DIGITAL VISION

The GlobalEthicist

Take it from the top

It's easy to think the reputational buck stops with the chief executive. But even the CEO is accountable – to the board, which needs to keep a close eye on more than just the money, says Andrea Bonime-Blanc

The proliferation of scandals involving executive malfeasance that have graced countless global newspapers, book covers and websites in this century alone is mesmerising.

It began with Enron, WorldCom and Parmalat at the turn of the century, continued with Siemens, DaimlerChrysler and Boeing, and culminated (one hopes) over the past five years with almost every financial institution on Wall Street and in the City and beyond creating the second worst global financial meltdown in human history.

Scandal and malfeasance may very well be one of the hallmarks of our time, perhaps only second to the massive disruption of the digital media age. In fact the two are linked, as instantaneous communication has contributed to the uncovering and rapid publicising of massive scandals (Libor comes to mind).

So, in such a tumultuous world, who is responsible for creating and maintaining an organisation's reputation? It starts not just at the top – the chief executive – but at the tippy top: the board of directors. For too long, boards have given themselves a pass on this account, often because the board's chairman is also the chief executive. It is, however, the board (of any form of organisation – for profit, non-profit, academic or governmental) that must hold the chief executive accountable for achieving the proper financial and reputational results. The proverbial "buck" has to stop somewhere.

One thing is clear. Sizeable scandals do not originate at the shop floor or the accounting department, they are not schemes concocted by low- or mid-level employees. They are high-level scandals that begin and end at the top: with executives setting the wrong example or demanding impossible results; chief executives preaching "do what I say, not what I do" or pushing employees to achieve impossible and unsustainable financial targets; or CEOs holding dramatic carrots and sticks over top performers who, in turn, pressure and drive their staff to unrealistic and, in some cases, illegal results.

The promise? Greater riches, recognition, promotions, power. Usually benefiting the very few at the very top.

What leaders say and do have broad and pervasive effects on the organisation and its people

Management tone

When leadership experts, organisational behaviourists, ethicists and risk managers look at what creates (or destroys) a culture of integrity and accountability, a major focus, rightly, is on tone from the top. What leaders say and especially what they do has broad and pervasive effects on the organisation and its people. This is especially the case with chief executives. What the chief executive says is closely listened to – what the chief executive does is even more closely emulated.

Boards need to get savvy to this behavioural dynamic, and, in turn, to hold leaders accountable for creating and maintaining a good reputation. A strong internal culture can breed a good overall reputation with positive financial and other results in the long run.

The following is a brief look at the spectrum of leadership styles that chief executives exhibit when it comes to reputation management:

The irresponsible leader. This CEO is at best oblivious and at worst hostile to issues of integrity and the importance of an ethical culture. Doing

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business with integrity is simply not part of his/her worldview. In fact, it's an oxymoron. The disgraced leaders of the companies involved in major scandals would fit into this category.

The "irresponsible" leadership style is more apparent in small to medium-size enterprises especially those that are not publicly traded, not subject to much regulatory scrutiny or not yet caught up in a public scandal. They have not felt the blow that a scandal can have on an entire organisation, its stakeholders and its bottom line. Unless extraordinarily "lucky", these leaders will eventually feel the adverse impact of a reputational hit and maybe even do something about it. At first, they may do something that is only skin-deep and join the ranks of the next category of leader.

The superficial leader. This is a chief executive who "talks the talk" – promotes attractive marketing and branding communications with good words about ethics, integrity, responsibility, customer care, sustainability and stewardship. While this may create a pretty façade it rarely creates a pervasive or deep culture of responsibility. In this culture, most employees (and other stakeholders) realise it's all about marketing and PR.

The superficial style of leadership does not institutionalise integrity – by providing a culture where it is safe for employees to speak up, for example. Instead, superficial leaders create a skin-deep Potemkin village approach to reputation management. Many of the leaders of the biggest global financial institutions involved in the recent financial scandals fit into this category, as they often have a well-developed, beautifully branded and expensive corporate responsibility and compliance programme but rarely have a sustainable culture of integrity that reaches more deeply and broadly into the organisational machinery.

The responsible leader. This leader actually "walks the talk", ie generally means what he or she says about ethical culture and corporate responsibility. This chief executive puts his money where his mouth is by developing leaders and employees, providing appropriate resources to promote and build integrity and corporate responsibility programmes and incentives within the organisation.

Compliance support

This leader has recognised the importance of having a global ethics and compliance programme and officer, and provides such programmes with direct, visible support, working hard to create a culture where it is safe for employees to raise concerns and speak up, where performance management includes cultural measures and where discipline, when necessary, is evenly meted out – to both executives and rank and file. There are a good number of companies – especially large global publicly traded companies – that fit this bill. L'Oréal, Merck, General Mills, ITT, PricewaterhouseCoopers, Prudential and Tata come to mind.

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Good ethical leadership

The enlightened leader. This chief executive not only walks the talk, but also goes several steps beyond supporting internal and external ethics and corporate responsibility programmes. The enlightened leader connects the dots between an ethical, responsible culture and ethical, responsible products and services. This chief executive creates the best internal structures, and empowers his/her people, to embed integrity not only into existing and new processes, but also into the company's products and services.

It's about melding good culture and ethical decision-making with the profit motive. The enlightened leader is breaking down the bureaucracy surrounding various internal functions and silos and is building a sustainable, ingrained and pervasive culture of ethical decision-making that spills into products and services. Very few chief executives have set this kind of tone so far – but there are a few: at Costco, Unilever, Starbucks and Nike, for example.

So what is the board's role in all this? While boards remain comparatively independent in both their operations and obligations (though that is changing), they would be wise to gauge where their executive leaders fit within this spectrum of reputational leadership.

As recent headlines demonstrate, directors themselves are no longer free from scrutiny by a broad range of stakeholders – from activist investors and pension funds to prosecutors and regulators – when it comes to taking responsibility for reputation and risk oversight.

The new bottom line for boards is that they need to demand a new bottom line from their chief executives – one that provides as much accountability on reputation management and metrics as is currently provided on financial management and metrics. ■

Boards need to demand a new reputation bottom line from chief executives

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