

# Ethics & Governance

David Spong

Acknowledgement: Sources used include personal experience of 40 years in the Boeing Company and “The Missing Moral Compass: A Reality Check On Business and Finance Ethics, by John Plender and Avinash Persaud” as extracted in the Financial Times article of 23 August 2005

# Ethics & Governance

## *Problem –*

- *Ethics Issues Continue To Occur With Major Consequences*

## *Root Cause – “Five Why’s”*

- *Leadership*
- *Pressure to hit the numbers*
- *Incentive Structure*
- *Tied to short term results*
- *Need to link pay to performance*
- *Unrealistic Expectations*
- *Win at any “cost”*

# Ethics & Governance

- *Are we doing enough?*
- *Are we doing too much?*
- *“How can you guaranty that you will never have another ethics violation?”*

**We need to do more, but differently–  
We need to develop the right culture**

# Aristotle's Ethica – a study in the character of man

Ethics is the study of the **character** of man. And good character is good ethics.

In other words, only those behaviors that stem from good character are “ethical” (modern term).

Particular understanding comes from the following extracts from Aristotle's Ethics:

As we say that some people who do **just** acts are not necessarily **just**, i.e. those who do the acts ordained by the laws either unwillingly or owing to ignorance or for some other reason and not for the sake of the acts themselves,

So is it, it seems, *that in order to be good one must be in a certain state when one does the several acts*, i.e. one must do them as a result of **choice** and for the sake of the acts themselves”

**Maybe we should be teaching “Character”**

# Committee of 200 Study Results

*933 Graduate Students and 807 MBA Graduates*

- Companies are not run honestly
  - 67% of female students
  - 57% of male students
- Lack of ethics still is a serious issue
  - 70% of female graduates
  - 60% of male graduates
- Business is not done ethically or honestly
  - 64% of graduates with jobs
  - 61% of students

# “Are We Making Progress Survey”

- Employee (Leadership Team) Questionnaires
- Seven Category Framework
- 40 Statements, 5-Point Scale
- Compare Results
- Focus Improvement and Communication for Your Organization
- Measure Trust

# “Are We Making Progress?” Survey Results

N=228

	Strongly Disagree %	Disagree %	Neither A/D %	Agree %	Strongly Agree %
1a) I know my organization’s mission.	<b>0</b>	<b>3</b>	<b>3</b>	<b>32</b>	<b>62</b>
1b) My senior leaders use our organization’s values to guide us.	<b>5</b>	<b>11</b>	<b>17</b>	<b>39</b>	<b>29</b>
1g) My organization asks what I think.	<b>6</b>	<b>12</b>	<b>22</b>	<b>41</b>	<b>19</b>
2a) As it plans for the future, my organization asks for my ideas.	<b>8</b>	<b>20</b>	<b>20</b>	<b>36</b>	<b>18</b>
7a) My customers are satisfied with my work.	<b>0</b>	<b>2</b>	<b>17</b>	<b>61</b>	<b>20</b>
7e) My organization removes things that get in the way of progress.	<b>7</b>	<b>27</b>	<b>31</b>	<b>29</b>	<b>7</b>
7f) <i>My organization obeys laws &amp; regulations.</i>	<b>0</b>	<b>2</b>	<b>4</b>	<b>31</b>	<b>64</b>
7i) I am satisfied with my job.	<b>3</b>	<b>8</b>	<b>21</b>	<b>37</b>	<b>31</b>

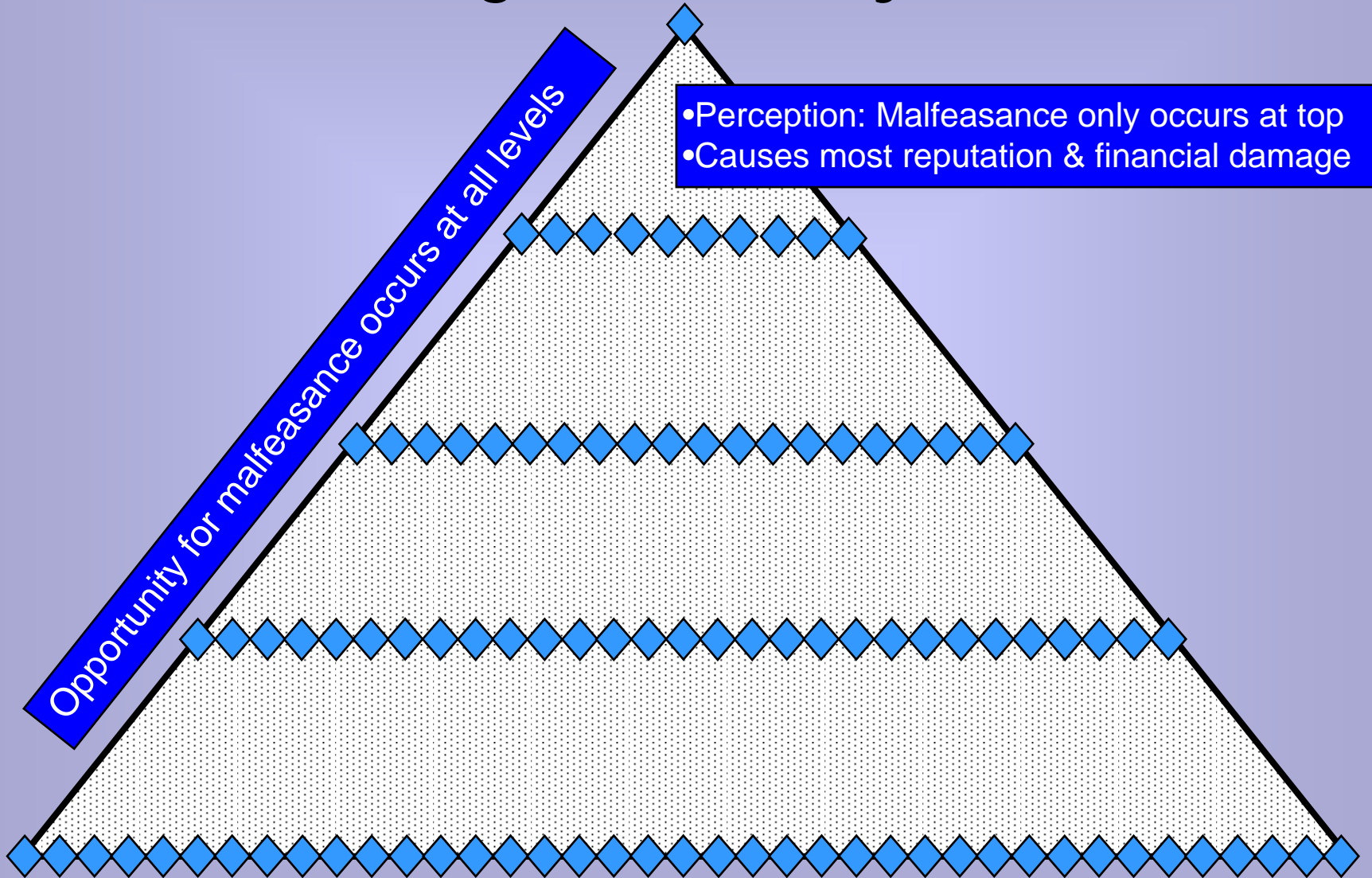
## Baldrige Examiner Results - Differences Greater than 20%

		% Employees	% Leaders
<b>2b.</b>	<b>Employees know plans that effect them</b>	<b>68</b>	<b>42</b>
<b>3d.</b>	<b>Employees ask if customers satisfied</b>	<b>74</b>	<b>45</b>
<b>4a.</b>	<b>Employees know how to measure work quality</b>	<b>80</b>	<b>48</b>
<b>4b.</b>	<b>Employees know how to analyze work quality</b>	<b>80</b>	<b>32</b>
<b>4c.</b>	<b>Employees use analyses to make decisions</b>	<b>74</b>	<b>24</b>
<b>4d.</b>	<b>Employees relate their measures and business results</b>	<b>62</b>	<b>35</b>
<b>5a.</b>	<b>Employees can make work improvements</b>	<b>83</b>	<b>61</b>
<b>6b.</b>	<b>Employees collect data on work quality</b>	<b>69</b>	<b>38</b>
<b>7d.</b>	<b>Employees time and talent used well</b>	<b>57</b>	<b>37</b>

## Baldrige Examiner Results Similar Perceptions

		% Employees	% Leaders
3c.	Customers tell employees their needs	77	75
4f.	Employees know how organization is doing	57	55
5b.	Employees work as a team	74	76
5e.	Safe workplace	89	88
7e.	Organization removes barriers	36	35
7f.	<i>Organization obeys laws</i>	<b>95</b>	<b>95</b>
7g.	Organization has high standards	82	83
7h.	Employees are satisfied with job	68	67

# The Organization Pyramid



# What are We Doing?

## *Legislation (More!) -*

- *SOx will help, maybe, but not the whole solution*
- *Tries to solve with a compliance culture*

## *Training -*

- *Perception by employees that all the problems are at the top, so why do they have to be trained!*
- *Must be relevant to specific groups of employees*

# Needs

## *Ethical Behavior -*

- *Goes beyond compliance*

## *Ethical Standards -*

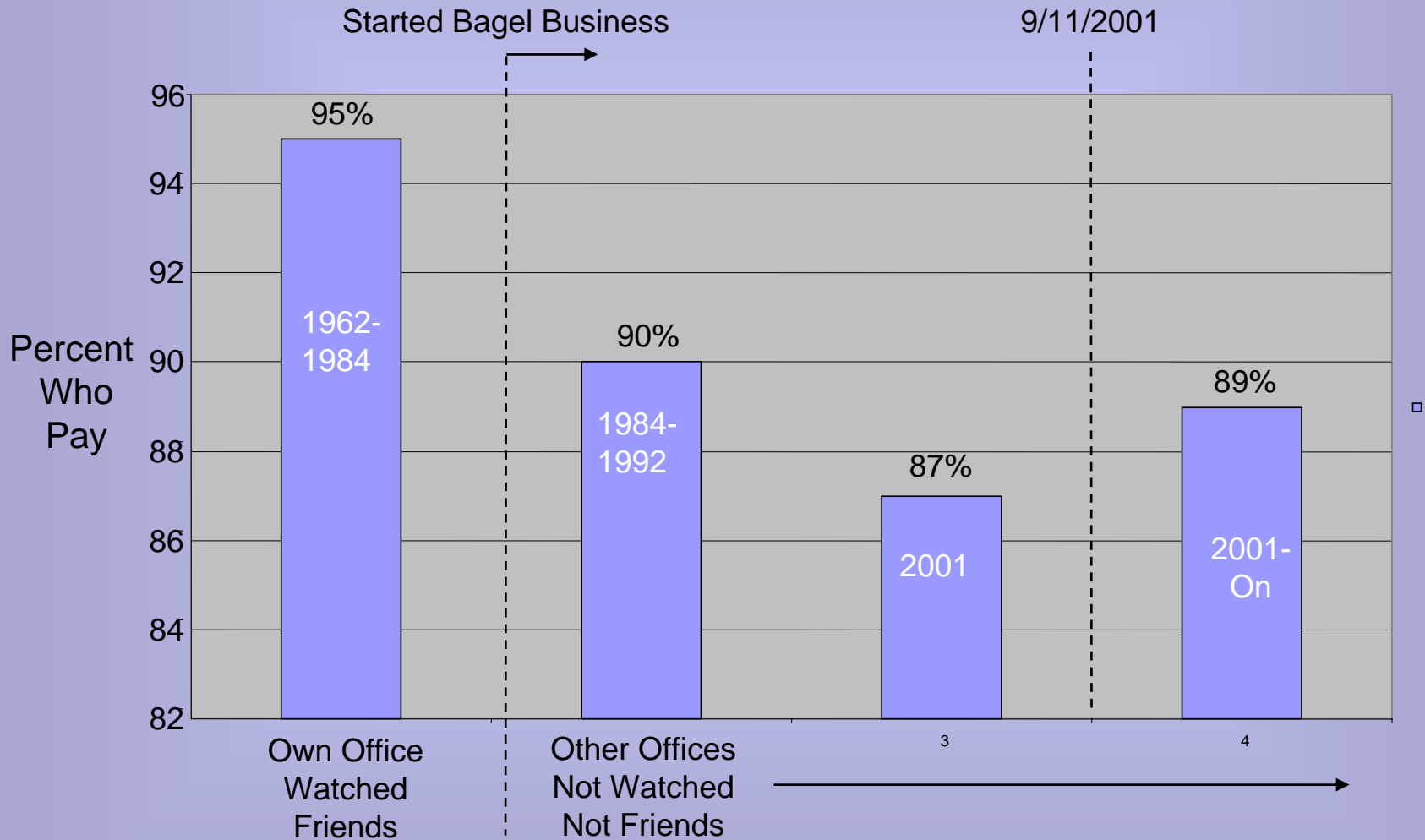
- *A low cost substitute for internal control and external requirements*

## *Trust -*

- *Fundamental to Business Relations and efficient working*

***It is all about having the right culture!***

# White Collar Crime\*



\*Source : "Freakonomics" by Levitt & Dubner

# Observations\*

## Less Cheating

Smaller Offices

Pleasant Weather

Holidays:

4 July

Labor day

Columbus day

Morale

Like Bosses &  
Work

## More Cheating

Larger Offices

Inclement Weather

Holidays:

Christmas

Thanksgiving

Valentines Day

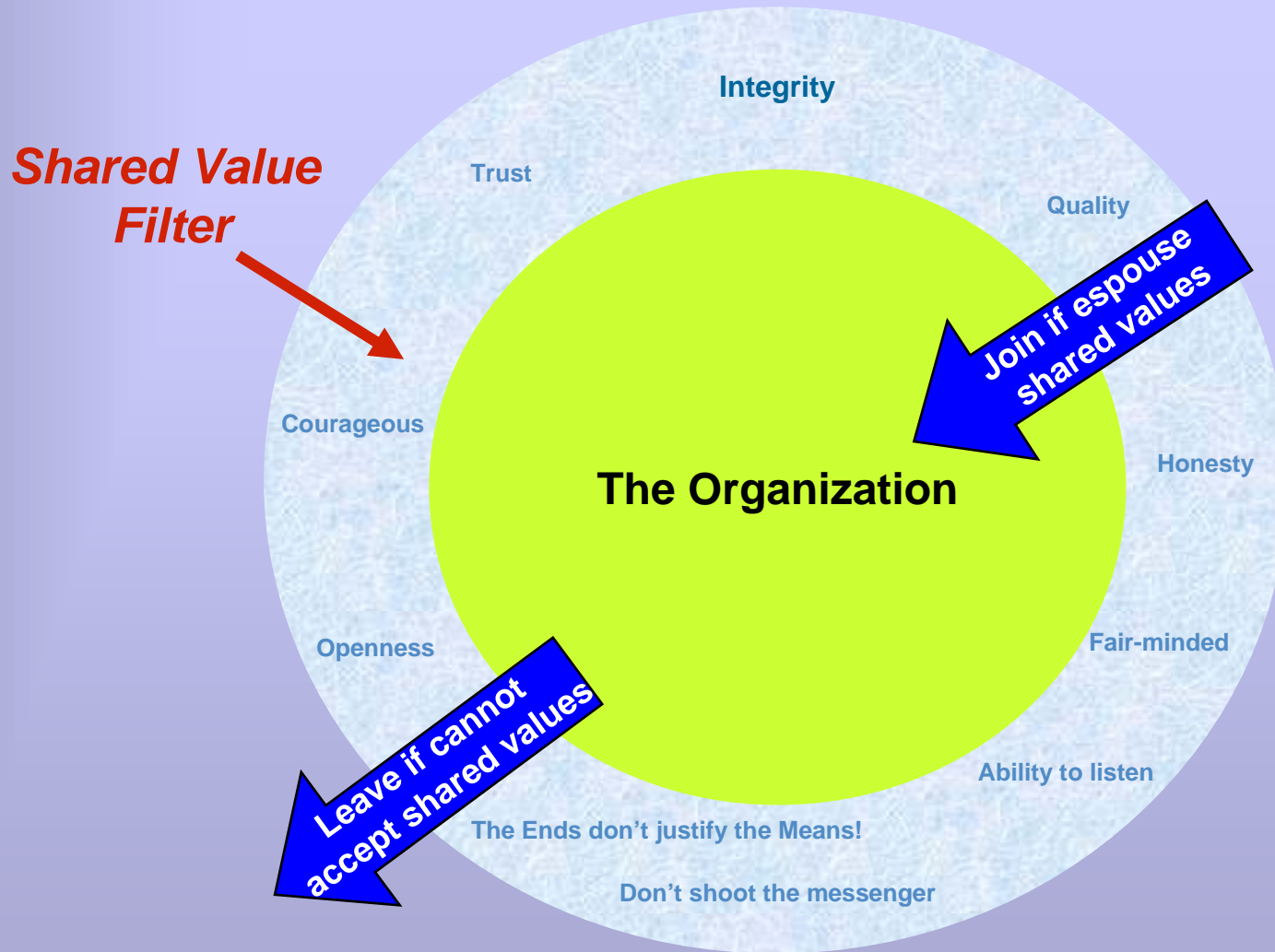
Morale

Don't Like Bosses  
& Work

***Stress vs. No Stress?***

\*Source : "Freakonomics" by Levitt & Dubner

# Culture – A Set of Shared Values



**The Leader establishes the values to be shared by his/her behavior**

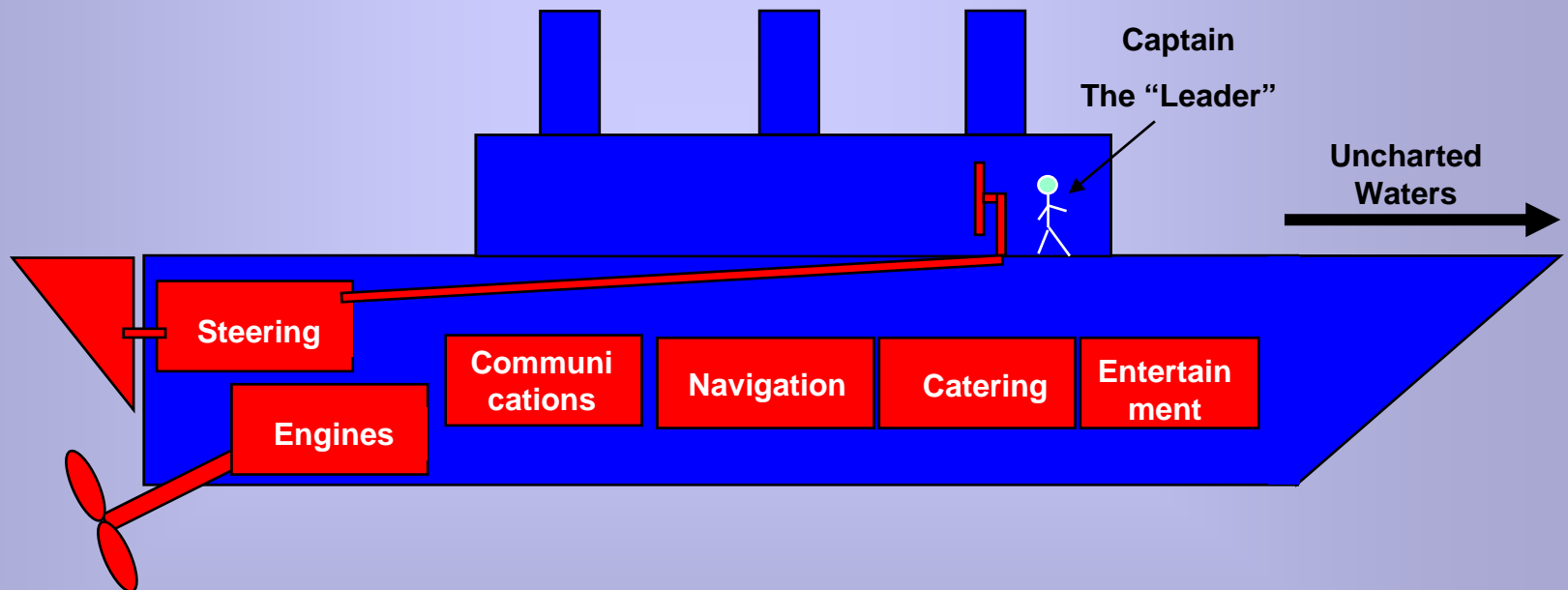
# Leadership and Management

## Management

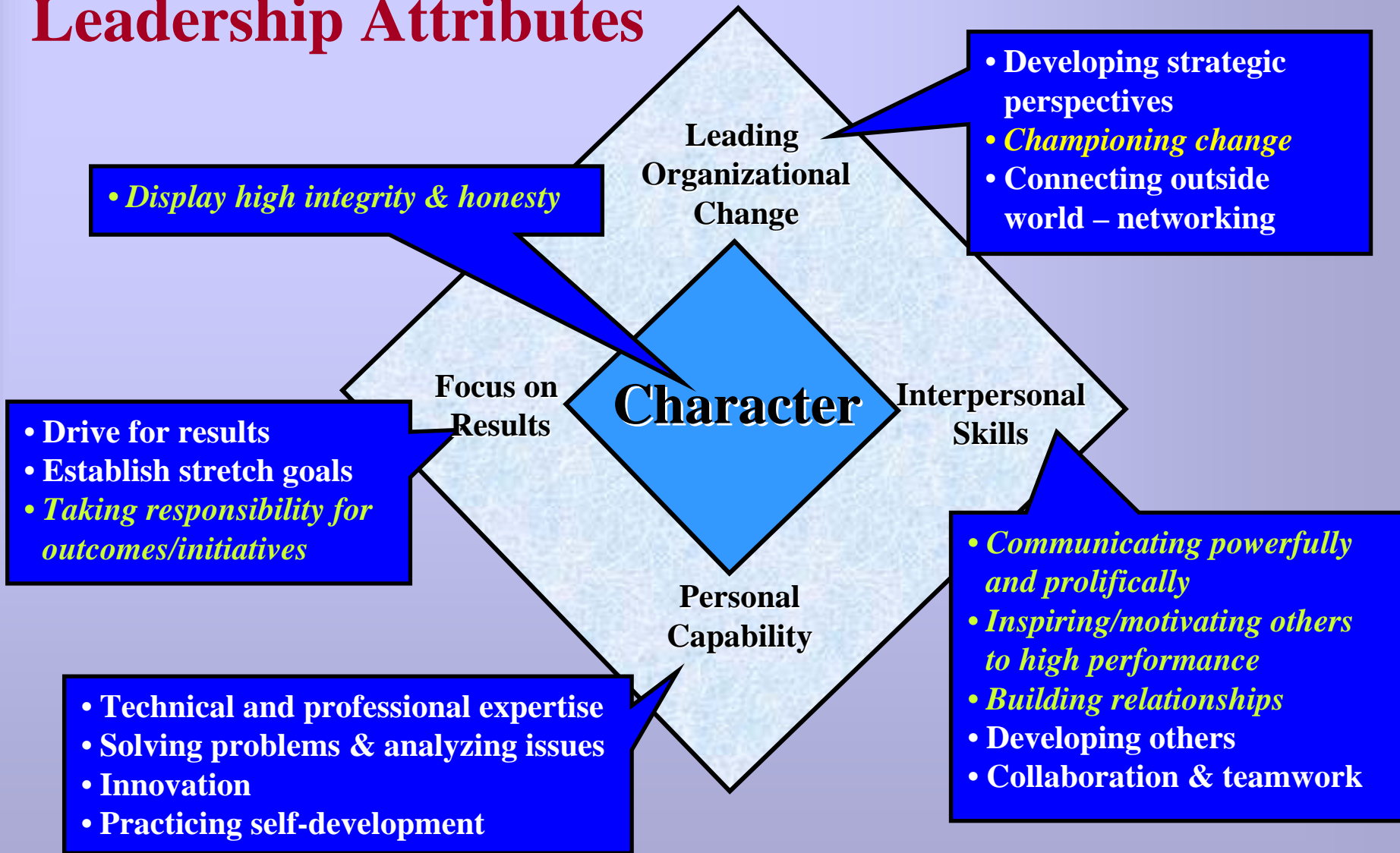
Set of processes used to keep people and technology running smoothly

## Leadership

Set of processes that creates/adapts organizations to significantly change them



# Leadership Attributes



From the “Extraordinary Leader”, Zenger & Folkman (2002)

# Leadership Actions

- *Develop an Ethics Code -*
  - *Use Cross-cutting section of Organization*
- *Behavior -*
  - *Show by example*
    - ✓ *Open*
    - ✓ *Honest*
    - ✓ *Fair-minded*
    - ✓ *Ability to listen*
    - ✓ *Courageous*
    - ✓ *Don't shoot the messenger*
- *Role Play -*
  - *Use your normal meeting forums*
- *Use the Malcolm Baldrige Criteria for Performance Excellence -*
  - *Become Process Based and change your culture*

# 1.2 Governance And Social Responsibilities Process

Describe your organization's governance system. Describe how your organization addresses its responsibilities to the public and ensures ethical behavior, within your response, include answers to the following questions:

## **a. Organizational Governance**

(1) How does your organization address the following key factors in your governance system:

- accountability for management's actions
- fiscal accountability
- transparency in operations and selection and disclosure policies for governance board members, as appropriate
- independence in internal and external audits
- protection of stakeholder and stockholder interests, as appropriate

(2) How do you evaluate the performance of your senior leaders, including the chief executive?

How do you evaluate the performance of members of the governance board, as appropriate?

How do senior leaders and the governance board use these performance reviews to improve both their personal leadership effectiveness and that of your board and leadership system, as appropriate?

## 1.2 Governance And Social Responsibilities Process

### b. Legal And Ethical Behavior

(1) How do you address any adverse impacts on society of your products, services, and operations? How do you anticipate public concerns with current and future products, services, and operations? How do you prepare for these concerns in a proactive manner, including using resource-sustaining processes, as appropriate? What are your key compliance processes, measures, and goals for achieving and surpassing regulatory and legal requirements, as appropriate? What are your key processes, measures, and goals for addressing risks associated with your products, services, and operations?

(2) How does your organization promote and ensure ethical behavior in all your interactions? What are your key processes and measures or indicators for enabling and monitoring ethical behavior in your governance structure, throughout your organization, and in interactions with customers and partners? how do you monitor and respond to breaches of ethical behavior?

# Ethical Framework\*

- Who is affected by this Business Decision? e.g.: employees, shareholders, customers, community, environment
- Does this decision cause any harm to any of those affected and are there reasonable things you can do to mitigate them?
- Is your behavior deceptive? Would you regard it that way if you were in the counter-party's position?

\* From "The Missing Moral Compass: A Reality Check On Business and Finance Ethics", by John Plender and Avinash Persaud" as extracted in the Financial Times article of 23 August 2005

# Ethical Framework\* (Cont.)

- Are there any disguised conflicts between yourself, the shareholders and those affected by the business decision? Transparency can help ethical behavior.
- What would happen if everyone were to behave in the same way in relation to each player in the transaction? If harm would come to everyone by treating those affected by what you propose to do, ***Don't do it!***

\* From "The Missing Moral Compass: A Reality Check On Business and Finance Ethics, by John Plender and Avinash Persaud" as extracted in the Financial Times article of 23 August 2005

*How Do You Know If You  
Are Making Progress?*

***Conduct a Focused Survey!***

# Focused Survey

## 58 Questions

- 3 Narrative questions

+

- 28 Focused questions

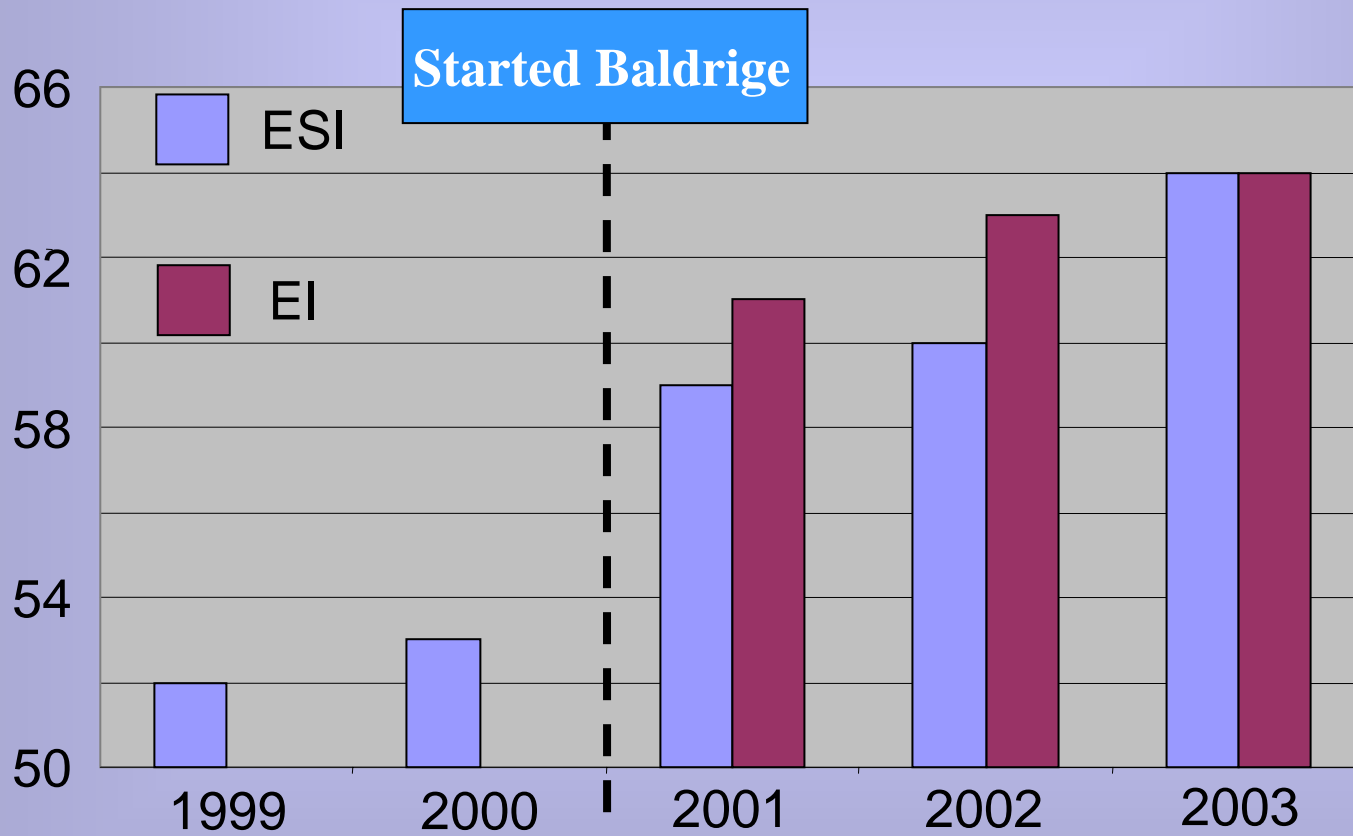
- Results to the Business, Program, Function, Site,  
and to the manager level with five or more direct reports

- Results actionable

  - Summary for 17 key issues

  - Exec summaries for each Business, Site, & Function

# EMPLOYEES ARE MORE MOTIVATED

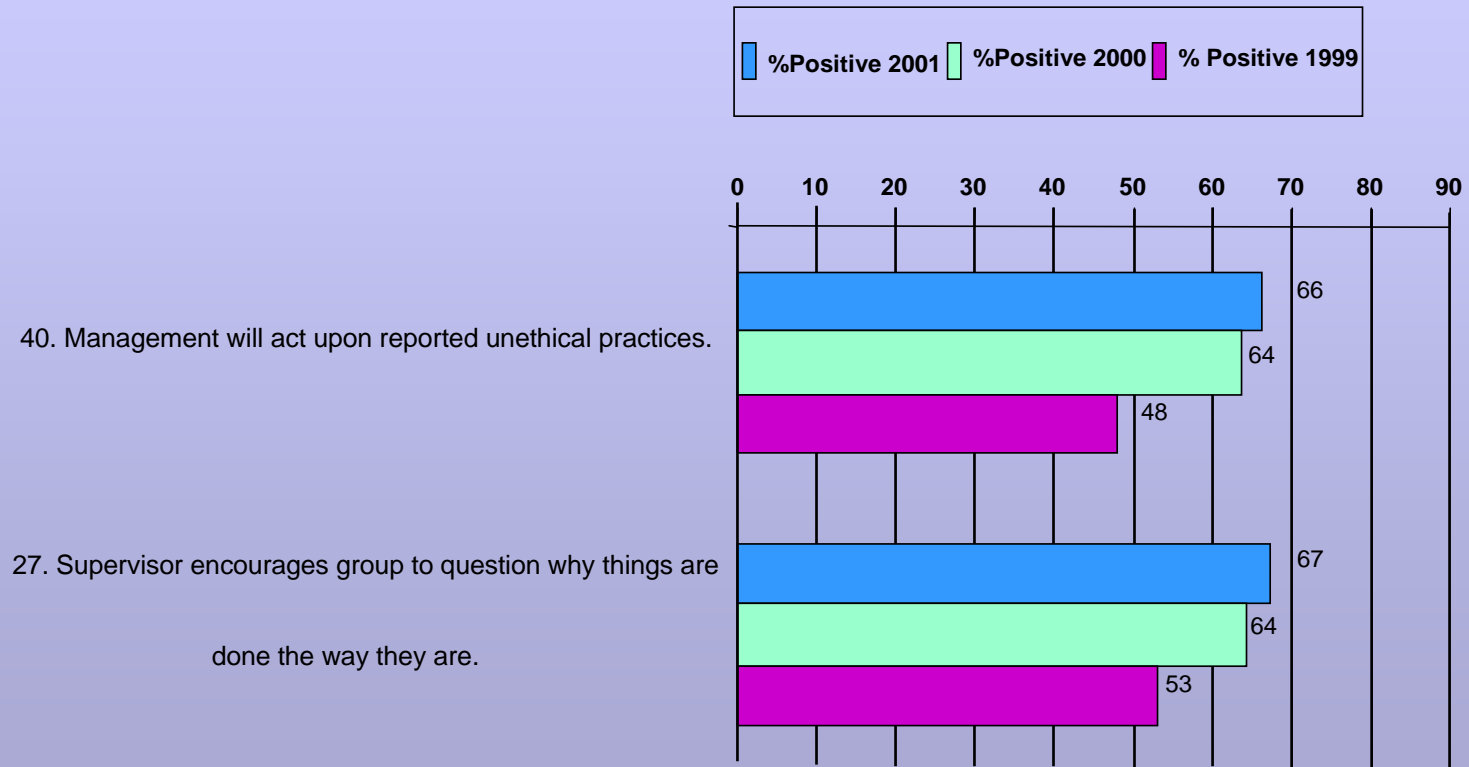


# Leadership Drives the Employee Satisfaction Index

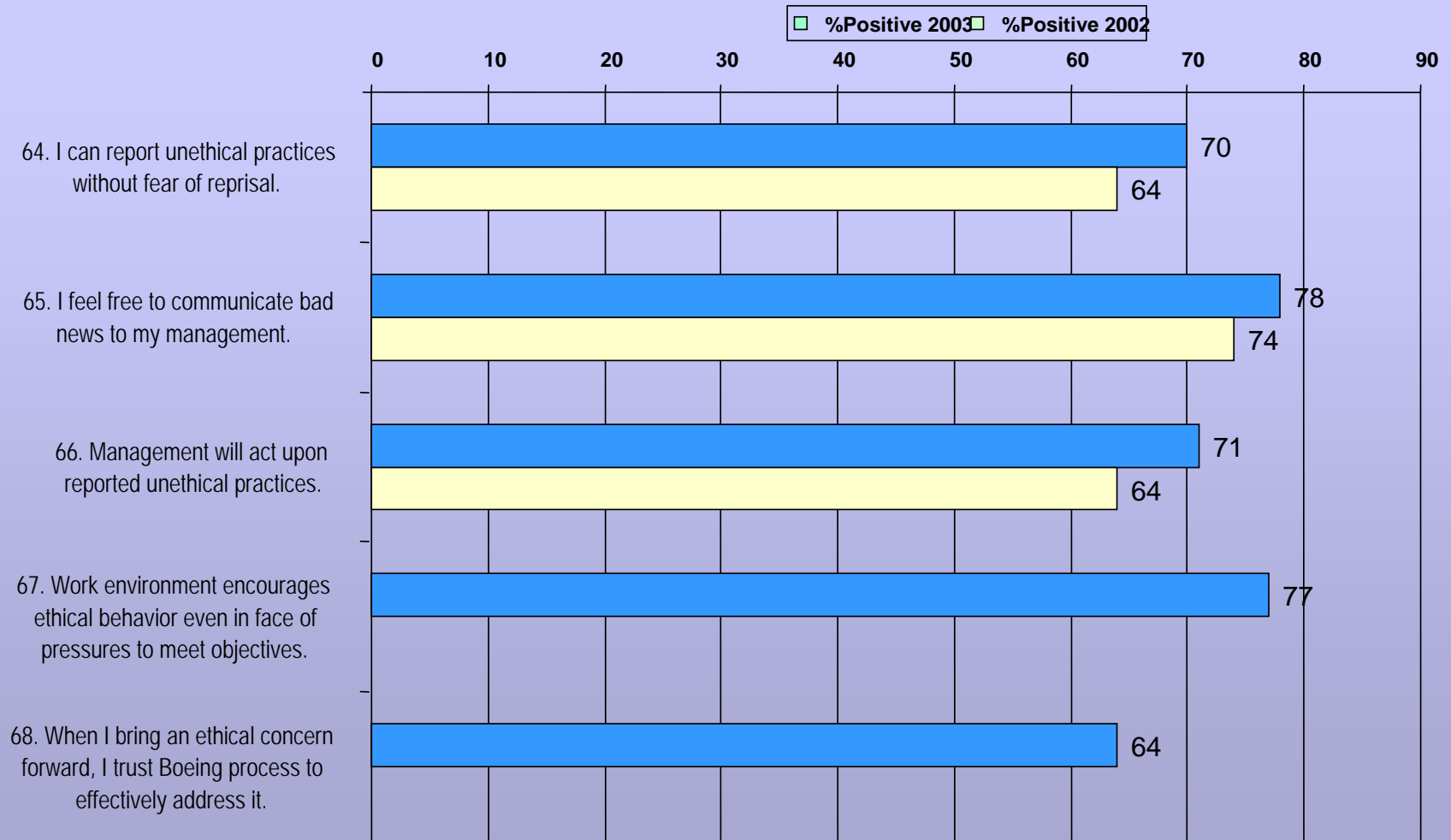


# Airlift and Tanker Programs

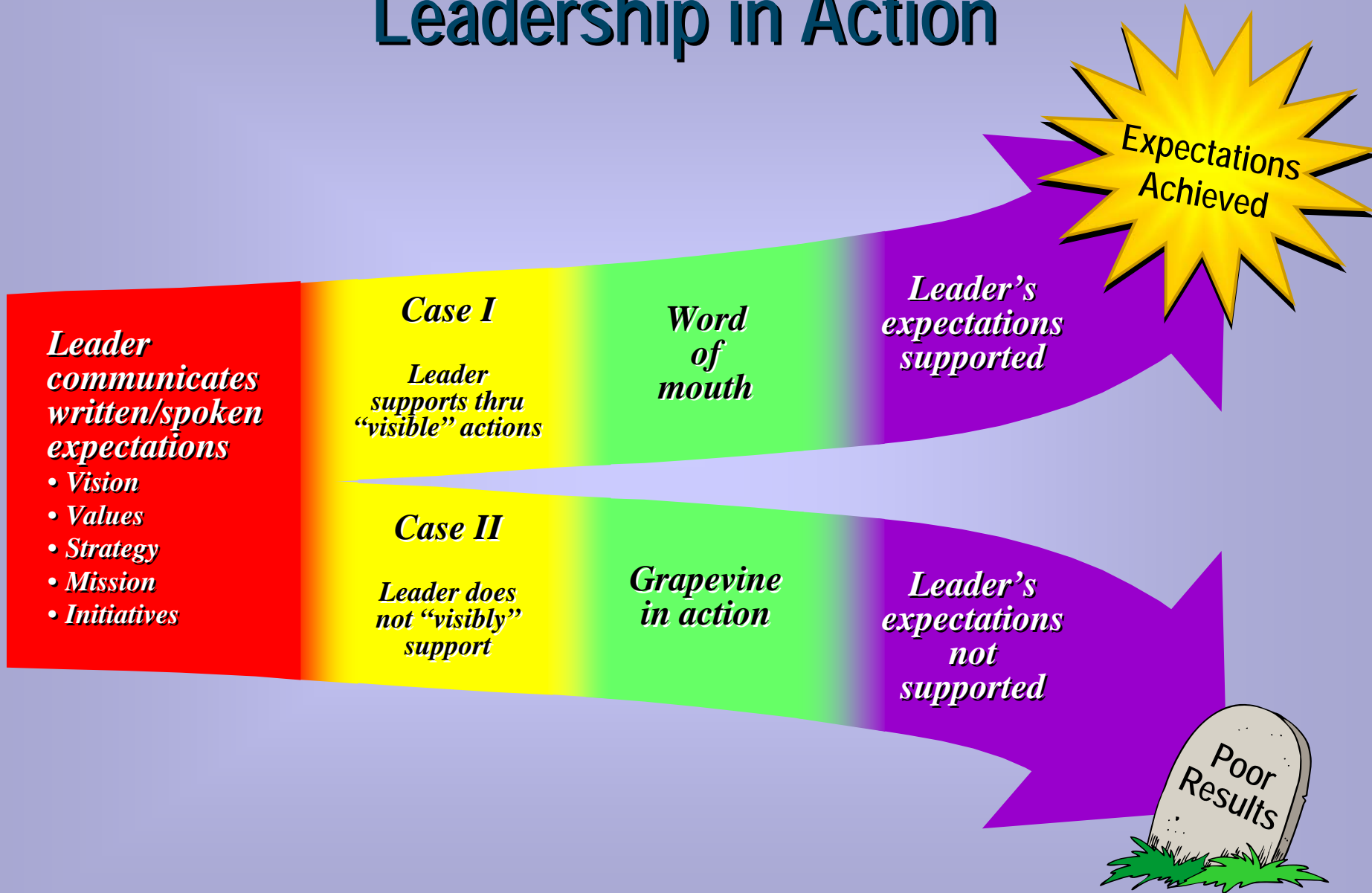
## Ethics Responses Comparing 2001, 2000 & 1999



# Aerospace Support Ethics Items - Comparing 2003-2002



# Leadership in Action



# Summary



# Summary

Motivated Employees  
"Smells Good"

Business Results  
"Taste Great"



*The Culture and the Business Results Come Together!*

# Information Sources

*E. David Spong*

*E-mail: [edavid.spong@boeing.com](mailto:edavid.spong@boeing.com)*

*Phone: 310-541-4150, 562-221-2322*

*California Council for Excellence*

*Web: [www.calexcellence.org](http://www.calexcellence.org)*

*Baldrige National Quality Program*

*Web: [www.baldrige.nist.gov](http://www.baldrige.nist.gov)*

*American Society for Quality*

*Web: [www.asq.org](http://www.asq.org)*

# Committee of 200

The Committee of 200 is the professional organization of preeminent women entrepreneurs and corporate leaders. The organization capitalizes on the power, success and influence of businesswomen in the global economy

# Discussion