Are You the Next Enron?
Why you might be…and what to do about it

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Enron. IMClone. WorldCom. The fall in disgrace of a company with ties to White House energy policy. A scandal in which even America's beloved "guru of gracious living" is seemingly involved. The largest bankruptcy filing in U.S. history. What's going on? From the daily Dow dips and NASDAQ nosedives, it seems that at least the average investor has caught on. More scandals are to come. This age of "infectious greed," as Alan Greenspan puts it, has destroyed confidence in the stock market.

But investors can be fickle, and surely those whose business it is to create and enforce the ethics policies of companies know that these are just aberrations, a few bad apples spoiling the bushel. They certainly think that the latest round of scandals will be the last.

Or do they? A survey taken at The Conference Board's annual Ethics Business Conference in May tells a different tale. A vast majority of the nearly 100 senior ethics executives polled predicted that at least half a dozen more "major" business ethics scandals will be revealed in the next six months, and close to a third believe that we can expect more than ten. More amazing still is that, even though "major" was defined as causing more than $200 million in lost shareholder value, less than two percent thought that all of these scandals had already been exposed.

Still, Enron was famous for playing it fast and loose…ethics training could have prevented such a scandal. Not according to the survey: Only one percent of the ethics executives thought it would have stopped the scandal from ever happening, and more than half believe it would have made little or no difference.

Clearly, something is wrong. As Steve Priest of the Ethical Leadership Group (who conducted the survey) puts it: "These findings show that an absence of ethical leadership and a culture of 'anything goes as long as it makes a buck' will prevail over even the best code of conduct or hotline. This emphasizes the critical importance of building integrity into the essence of the corporation."

But how many companies are doing this? Are ethics officers content just to put their programs in place with a "wait and see" approach? Or are they following up with meaningful assessments and integrating ethics into their business practices? Once again, the survey results are surprising. Although 70 percent of those surveyed believe that Enron's senior management was to blame for the disaster, only 63 percent engage their own senior management in ethics/compliance training once a year or every few years, and nearly a quarter never have.

The numbers are even worse for boards of directors. More than half of the ethics officers say that they have never engaged their own board of directors in ethics/compliance training, and nearly 60 percent believe that their board is not engaged enough in ethics and compliance issues. Even though only ten percent of ethics officers believe that

Enron's board of director's was most at fault, these numbers seem exceptionally high in a climate where there are constant calls for board accountability.

Even where ethics officers are able to institute ethics/compliance training and programs, little is being done to enforce them. When asked what they do with those who don't live up to their organization's ethics values, 23 percent of ethics officers say "We tolerate them," only 40 percent even punish them at all, and 8 percent even say, "We promote them." Bottom-line concerns seem to be overriding ethical ones, and in fact, 54 percent of these companies don't even have ethics or compliance measurements in their performance appraisal systems.

All of these responses are certainly shocking, but perhaps even more so is that nearly 60 percent of these ethics officers believe that their ethics/compliance program reduces the likelihood of a major ethics scandal at their company "quite a bit," or "a lot."

According to Steve Priest, "These findings make sense—they confirm that ethics and compliance management is still in its adolescence. Most ethics and compliance officers spend the vast majority of their time involved in reacting to allegations of wrongdoing, and in proactively developing communications and training. These efforts are well-placed, but they need to be better integrated into the company culture by engaging the most senior management—including boards—more effectively, and by conducting ongoing assessments of the ethics program itself."

Are companies at least becoming more aware of the problem? The Ethical Leadership Group sees a heartening trend in the initial reaction to these scandals. As Steve Priest says, "We are already seeing the first level of response to Enron. Boards of Directors are more engaged. Companies are reviewing their conflict of interest policies. Codes of conduct are being reviewed to make sure they are current and address the New York Stock Exchange proposals. But the next level of response will take more time, as companies examine how to truly integrate the 'do the right thing' message with the 'make the numbers' message in every facet of company operations."

But what about your company? What can you do to avoid being the next Enron? According to Steve Priest and the Ethical Leadership Group, corporations need to pay attention to five main areas in order to maintain an effective ethics and compliance program. Below are questions senior management or board members can ask themselves—and their ethics and compliance officer—to check up on the status of their company's program.

Structure and leadership

- Does the company devote sufficient resources—including management involvement and accountability—to the ethics and compliance program?
- At the Board and Senior Management levels, what business and personal relationships might appear to be conflicts of interest?
- Does the ethics and compliance program reach as far as it should—to the activities of subsidiaries, other affiliated entities and, where warranted, suppliers?

Communications and training

- Are you sending a clear, consistent message that how employees make the numbers is as important as making them? How?
- What employees go through ethics and compliance training? How often?

Upward communications and investigations

- Do employees feel comfortable in raising ethical issues internally? What percent bring forward concerns to your retaliation-free communications channel?
- How do you ensure quality investigations of alleged wrongdoing?
- What are you doing to ensure that employees who violate the Company code are disciplined appropriately, even if they are good performers?

Assessing the program

- What are the major legal, ethical, and reputational risks that you have identified? How are you remediating those risks?
- What are you doing to ensure that the ethics and compliance program is working?

Integration into business practices

- How are the company values incorporated into performance appraisal processes?
- How does the company audit or otherwise check for ethical and legal breaches?

It's impossible to turn around a company's ethics overnight, and it takes more than just ethics programs and training to do it. But a problem can't be fixed unless it's identified, and asking these questions today can prevent your company from being forced to answer them to shareholders—or Congress—tomorrow.