June 1, 2004

Overcoming Ethical Nonchalance in the Boardroom

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Do corporate boards really care about ethics?

Last June, the prestigious Conference Board flagged a warning about ethical indifference among corporate directors. A survey of business executives at one of their conferences found that "while 81 percent of firms have conducted ethics and compliance training among their employees, only 27 percent have held any training sessions for their directors." More than half of the executives thought their boards were "'not engaged enough' in major ethical issues involving the company."

Following last year's warning, have boards mended their ways? Or are ethical issues still an expensive drain? Well, grab your calculators (as results-oriented directors are wont to do) and let's add up the following numbers:

- Lucent Technologies settled a class-action suit for misleading investors ($517 million) and was then fined for obstructing the probe ($25 million).
- Drug giant Pfizer was hammered for aggressively marketing one of its drugs to doctors for "off-label" use in unapproved ways ($430 million).
- Citigroup was nailed for loan abuses to low-income and high-risk borrowers ($70 million), one week after it settled a class-action suit for biasing its brokerage advice in urging investors to buy WorldCom stock ($2.65 billion).
- Strong Capital Management and its founder, Richard Strong, were penalized for their part in the mutual-funds scandal ($140 million).
- NEC was fined for fraud under its contract to provide Internet access to the nation's poor schools ($20.7 million).

And that's only in the past two weeks.

A silly exercise? Perhaps. Ethics is not only about money but about reputation, sustainability, and human progress. Some directors already have a well-developed sense of ethics, with or without training. A board can have a serious conversation about competing values-driven strategies without calling it an ethics discussion. Besides, the Conference Board's survey tapped only 80 executives who already cared enough about ethics to attend its conference.

Nevertheless, the survey's message is important, if only because the evidence is so stark. Directors, after all, set the ethical tone for the entire enterprise. Whatever they care about gets attention, and whatever they shrug off gets downplayed. If the message sent to executives under their watch is that ethics is not worth much discussion, or fungible and negotiable, or a public fig leaf to hide impropriety, or a card to play only if it's convenient, what will be the results?

The answer is alarming obvious: In the last two weeks, ethical nonchalance cost at least $3.85 billion. Who should be accountable? Boards.

But does it follow that boards need "training" in ethics to become more responsive? Here the language does a disservice to the concept. Directors may well view "training" as the necessary but somewhat drab instruction in black-and-white compliance issues given to all employees. In

their minds, a two-hour drilling in the perils of wrongdoing has little to engage top-level decision makers operating, as they so often are, along a complex gray scale. Little wonder some three-quarters of them resist it.

What do boards need? It's not training so much as education -- or, more precisely, opportunities for learning. It's not programmatic as much as Socratic, characterized by excellent facilitation and thoughtful dialogue. Most important, it's conceptually and intellectually substantive.

Directors need to understand that ethics is not a narrow discipline intent on creating limits to growth and barriers to accomplishment. It's a decision-making tool applicable to everything that a firm (or an individual) does. It's not only about avoiding temptations. It's also about three grand ideas:

- Making tough choices in the gray zone when both sides are right
- Having the moral courage to act on those choices in the face of significant risk
- Creating a corporate culture where ethics comes naturally, allowing employees to save their moral courage for the really big issues

Getting boards to talk about those things isn't simply "ethics training." Directors need to engage in big-picture conversations about integrity and values. They need a powerful, clear language of ethical discourse. They need help staying ethically fit and communicating that fitness through the entire firm. Finding ways to help them do these things -- and finding a name for it other than "training" -- is the next major task of corporate ethics.