,” identifying and measuring various activities. Yet, S-OX compliance, he argued, also relates to how effectively technology is used. This can be evaluated by examining the answers to two questions: (1) “how [do] we manage the use of that technology?” and (2) “how [do] we use technology to check on technology?” Le Grand argued that “if we had measured some fairly simple things... we would have caught some of these debacles before they became debacles.” Moreover, he noted that auditors should focus on how companies have structured their framework to manage and control information. For instance, the separation of duties in small firms is difficult to establish, thus we should look at the impact it has on the organization rather than looking at it solely as a compliance issue. He concluded that “the tools are there and the implementation of these tools is not as difficult as we may be led to believe.” Echoing Diane Wolff, however, he cautioned that “there isn’t just a [single] framework that fits every organization.”

Michael J. Duffy, *President and CEO of OpenPages*, a leading software company in the segment of governance, risk and compliance management, concluded the panel with an overview of his company's software application that can serve as a "general ledger for governance, risk and compliance." Following the passage of Sarbanes-Oxley, he placed his emphasis on helping companies to comply with the Act. OpenPages provides "applications that automate readiness for unique challenges such as 404 and 302 sections." Duffy noted that "the way we architected our software" enables users "to adapt the framework uniquely to match [their] unique internal control hierarchy without requiring programmers to code." This works by utilizing the "latest technology" and software that "automat[es] the ongoing testing, review, approval, issue raising, and issue remediation." In essence, the company's software automates all the processes required in the quarterly and annual readiness effort to support management's assertion of internal control reliability.

Duffy concluded his comments with a visual presentation of OpenPages software, illustrating how the system can be used to check upon control, processes, and financial issues. Information is tracked and saved in specific spaces so it becomes easy for managers to quickly know where the issues are and where to turn to for that information. Then, using an "automatic dashboard," the company has the data to make decisions and take actions.

ACKNOWLEDGEMENTS

As Coordinator of the Bentley Alliance for Ethics and Social Responsibility, I wish to express my gratitude for State Street's support for and multi-year commitment to this venture. I would also like to thank the speakers, panelists and moderators in our inaugural Symposium for their willingness to share their work in the ethics and risk management realm, and, most of all, for their good natured collegueship and support. Among my many Bentley colleagues, without whose effort and support the Symposium would not have been possible, I would particularly like to thank Michael Hoffman, Robert Frederick, Robert Galliers, Donna Fletcher, Mary Chiasson, Carrie Richardson, Michele Walsh, Steven Salina, Terry Tierney and Gail Sands.

Some difficult choices were made in capturing the essence of the ideas exchanged during the Symposium. We chose to focus on the remarks made by and exchanges between our panelists, unfortunately bypassing a wealth of ideas that were raised during the interaction with the audience. Beth Sweesy and Audrey Ballara, my graduate research assistants, provided invaluable assistance in viewing tapes of the different sessions, culling key points and ideas, and helping to edit the proceedings.

I look forward to sharing many of the thoughts and ideas expressed during our 2006 Symposium – Corporate Social Responsibility in the 21st Century: Coping with Globalization –

to be held on the Bentley campus on May 22, 2006. I also hope that you will be able to join us for what promises to be another thought provoking day.

Anthony F. Buono
Bentley College
Waltham, Massachusetts

**Further information on the Bentley Alliance for Ethics & Social Responsibility
can be found at:**

http://www.bentley.edu/academics_research/alliance

**Further information on the Bentley Global Business Ethics Symposium
sponsored by State Street Corporation can be found at:**

<http://www.bentley.edu/symposium>

SPEAKERS AND PANELISTS

Keynote speaker: Joseph Chow, Executive Vice President and Chief Risk and Corporate Administration Officer, State Street

Luncheon speaker: William Bacic, *Managing Partner New England, Deloitte & Touche*

Broadening our Understanding of Risk Management

Moderator: W. Michael Hoffman, *Executive Director, Center for Business Ethics, Bentley College*

Panelists: Scott Harshbarger, *Proskauer Rose LLP*
Barbara Kipp, *Global Ethics and Business Conduct Leader, PricewaterhouseCoopers*
Stephen Potts, *Chairman, Ethics Resource Center*

Ethics, Risk Management and Corporate Governance

Moderator: John Hansen, *Research Fellow, Center for Business Ethics*

Panelists: John Boatright, *Baumhart Professor of Business Ethics, Loyola University Chicago*
Laurence Stybel, *Co-founder, Stybel Peabody Lincolnshire*
Patricia Werhane, *Wicklender Chair of Business Ethics and Executive Director, Institute for Business and Professional Ethics, DePaul University; Peter and Adeline Ruffin Professor of Business Ethics and Senior Fellow, Olsson Center for Applied Ethics, Darden School, University of Virginia.*

Sustainability: Ethics, Risk Management and the Triple Bottom Line

Moderator: Lisa Newton, *Professor of Philosophy, Fairfield University*

Panelists: Dirk Matten, *Director, Centre for Research into Sustainability, University of London*
Takaji Hishiyama, *Former Senior Vice President, Mitsubishi Petroleum Development Co.*
Mette Morsing, *Director, Center for Corporate Values and Responsibility, Copenhagen Business School*

Ethics, Risk and Stakeholder Management

Moderator: Robert Frederick, *Professor of Philosophy and Chair, Department of Philosophy, Bentley College*

Panelists: Thomas Donaldson, *Mark O. Winkelman Professor, Wharton School, University of Pennsylvania*
C. Lee Essrig, *Director of External Relations and Ethics Officer, Ethics Officer Association*

James Post, *Professor of Strategy and Policy Development, Boston University*

Donna Wood, *David W. Wilson Chair of Business Ethics, University of Northern Iowa*

Corporate Reputation as a Strategic Asset

Moderator: Michael Michael, *Senior Fellow, John F. Kennedy School of Government, Harvard University*

Panelists: Denise Drace-Brownell, *Senior Counsel and Managing Director, DDB, Associates, LLC*

Joan Dubinsky, *Ethics Officer, International Monetary Fund, and Founder, Rosentreter Group*

Mark Sparano, *Chief Risk Officer and Managing Director, Risk Management, U.S. Trust Co.*

Developing an Ethical Infrastructure

Moderator: Keith Darcy, *Executive Director, Ethics Officer Association*

Panelists: Patricia Ellis, *Vice President of Business Ethics and Compliance, Raytheon Company*

Joan Fontrodona, *Academic Director, Center for Business in Society, IESE (Spain)*

Duane Windsor, *Lynette S. Autrey Professor of Management, Rice University*

Automating Ethics: The Role, Potential and Limitations of Information Technology

Moderator: Donna Fletcher, *Associate Professor of Finance, Director Risk Management Research Program, Bentley College*

Panelists: Michael Duffy, *President and CEO, OpenPages*

Charles Le Grand, *Founder, CHL Global Associates, Inc.*

Diane Wolff, *President and Founder, Blue Sage Group*