

# Three Essentials for Rebuilding Trust: Code, Character and Conversation

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## **Crisis in Confidence**

Many Americans are angry. They've worked hard and kept their end of the bargain but don't think corporate leaders have kept theirs. There's a definite crisis in confidence in corporate America, and with executives from Enron, WorldCom, Andersen, and Tyco in the news every day many good corporate leaders risk being tarred by the same brush. As Scott Livengood, CEO of Krispy Kreme, commented in the September 16, 2002 issue of Fortune, "There's been a tremendous amount of damage done to the credibility of good people."

A recent survey of American workers by Peter D. Hart Research Associates shows that negative feelings toward corporations are higher than positive. In January of 2001, there were more positives – 42% of respondents reported positive feelings toward corporations, while 25% reported negative feelings. Now, the figures are reversed, with 30% describing their attitudes as positive, and 39% negative. And those were employed **workers** who were polled, not retirees, day laborers, or college students. That means that the folks designing, assembling and selling products are feeling distrustful and disengaged.

## **Sarbanes-Oxley Will Help**

Investor confidence is also down. A poll of investors on February 11th of this year indicated that 60% felt that the Enron case is "an indication that some well-known corporations have begun using questionable accounting". Twenty-eight percent think it's proof that there may be an epidemic of deceptive accounting practices. Only 10% think Enron was a unique situation. The level of confidence is certainly lower now – stories from Global Crossing, Tyco, and ImClone have hit the press, and the story of accounting fraud at WorldCom dwarfed anything that had come before.

Congress made headway in restoring confidence by passing the Sarbanes-Oxley Act. CEOs and CFOs will certify financials, audit committees will be strengthened, the number of independent directors on boards will increase, boards will meet without management, sales of shares by senior executives will be monitored and reported, and loans to executives will be banned. Most companies will go beyond the requirements, and there will be great pressure to avoid even the appearance of impropriety. The large percentage of companies who regularly beat earnings estimates by exactly a penny will surely diminish.

## **Leaders Lead The Way**

But legislation is only a start. All legal and legislative remedies can be circumvented by clever and determined folks. Enron got around rules about proxy statement disclosure of a related party transaction by structuring it with an officer just below the level required to be named in the compensation table. [See [What We Can Learn From Enron: The Early Lessons](#) on this site.]

Organizations must go beyond legislation, and senior leaders must take the lead. They are the trend-setters and the carriers of the culture. In a recent study by the Southern Institute for Business and Professional Ethics, 97% of respondents said that the leader of an enterprise must also be the moral leader, but many executives don't see or appreciate their power as role models in this regard. Employees take their cue from superiors on how to conduct themselves, and written codes of conduct rarely carry as much weight as the actual actions of those in command.

## Ethics: Everyone's Job

Leaders may be the “most” responsible, but if this crisis only makes us think, “well, our CEOs and our board better darn well behave,” we will not get very far in cleaning up our act. Ethics are everyone's job, and if you're taking a paycheck you need to be playing your part in confronting ethical problems and restoring confidence.

If we've learned anything from the recent corporate meltdowns we've learned that real ethics must be more than a written code. Enron had a written code, and integrity was a stated value, but integrity didn't live in the culture and the everyday practices of the organization. Creating a true “culture of character” requires hard work every day, and it requires hard work of **every person in the organization**. It takes believing that part of our job on this earth is becoming better people every day, and it requires taking responsibility ourselves for every family, team, organization, or enterprise we're a part of. And that means responsibility for both the success and the ethics of that enterprise.

People with real character get things done – they're the people we go to when we want help or when we want to be sure a job is done right. They take responsibility wherever they are, and they can be counted on to get results. Andy Fastow got results for Enron. He created more innovative financing mechanisms than sixteen MIT grad students with nothing else to do. But it's becoming more and more clear that he did his work without integrity and without respect for shareholders or employees. Sharon Watkins saw what was happening and was worried; had the culture encouraged her to speak up earlier, Enron might have been saved. Sharon Watkins had character, but successful organizations need to promote that kind of character in every employee instead of rewarding those who get results without integrity or respect.

## Start with a Clear Code of Ethics

While an ethical code is not sufficient to create an ethical person or an ethical organization, it is necessary. The code starts with a statement of values that is clear and inspiring. Those values should be supported by specific practices that are developed with the input and support from everyone in the organization. What is a conflict of interest in this organization? How will we treat our customers? What do we owe the community?

Beyond this overarching code of ethics, however, there needs to be a discussion of and commitment to a code in every part of the organization. How will our sales' contracts be written? How will procurement treat suppliers? What will happen when specifications are not quite met in manufacturing?

## **Developing a Culture of Character**

A code is necessary, but it's not sufficient. Enron had a code, with integrity as a core value, but the culture didn't reinforce the code. Steve Olson of Generative Leadership asks people to contrast the espoused code and the code-in-use by pretending that they are anthropologists visiting the company to observe what people really do and say. What's the real code? What rules do people really follow?

Based on our research and our work with leaders, we developed a **Leadership Character Model** that is the foundation of our work with organizations and leaders. The model identifies the core qualities that make up leadership character. To make a code live, an organization must have leaders with character who create a culture of character. When we say someone has character, we usually also mean that they are the people who work hard, get results, and are the people you go to when you want something done – they're **responsible**. They also, however, ground all action in a solid base of **integrity**, and they treat people with respect and **equity**.

Companies with character are similar. Like people with character, they get results, but they do it with integrity and a respect for people. Like people with character, companies with character are able to balance **accountability** and **courage** with **humility and respect**.

## **Integrity as the Foundation**

As outlined in our [Leadership Character Model](#), a culture of character, like leadership character, must be grounded in integrity. Honesty and truth-telling must be norms for the organization and modeled by every leader.

Many leaders still have a tough time with honesty, and they often think they are doing the workforce a favor by “protecting” them from difficult circumstances. In today’s workforce, which is filled with highly educated people with access to tons of information, this kind of behavior breeds cynicism and distrust.

At a recent Ethics Summit sponsored by Catalyst magazine, Frank Chamberlain, a turn-around specialist, said that he frequently finds problems with integrity when he goes into a troubled company. Employees have not been told the truth by management, and because they have seen ethical lapses, they do not trust their leaders. “In most cases,” he said, “simply telling the truth - the simple, whole truth - did more to revitalize commitment than anything I could do. Invite employees' ideas, but don't spin anything - they're just too smart, and they always know what's going on.” Mr. Chamberlain believes that integrity is the true foundation for results. “If you tell the truth,” he says, “it will inspire belief, which will inspire trust, which leads to loyalty, then to commitment, and finally to results.”

A recent article in BusinessWeek extended the notion of corporate transparency beyond the notion of financial transparency to investors. An ethical enterprise must also be transparent to employees. Jack Stack, who practiced and preached open-book management at Springfield ReManufacturing, has seen a renaissance of interest in his honest, straight-forward approach to management. He, like Jim Collins of *Built to Last* fame, believes that building a company is more important than building a product, and thinks that sharing all information, including all financials, builds mutual trust and high levels of commitment and loyalty.

Leaders with integrity walk the talk – they model the code every day, and they make certain that their actions and ideals are visible and known. They develop both integrity and a **reputation** for integrity. And there’s evidence that management integrity has a positive effect on the bottom line. In a study of 76 Holiday Inn hotels reported in the September, 2002, *Harvard Business Review*, the researchers found that the more positively employees answered such questions as “My manager delivers on promises” and “My manager practices what he preaches,” the more profitable the hotel.

## **Equity – Creating a Respectful Partnership of Equals**

A leader’s integrity, and a culture of integrity, must be reinforced by other aspects of character. Equity is the sense of partnership and equality that makes everyone feel equally important and equally invested in the ethics and the success of the enterprise. Equity is created by cultivating [Respect, Self-Confidence, Humility, and Emotional Mastery](#) in the organization and all its members. Leaders model the process.

Treating people with respect helps leaders earn trust, and helps people see themselves as valued members of the community. Respect involves listening to others’ ideas, being concerned for the personal lives of others, and honoring diverse opinions and backgrounds. When we look at the comments co-workers make when rating a leader low on Integrity, comments about a lack of respect are frequent. Comments such as “She does not engender respect and trust in others because she is often condescending, angry, and self-important” show the importance of both respect and humility.

Self-confident leaders are willing to assert themselves and speak their minds, especially when they encounter an ethical lapse. When they see problems, they are sure they can solve them. Confident leaders are concerned with developing confidence in every member of the organization, and in the organization as a whole. Confident organizations are proud of their accomplishments and their culture, and believe they can win in the marketplace.

While confidence helps people step up to the plate and make a contribution in any circumstance, humility is equally necessary. Over-confidence is a killer, in a leader or an enterprise. Leaders or companies without humility refuse to listen to others and don't think they have anything to learn. Enron clearly became over-confident, certain that it was inventing a new way of doing business with people who were smarter than anyone else. Risk and brains were celebrated; values and humility took second shrift. And the rest of us didn't help. Consultants celebrated the energy and innovation at Enron, and didn't look behind the façade.

Emotional mastery keeps the conversational lines open. A leader who is explosive or lacking in empathy and consideration for others doesn't hear the truth in the organization. An executive stifled quality when he verbally blasted testers who came to him to discuss issues with a software version that they didn't think was ready to be released. He didn't want to hear bad news, and products were released that were full of bugs. Regaining credibility in the marketplace was difficult.

### **Responsibility – Accountable and Courageous Cultures**

Leaders with character are accountable – they follow through on commitments and are willing to hold others accountable. They create accountable cultures – they keep promises to customers and stay focused on goals. In short, they get results.

One of the reasons that accountable leaders get results is that they spend little time on blame. Wherever they are in the organization, they take 100% responsibility for the success of the whole organization, and when they see a problem they set out to solve it, whether it's in their area or not. There's a great description of exceptional accountability in an August, 2000, *Harvard Business Review* article called "Waking Up IBM: How a Gang of Unlikely Rebels Transformed Big Blue." The article describes how two managers, nowhere near the top of the organization, saw the power of the Internet and began a campaign to convince the company that IBM had to move in that direction to be successful.

That kind of accountability in the face of a problem, an opportunity, or an ethical concern is what separates leaders with character from people who go along to get along. It often requires another key quality – courage. It's easy to tell the truth when the truth is pleasant; it's quite another story when the truth is uncomfortable or personally dangerous. Leaders with courage tell the truth and encourage others to do the same, and organizations with courage own up to mistakes, make reparations quickly, and take risk.

No system works well without members who are able to keep the interest of the whole system in mind. Leaders who are able to focus on the whole are able to put the organization's interest or the interest of the larger community above their own self-interest or the concerns of their own department or group. They create organizations where all members have broad views, and decisions made are those that are best for the entire organization and for the community at large.

### **The Conversation– Everyday Practices that Keep Ethics Front and Center**

To build a truly ethical organization, ethical issues can't be separate from the ordinary business at hand. Just as every decision is considered in light of financial implications, every decision must be considered in light of ethical considerations. The goal is that ethical considerations become as second nature as financial ones, but intentional focus makes that more likely to happen.

Larry Fillmer, president of Fujitsu Technology Solutions, Inc, is one business leader who recognizes the importance of ensuring that ethical decision-making is a priority with his executive leadership team. He spends significant meeting time with his people, grappling with tough ethical issues not just to prevent an integrity crisis, but also to ensure that all stakeholders – employees, customers and stockholders – are treated with honesty and respect.

Organizations also need constant monitoring and feedback. You can't maintain a culture of character without continuing attention and frequent measurement. There are many ways to make character and ethics

a part of the continuing conversation. It's best to get ideas from stakeholders, especially employees, about practices you might adopt. Here are a few that can get you started.

### ***Create conversational tools to make ethics a daily part of decision making***

- Have an identified “ethics officer” in every meeting to alert the group to possible ethical concerns. You can rotate the position, or select randomly at each meeting.
- Make clear competing commitments in every decision. In most situations you are trying to balance more than one value in making a decision. For example, you may be committed to getting a product to a customer in time for their busy season, but you are also committed to quality and thorough testing. How do you balance both?
- Celebrate honesty and accountability. Make leaders who are completely honest and trustworthy corporate heroes.

### ***Increase transparency***

- Teach all employees to understand financials, share the numbers, and invite questions.
- Be as honest as possible about business plans, forecasts, customer commitments, etc. Making project timelines and budgets clear to everyone and monitoring progress not only increases transparency – it also increases the chance that the project will be completed on time and within budget.

### ***Create a feedback-rich environment***

- Institute 360 degree feedback for every manager, especially for senior leadership.
- Find ways to give leaders regular verbal feedback. [One company uses a “stool exercise.” Each leader takes turns sitting on a stool while others offer suggestions for improvement. The leader on the stool cannot defend.]
- Use reverse mentoring. Assign a more junior mentor to each senior executive and require that the relationship be taken seriously. [See “If You Want Honesty, Break Some Rules” in the April, 2002, issue of *Harvard Business Review*]
- Administer regular employee surveys, with:
  - > Results that are widely distributed
  - > Action planning that is done by the employee body
- Administer regular customer surveys

### ***Get regular outside views***

- In public companies, make certain outside directors meet without management
- When there is an ethical concern or an ethical dilemma, get an outside view – call a trusted professional colleague, call in a consultant (e.g., professor of ethics from a college), call colleagues in other departments

Finally, celebrate honesty and accountability. Make leaders who are completely honest and trustworthy corporate heroes. Andy Rooney, in his commentary on September 8th, repeated something that he heard from the editor of a London newspaper during the bombing of London in 1942:

"Many of us were anxious about the public reaction," he said. "We didn't know how the people would stand up to it. When the first bombs fell, neither the Government nor the newspapers knew what the people who had been hit were thinking and how they would take it. That evening, putting out the newspaper, we decided to assume that they had acted heroically. The next morning we printed all the stories that came in to us of their bravery."

"Right then," the editor said, "the newspapers fixed the pattern of how people ought to behave. Perhaps they would have behaved that way anyway. But there is good and bad in all of us and the right example at the right moment can make all the difference in the way men act."