Making the Right Call

Establish company principles, implement a process, respond to problems … and you're less likely to hear a whistle blow

By Dr. Jay Akridge and Dr. John Foltz

Over the past year, we have been bombarded with a seemingly endless list of corporate crises: Enron, Global Crossing, WorldCom … one major corporation after another has been caught or admitted to illegal activities, questionable accounting practices, top management who didn't know — honest — that they actually LOST $7 billion, and on and on. What caused this crisis of confidence in corporate America? More important, what can we do to make sure our firm does not become "one of these greedy, unethical organizations?"

Let's take a look at this business of 'making the right call.' of ensuring our organizations will survive the test of public scrutiny.

Why this rash of scandals?

It is doubtful these organizations started with the premise they were going to break the law, dupe the public, etc. Rather, for myriad reasons, including unbridled success, a narrow focus on profitability above all else, arrogance and a heady stock market, their behavior drifted into illegal and socially irresponsible areas.

Some of leaders of these firms became "Masters of the Universe" — the term used by author Tom Wolfe in his novel of 1980s excess, *The Bonfire of the Vanities*, to describe managers who had it all, were bigger than the system, thought they could get away with anything.With some notable exceptions, organizations do not usually leap into these situations, but rather they slide into them with one "borderline decision" drifting into a second and a third. Before long, the firm is acting in ways that are far, far removed from the starting point of a "good corporate citizen." The writers in a recent *Fortune* article describe this process as "an incremental descent into poor judgment."

We can pretend these activities are the sole domain of those "crooks on Wall Street." But what would happen to our firms if one of our top salespersons began accepting excessive "gifts" from a large corporate customer in exchange for terms, or products, or services not available to others? Or, what might occur when OSHA comes calling only to discover safety records at a plant have been "fudged" to keep the "boss off our back?" Or, the damage to our reputation if mistakes in mixing rations were hidden instead of reported?

Our firm's image — our reputation — is a very, very fragile thing, something that may be damaged beyond repair with a single ugly incident. In an environment where many of our firms are growing (perhaps through consolidation), our markets are moving fast, and the pressure to deliver results is on, it is not hard to imagine unpleasant situations in our own firms ending up as headlines in the next industry newsletter.

Where to start

Firms need a clearly stated set of values they will live by every day, and this set of values needs to drive a "code of conduct," a "code of ethical behavior," a set of business conduct guidelines. At least some of the gray areas must be made black and white. Your employees need to know what you expect of them and what will get them fired.

In general, the bigger the company, the more formal the statement of acceptable conduct. One large firm we talked with has a 34-page Business Conduct Manual which goes a long way toward clarifying types of actions that are "out of bounds," and covers areas such as improper payments, conflicts of interest, confidential information, relationships with suppliers, government business, the environment and safety. It describes what is acceptable and what is not, and provides a set of actions regarding what employees should do when confronted with these issues.

Certainly not every feed and grain firm will need a 34-page manual. But, every firm can isolate the most sensitive areas and clarify these in writing. A number of such general statements, available online, provide a useful starting point — 80% of the Fortune 100 tout their values publicly. You might start with the Code of Ethics for the National Grain and Feed Association (www.ngfa.org). Each of the five points in this Code of Ethics could be the foundation for specific statements of appropriate conduct in your firm. No one is suggesting that even a 34-page manual will cover all situations. Starting with such a statement of acceptable conduct does surely provide some guidelines and direction in those situations not specifically covered.

Past expectations to action

Principles in hand, a second key step is training — and we don't mean just new employees. Making the right calls means understanding how the rules continue to change over time. What was common industry practice 20 years ago is blatantly unacceptable now. Discrimination, environmental issues and animal welfare all come to mind here. And, writing off a poor decision because "he is from another generation" won't cut it in court. Society's expectations with respect to business are changing and we will be held to an even higher standard in the future.

Beyond training is implementation — "practice what you preach." Enron's statement of values included communication, respect, integrity and excellence. Obviously, these were just words that meant nothing to some key individuals in the company. As William George, CEO of Medtronic, the world's leading medical technology company, said:

"Management must take the lead in personally ensuring their [values] implementation. The values have to be reinforced constantly and reflected consistently in actions of management at all levels. When leaders do so, the impact of the values on the organization is tremendous. When they fail to do so, trust is lost and the commitment can quickly deflate.

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Living a set of values is not easy. In the same article, George related a story about a new Medtronic senior executive in Europe who had a hidden fund to "assist" in making international deals happen. When this was discovered, George fired him immediately over protests that "this was the way international business is done." George's reply: "This is not the way business is done at Medtronic."As a firm's leader, you are truly in a fishbowl: Cut a corner, bend a rule, take advantage of a situation, and someone will notice. Take a stand, make it right, treat the other party fairly, and everyone will notice. You set the tone through your actions by "making the right call" with every decision you make.

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Ensuring implementation

At some level, all managers want to ensure their firm is living its values, making the right call consistently, in all activities. Part of this process is making sure you have created an environment where there is honest and open communication up and down the organization.

Employees must feel comfortable in passing along news and events that are both good and bad. A recent *Fortune* article developed 10 reasons companies fail, including "Fearing the boss more than the competition." If you as leader in any way send the message that you don't like getting bad news, you won't. Anyone running an organization of any size knows that "filtering" always occurs — there is a real tendency to tell the bosses what they want to hear instead of what they need to hear. Work very hard on taking the good news with the bad, and on creating an organization that does not "kill the messenger," if you want honest and open feedback.

Many larger firms we spoke with have an annual survey to poll employees on instances of improper behavior. Some use this as an anonymous reporting tool, allowing employees to provide evidence on problem areas without being identified. Others use it more as a form of contract — an explicit statement of what is not tolerated — than as a series of questions which require the employee to indicate whether or not they had been involved in these activities. In one such case, the program had "teeth" and employees lost jobs when it was discovered they had not reported truthfully on this survey.

A whistleblower policy

Some firms have taken the reporting step even further and have a formal "whistleblower" policy, providing an alternative channel for reporting improper company dealings and behavior. An example might be when an employee's direct supervisor or division head is engaged in an improper activity, and the employee fears reprisal if he or she reports the activity.

Some firms use 800 numbers to allow individuals to report such situations. Some want such concerns to go directly to the human resource management department. Other firms have an independent, outside entity collect this type of information. In most cases, the ability to report anonymously is part of this policy. These firms usually make it clear that an attempt should be made whenever possible to resolve the issue using the normal reporting procedures. Managers must be given a chance to address an issue before they are taken to task for a previously unknown problem.

How should a small firm handle this? First, leaders of small firms should have a better feel for all of the firm's dealings. However, such a whistleblower policy may still be useful and the details of the policy will vary with the situation.

In some firms, it may be a direct contact with the firm's owner, or the chairman of the board, or a specifically designated board member. (If the problem is bigger than this, a legal or regulatory agency will probably be involved.) Whatever the approach, employees must know about the channel for it to be effective. They must also know that their concern will be handled confidentially, and that to the extent possible, they will be protected from reprisals. It is never easy for an employee to report a serious concern that forces some choice between his or her employer and society at large.

Establish Ground Rules

An excellent article by Gerald Vinten, *Establishing a Policy for Whistleblowing* (www.managementfirst.com), develops some good rules for responding to reported concerns. First, he reminds us that there are two sides to every story — every concern must be carefully explored and there may well be another perspective on the issue. Second, legitimate concerns about an employee's safety or career must be addressed in a timely way – these simply cannot be ignored. Third, it must be very clear that any action taken by an employee or manager to deter another employee from raising a concern is an action subject to discipline — bad news must be allowed to flow.

Likewise, this system cannot be abused. Raising unfounded concerns maliciously must also result in disciplinary action. Unfounded concerns put forward to "get even" or "pay back" someone are as bad as real problems. Vinten also suggests offering to report back to the employee the outcome of the investigation and, where possible, on the action taken.

Laws are changing in this area with the passage of the Accounting Industry Reform Act earlier this summer. So, make sure you work with your firm's legal counsel as you develop your own program.

If we have done our job as leaders and managers, it is much less likely we will ever have a"'whistleblowing incident." Still, even the best firms can learn from the lessons of recent months. Perhaps someone else's trouble will provide the motivation we need to take a serious look at our own situations. F&G

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