

## Leading Through Shades of Gray

A CEO Leadership Forum co-hosted February 1, 2008 by the NASBA CPT and Vanderbilt Owen Graduate School of Management provided insight into the practical decisions made by businesses during the current media era, where “spin” is a way of life and justifiable lying has become acceptable.

Nationally-recognized moderator, Jack Faris, set the tone of the Forum by quoting his father, “If it’s gray, put it away.” Faris, who has appeared in *The Wall Street Journal*, *The New York Times*, *Newsweek* and *Fortune*, pointed out that no one is infallible and leaders must be prepared to address various shades of ethical violations with creative solutions. “Failure is the laboratory for future success,” he stated.

George S. Barrett, CEO of Cardinal Health’s \$81-billion Healthcare Supply Chain Services sector, identified specific tools for success in the area of ethics. He urged executives to include ethical standards as a part of the organization’s mission and to promote success by providing procedural guidance. Barrett believes “tone at the top” is critical to the ethical foundation of any organization and staff cannot be expected to act ethically when leadership is seeking ways to exploit confidential information. He stressed that an enemy of ethical standards is blame and that organizations must create an environment where accountability is the accepted norm. The underlying theme of Barrett’s comments focused on incorporating ethics into the company’s overall strategic plan.

CEO of the Bun Companies, Cordia Harrington, described her interactions with McDonald’s domestic operations. She was evaluated as a potential supplier based on how she conducted business as the CEO of a growing bun

manufacturing company. Harrington was subjected to 32 interviews during a four-year time period and was finally invited into the “club” with a handshake – not a contract. Harrington recently joined the list as one of McDonald’s international suppliers. Based on her strong convictions and experience with different cultures, Harrington chose to limit her interactions to countries that shared similar ethical foundations as those within her own organization. She agreed with Barrett in that creating an atmosphere of trust leads to an ethical foundation and that believing in people helps them do the right thing.



Turney Stevens, dean of the College of Business at Lipscomb University, highlighted how each person has their own perspective on what is right and what is wrong. However, if we contemplate the relevant questions and then ask ourselves how we would respond to a reporter asking those questions, we will typically identify the best course of action. Turney referred to the law of unintended consequences in discussing how one seemingly minor, bad decision can snowball into a mountain of ethical dilemmas. Turney also emphasized that currently, ethical challenges are enormous and management must lead by example. Laws such as the Sarbanes-Oxley Act cannot regulate behavior or integrity.

As questions from the audience were discussed, a common theme emerged. Ethical reactions to

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## Good News

### Grant for Computer Based Literacy

Bill Martin, director of community affairs for VERIZON, granted \$8,500 to the students and tutors of the Long Island based Literacy Nassau organization.

“Supporting literacy, especially through the use of technology goes to the heart of what VERIZON’s philanthropic efforts are all about,” Martin stated.

The grant is a big first-step in providing technology services to low level literacy adults. Literacy Nassau hopes that computer camp classes will encourage and increase the use of technology in literacy learning.

Literacy Nassau, Winter 2008 Newsletter

### Loving Her Job

Mandy Harlow, Administrative Assistant for the North Dakota Society of Certified Public Accountants (NDCPA), has been named “AccountingWEB’s CPA Society Employee of the Year” for 2007.

Rob Nance, Publisher, AccountingWEB

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## A Message from the Chair

As Chair of the NASBA Center for the Public Trust, I welcome you to our first edition of *Ethics Matters*, a newsletter recounting the good news and charged by the Center's mission: To engender and foster confidence and trust in

American corporations and institutions and the professions that serve them.

The CPT hosted a variety of events this past year aimed at educating and promoting ethics, as well as highlighting those who elevate the ethical threshold in the business world.

In doing so, the CPT worked with Lipscomb University's Institute for Conflict Management to co-sponsor "Beyond Compliance: Transforming Ethical Dilemmas through Courageous Leadership" an interdisciplinary conference; and joined with the Baruch College Robert Zicklin Center for Corporate Integrity to jointly sponsor "Ensuring Integrity: The Second Annual Auditing Conference."

A new event, "Night of 100 Stars Talent Show," was introduced at the NASBA 100th Annual Meeting in Maui, Hawaii. Hosts Michael and Sheryl Bryant entertained the audience with improv between vocal, instrumental, comedic and magical performances.

The *Being A Difference Awards* recognized the first of its 2007 recipients at a presentation during an annual meeting luncheon. Mitch D'Olier of Oahu, Hawaii, received the honor for inspiring public trust by changing the Hawaiian business community through his leadership efforts and significant contributions to support the vital services of Hawaii's community.

This award is given nationally to individuals who have distinguished themselves by demonstrating ethical leadership, high standards of social responsibility and good corporate citizenship. At regional presentations, the CPT recognized the following Being A Difference Award recipients:

Richard Cowart, of Nashville, Tennessee and head of the Health/Public Policy Department for Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, who is noted as the "ethical rudder" of his firm which under his guidance leads continuous efforts that respond to local and national tragedies.

Nathan Garrett, of Raleigh, North Carolina, a past president of NASBA, has played a vital role in the civil rights movement and has affected change in the hiring and advancement of minorities. He is known nationally as a strong moral compass for his dedication to ethical principles.

Tammy Morealle, of Tampa, Florida, Director at PricewaterhouseCoopers (PwC), championed the firm's major community service initiatives and motivated thousands of PwC partners and staff to contribute more than 100,000 volunteer hours.

I am proud to report the tremendous successes of this past year and of the complimentary reviews of our highly acclaimed speakers and informative topics. However, I am also looking forward to this year's full schedule and invite you to join us in supporting this most important endeavor of promoting and advancing ethical practices in American businesses.

*Milton Brown*

# Ensuring Integrity: The Second Annual Auditing Conference

Held in New York City on December 6, 2007, the NASBA CPT co-sponsored this event with the Baruch College Zicklin Center for Corporate Integrity.



High profile speakers, such as SEC Deputy Chief Accountant Zoe-Vanna Palmrose and Chief Auditor of the PCAOB and Director of Professional Standards Thomas Ray, provided a forum for interaction between business, public accounting, academics and policy setters.

Palmrose reported 110 private issuers currently registered with the SEC use International Financial Reporting Standards (IFRS). In response to the SEC's concept release about giving US domestic issuers the same option that

foreign private issuers now have, to use either IFRS or US GAAP in their SEC filings, 78 comments were received, she reported. More public feedback was to be collected during the December 13 and 15 roundtables held by the SEC on the subject. The Commission is particularly interested in feedback on training in IFRS, Palmrose said.

Ray outlined the guidance for smaller companies that the PCAOB had out for comment until December 17, 2007.

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# Ethical Culture Building: A Modern Business Imperative

## What Is “Ethical Culture and Climate?”

What is generally referred to as “ethical culture” is actually a concept that integrates two distinct systems—ethical culture and ethical climate. It is imperative to take an in-depth look at both systems in order to fully understand “ethical culture.”

### Ethical Culture

Ethical culture looks (anthropologically) at how an organization demonstrates and teaches the extent to which it regards its values. Specifically, the ethical culture of an organization:

- ◆ teaches employees whether doing the right thing matters;
- ◆ makes doing what is right expected; and
- ◆ includes formal ethics program elements, reward and punishment systems, and organizational myths.

### Ethical Climate

Ethical climate is concerned with the “collective personality” of the organization. It is the psychological view of the organization. Ethical climate particularly focuses on:

- ◆ ethics-related attitudes;
- ◆ perceptions; and
- ◆ decision-making processes in an organization.

In organizations where the formal and informal structures—derived from the ethical climate and culture — encourage ethical behavior, employee behavior will be more ethical. Specifically, ethical climate and culture impact the following:

- ◆ Employees’ organizational commitment;
- ◆ Employee satisfaction;
- ◆ Rates of misconduct;
- ◆ Employees’ perceptions of leadership;
- ◆ Employee performance; and
- ◆ Organization’s expenses.

Furthermore, the effects of the ethical climate and culture on ethical behavior are even supported across cultures.

## How Do Ethical Cultures and Climates Form?

Both ethical culture and climate are subsets of the larger organizational culture/climate and as such, are influenced by the factors that shape the organization overall. In particular, ethical culture and climate are formed through:

- ◆ The organizational life cycle;
- ◆ The organizational leaders’ beliefs and actions; and
- ◆ The formal and informal organizational mechanisms.

## What’s a Leader to Do?

Leaders should work to create a values-based ethics program that also encourages compliance with the law. Additionally, they must demonstrate their concern for the interests of internal and external stakeholders and commit to making the needs of others a business priority (Trevino, et al., 1999). Finally, they must remember that ethical leadership requires modeling, coaching, and careful communication. In order to demonstrate their commitment to ethics and to promote ethics in the culture and climate of their organization, leaders should:

- ◆ walk the walk;
- ◆ keep people in the loop;
- ◆ encourage thoughtful dissent;
- ◆ show them that you care;
- ◆ don’t sweep problems under the rug;
- ◆ celebrate the successes;
- ◆ be fair;
- ◆ make ethics a priority;
- ◆ make the tough calls; and
- ◆ get the right people, and keep them.

Ethical commitment must not be just platitudes and plaques. As both research and experience prove, ethics programs that serve merely as “window dressings” do no good—and may even be harmful. In order to ensure a positive ethical climate and culture, we must develop and implement performance objectives related to this critical organizational task. A holistic approach to ethics assessment and evaluation involves several elements:

- ◆ performance evaluations;
- ◆ baseline assessment; and
- ◆ regular re-assessment and benchmarking.

## Conclusion

Maintaining a strong ethical culture is essential for complying with the laws and regulations, but this alone cannot be the motivation for ethical culture building. Beyond the large impact an organization’s culture has on the bottom line, the development of programs to foster ethical conduct must maintain a focus on fairness, encouragement, and communication at all employee levels. Along these lines, employees must be given the appropriate tools and models to align their behavior with company culture and engage in ethical decision-making. The attitudes, choices, and actions of business leaders play a primary role in the creation of an organization’s ethical culture and climate; expectations for employees’ ethical behavior can only be set as high as the

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## Vice President's Voice

### Stirring the Moral Conscience

Many of you know that the Center for the Public Trust (CPT) was inspired by NASBA President and CEO David A. Costello. During the height of what has often been termed the “accounting scandals,” he was motivated to create an organization that would promote accounting for what it was to him—a long standing profession known for its code of ethics. Although many ethics centers already existed and many fine ethics courses were being taught across the country, David wanted to build an organization that would go further, that would tell the good news, that would motivate others to create ethical organizations and live ethical lives, that would sponsor programs with creativity and imagination and that would stir the moral conscience. If you’ve read Milton Brown’s memo, you are likely to agree that from our range of topics and speakers, to our “Night of 100 Stars,” CPT has worked to bring David’s vision to life.

The inspiration of this newsletter’s title came from a sign in my kitchen which reads, “Kindness Matters.” Interestingly, when I was on the Internet pursuing ideas for my first column, I ran across a printed version of a speech given by John. S. Hunkin entitled “Ethics in Business and Everyday Life.” Hunkin asserts, “... ethics mirror the values of a society. If you’re a person who cares about others it’s easy to be ethical. The ethics of a society are largely determined by how many of its citizens truly care about others.” So there seems to be a relationship between ethics and kindness.

Hunkin is eloquent on another point—telling the good news. He points out the daily media reminders of the crises that bloom across our planet, even though many individuals and organizations uphold high standards of honesty, respect and fairness. Reminders are necessary because we rarely get to read or hear about companies that behave ethically, or about good deeds, or about people who are kind—mostly because they aren’t stories that help sell newspapers or boost television ratings. They are important nonetheless. “We need stories that swim against the trends of social isolation and disaffection,” Hunkin says. “We need proof that there is a common humanity beyond our jobs and our commute and our home security systems, one that flourishes despite the daily headlines.”

In this issue of *Ethics Matters* (EM), you’ll find good news stories about Mandy Harlow and Bill Martin. To continue the flow of common humanity, we would like you to send us good news stories from any part of your life. Also, we’d like to share commentaries on initiatives and programs you’ve implemented that help build trust, leadership, accountability and other foundations of ethical cultures.

Welcome to our first edition of *EM*. We hope you enjoy reading it as much as we enjoyed putting it together for you.

Lisa Axisa

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## Ethical Culture Building: A Modern Business Perspective

organization’s leadership is willing to meet. A leader’s ability to consistently promote ethical conduct in an organization is critical to ensuring that employees understand how to make “doing what is right” a priority. An ethics program that exists on paper but never in the hearts, minds, and actions of the organization’s employees creates a breeding ground for violations. Learning a lesson from the ethics scandals that have toppled many once-great companies, legislators and regulators have begun holding business leaders accountable for not only ensuring that they have the appropriate mechanisms in place (the ethics program), but also to ensure that they have created the appropriate culture. Legislation such as the Sarbanes-Oxley Act and the revisions to the Federal Sentencing Guidelines for Organizations have set a new standard for organizations: there will be consequences for organizations that are not conscious about the type of culture they develop. Business leaders have thus been handed a heavy responsibility, but one for which they are especially well suited. Leaders have the power to shape the culture of their organizations. What is needed in the business world is a better understanding of what ethical culture means and how business leaders can make the most impact. ☆

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informal decisions are absorbed by those around you all of the time—by your children, co-workers and staff. Ethical discussions and behaviors are not just for formal education and major decisions, but a way of life. As Harrington noted, “How do you know you’re winning if you’re not playing by the rules?” ☆



## Ensuring Integrity: The Second Annual Auditing Conference

This addresses scaling the audit for smaller, less complex environments, as well as sufficient evidence when there is less formal documentation and auditing smaller companies with pervasive deficiencies. Two of the PCAOB's current projects outlined by Ray, one on risk assessment and the other on reviewing interim standards, will be related to international standards.

The "train has left the station on IFRS," Walton Conn, KPMG national office partner, told the conference. Conn reported that the largest accounting firms have already invested in training their staffs in IFRS. Waiting for the SEC to make a determination on whether US companies can use IFRS in place of GAAP (see story about SEC's concept release State Board Report 8/07) may be too late for beginning consideration incorporating IFRS into the Uniform CPA Examination, Conn observed.

Fellow panelist Larry Shapiro, associate director of assurance for BDO Seidman, commented that clients as well as their auditors will need to come up to speed on IFRS. PricewaterhouseCoopers (PwC) believes the conversion to IFRS is an eventuality, remarked Jorge Milo, national auditing services leader for PwC; however, he added that for those businesses without operations outside the United States there will not be the same incentives.

There is a large volume of technical material that auditors need to know to do their jobs effectively, but not necessarily for entry into the profession, KPMG Partner Craig Crawford told the conference. The firms want people who can apply the technical aspects of the profession, but it is part of the firms' responsibility to teach them how to approach problems, he observed.

"We're going to globalization," said John Fogarty, past chair of the AICPA's Auditing Standards

Board and present member of the IAASB. A huge number of auditing standards are under revision, he explained, and the strides to convergence of international and US standards over the last five years have been tremendous. There is "intense interest" globally on the application of these standards to small and

medium-size companies, he told the conference. Fogarty commented, "Some say because I am small this should not apply to me: That degrades the system." He reported the standard-setters are trying to address this problem by providing guidance on how standards should be applied to small entities.

Trust in the United States financial system relies on auditors, Larry Bridgesmith, CPT Board member said in summarizing the conference. "Culture is what we tolerate as professionals," he observed. "We can make a difference by being a difference." ☆

**"Culture is what we tolerate as professionals," he observed. "We can make a difference by being a difference."**

## Call for Nominations

Center for the Public Trust Awards Subcommittee Chair Mark P. Harris requests recommendations for the 2008 CPT *Being A Difference Awards*. Each year, the NASBA CPT honors the accomplishments of individuals demonstrating exemplary practices of ethics in action, leadership and strong corporate citizenship. The *Being A Difference Awards* recognize individuals from various categories of professionals serving American business institutions: CEO, CPA, CFO, attorney and others (such as educators, philanthropists, entrepreneurs, administrators, etc.).

Nomination forms can be found at [www.centerforpublictrust.org](http://www.centerforpublictrust.org) and must be submitted no later than July 1, 2008.

## Meet the CPT Board

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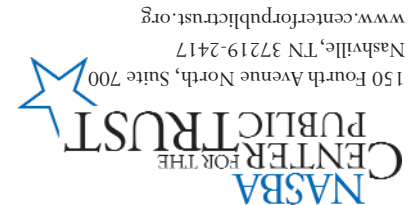
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## You Can Make a Difference

Your support helps us make an ongoing difference in promoting and advancing ethics, ethical behavior and instilling renewed confidence in the accounting profession and business community.

The NASBA CPT offers several contribution opportunities. Currently, you have the unique chance to become a Founding Member. This lifetime membership is available for a limited time and provides an opportunity for supporters to assist in the genesis of our important efforts. To provide sustaining support to the center as a Founding Member, join our distinguished Gold, Silver or Platinum Annual Donor program.

To make a contribution or find out more about being a donor, please contact Jenn Bouchard at 615/564-2129 or visit our Web site at [www.centerforpublictrust.org](http://www.centerforpublictrust.org).

Your gift could be matched dollar for dollar! Many companies offer matching gift programs that will double, even triple a donation's value. Check with your company's personnel department today.

### Upcoming Events:

**CPT Ethics Focus Group**  
Fall 2008

**Being A Difference Awards**  
Fall 2008

**Night of 100 Stars Talent Show**  
Fall 2008

**Ensuring Integrity:  
Third Annual Auditing Conference**  
Winter 2008