Viewpoint: Commitment To Ethical Conduct And Culture

Written by Kendrick Melrose, former CEO and Chairman, The Toro Company
Sunday, 01 April 2007 00:00

Kendrick Melrose, former CEO and Chairman, The Toro Company   Despite CEO- and CFO-signed certifications attesting that their company has complied with disclosure requirements, the brutal fact is that somewhere within an organization, deceptive or fraudulent activity may be lurking. Even with a myriad of procedural checks and balances and extensive documentation of accounting processes, executives still must rely on employees to act ethically-*and to some extent, act as watchdogs for their peers*

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Ethics is about much more than legality. One Toro board member frequently mentions three questions to ask when discerning right from wrong: Is it legal? Is it honest? And will it stand the test as a headline in *The Wall Street Journal?*

When you consider all the pressures inside publicly-owned corporations to make bottomline numbers and meet analysts' expectations, you can understand the rationalizations that draw employees into "gray" areas of right or wrong. Therefore, I propose a fourth question: Does it stand up to your values-*that little voice inside that keeps reminding you of what you know deep down is right*   ?

Employees need to be motivated to do the "right thing" all the time. Building a robust compliance infrastructure is good, but not enough to significantly reduce the risk of unethical conduct. Organizations must focus on creating a strong culture with attributes such as personal ownership, empowerment, trust and conflict competency. Principle-centered leadership-*leaders*

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doing what they say they will do
-building trustworthiness in the organization and giving each individual a sense of value, ownership and accountability are some of the key drivers of a culture that steers and even motivates employees to practice ethical behaviors.

It's hard to argue against the claim that a good culture will help build an environment to minimize unethical behaviors. An environment of goal-oriented conflict, accountability and trust also creates a sense of safety for employees to bring forward concerns about questionable behaviors and practices by others, as well as admit their own complicity. But, ethical behaviors will not happen in an organization from the bottom up alone. Management must set a clear and impactful "tone at the top," for example, by ensuring that the organization's whistleblower hotline is effective and by making the management of ethics an important part of the business routine. Executives must lead the process for good ethical conduct, so that employees have no doubt about management's commitment to both the conduct and the culture.

One of the best parts of a strong practice of ethics throughout the organization that emanates from good cultures is its positive effect on business performance. Research from the Center for Ethical Business Cultures at the University of St. Thomas Opus College of Business demonstrates improved profitability and shareholder value from companies with strong commitment to, and execution of, ethical cultures. The result of building such an environment is widespread trust in the organization, plus empowerment, accountability and ownership woven into the tapestry of its culture.

Ken Melrose currently serves as Endowed Chair in the Practice of Management and Ethical Leadership at the University of St. Thomas Opus College