

Culture

What Goes Around Comes Around

By Joe Tarantino

I am still taken aback when I see examples of egregious and irresponsible business behavior. I don't care for calling out companies, so I won't. I think we are all familiar with the high-profile cases, across multiple industries, which leave us shaking our heads and asking the rhetorical question, "What were they thinking?"

It's interesting to me that a root cause of just about every case is a dysfunctional culture that allowed for poor, even irresponsible decisions. It leaves me wondering if a different decision would have been reached had the "sunlight rule" been applied. Simply stated, that rule is "Conduct the decision-making process as if the company's stakeholders were observing." There are two corollaries of this rule:

1. Make sure the decisions we reach are defensible once our stakeholders know what we've decided.

2. Never assume the decision and its attendant consequences won't ever be displayed for all to see.

If a decision is going to cause a management team to stop the show and engage in damage control once the public, regulators, investors, and legislators learn about it, then someone has to ask, "Why do it?"

The critical test is for both the CEO and the board to answer the question "What will our people do in situations where no one is watching?" The top-down emphasis on responsible business behavior in any organization is only as strong as its weakest link. In the end, the actions and deeds of managers throughout the organization either reinforce or undermine the tone articulated by executive and line management through policies and other communications. Every CEO and board knows that alignment is

one of their most formidable tasks. Reputation and brand image are not sustainable without steadfast commitment of the entire organization to delivering the underlying promises—expressed or implied.

The concept of tone at the top has been around for decades. But is it enough? Earlier this year, the U.S. Department of Justice published guidance on evaluating corporate compliance programs which reframed tone at the top with a more action-oriented concept of conduct at the top. The guidance focuses on how senior leaders encourage or discourage misconduct through their words and actions. For example, what concrete actions have they taken to demonstrate leadership in the company's compliance efforts? More importantly, how have they modeled proper behavior to employees? In today's environment, plausible deniability is eroding as an acceptable excuse.

Boards and CEOs need to watch for warning signs of dysfunctional culture. Examples include:

1. Evidence of unrealistic strategies, inappropriate communications, unreasonable performance pressures, or unbalanced compensation structures that contribute to myopic short-termism.

2. Evidence of failure to deliver on promises to customers and employees.

3. Significant turnover of key executives in key departments and functions.

4. Punishment of executives who deliver bad news or offer contrarian points of view.

5. Line and functional managers who are out of alignment with the company's vision, mission, core values, and strategy.

6. Significant decisions are made based

on conflicting performance metrics, e.g., cost and schedule versus safety and public policy issues.

7. Risk is an afterthought to strategy and business planning, and risk management is an appendage to performance management.

8. No escalation policy regarding significant risk and compliance issues.

9. Tolerance for conflicts of interest in executing significant business activities.

10. No boardroom access to risk management, compliance, and internal audit functions that would enable directors to voice concerns about critical risk issues without management in the room.

What really drives behavior is what employees see and hear daily from those to whom they report. There is nothing wrong with this per se, but the board needs to be vigilant regarding management's ignoring policy violations or handling tough decisions in a manner that fails in walking the walk in addition to talking the talk. When that happens, the example is there for all to see with the attendant effects on the organization's culture.

In one of his literary essays, the German writer Johann Wolfgang von Goethe said, "The truth must be repeated over and over again, because error is repeatedly preached among us." In today's demanding, competitive environment, the importance of a strong culture that emphasizes exemplary conduct at the top and organization-wide alignment with the company's mission, vision, core values, and strategy cannot be over-emphasized.



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