

# Organizational Ethics & Accountability



Bill LeClaire, CPA, Principal  
David Little, CPA, Manager

LarsonAllen's 17th Annual Nonprofit & Foundation  
Conference—May 6, 2010

LarsonAllen<sup>®</sup>  
LLP

CPAs, Consultants & Advisors

# Objectives

How do you as leaders create ethical & accountable organizations?

- What is organizational ethics and accountability?
- Why is it important as leaders?
- The roll that accountability plays in defining ethics?
- How can we improve the likelihood that our organizations will act ethically and are accountable?
- How do you define/develop/maintain ethical practices?



# What is Organizational Ethics?

- How an organization responds to an internal or external stimulus
- Motivation based on the idea of right or wrong
- The rules of conduct
- A system of moral principles
- The sum of the actions of people in an organization



# Ethics & Fraud

What is the relationship between ethics and fraud?

- Fraud is a clear example of an ethical lapse, but not all ethical lapses are fraud.
- A strong ethics program will help prevent and detect fraud.
- Fraud is illegal.
- Ethics is more than compliance.
- Ethics is doing the right thing, not just what is legal

**Example:** *We have all heard of cases where companies backdated the stock options for executives. This is not necessary illegal.*



# Will Someone Speak Up?

- Nationally, 42% of employees did not even report **observed** misconduct.
  - Fear of retaliation cited 36% of the time
  - 1 in 8 claim to have experienced retaliation
  - Facts count for less than perception
- The percentage changes slightly within companies with comprehensive ethics programs where approximately 33% will not report observed misconduct.
- What are the odds then of reporting suspicions or questionable behavior?



# What is “The Right Thing”?

- Who decides what is the “*right thing*” to do?
- If you are a leader, do you want people who work in your organization to do the “*right thing*” from your perspective?
- Can you and/or governance define what is the “*right thing*”?
- It is important to define expectations management has for employees as it relates to honesty and ethics at work.



# Codes of Professional Ethics

- Codes of professional ethics for compliance and ethics professionals have two objectives:
  - Help prevent and detect misconduct at / by organizations
  - Promote ethical business environments
- Are accountable to:
  - General public
  - Employers
  - Clients
  - The profession
- The Code is divided into Principles and Rules of Conduct.
  - Principles are broad standards of conduct
  - Rules are minimum level of professional conduct



# Association of Fundraising Professionals Example

- Divided into Principles and Standards
  - Principles are what they aspire to (also referred to as values)
  - Standards are what they agree to abide by
- For every standard there are examples of ethical and unethical practices:
  - Member Obligations
  - Solicitations and Use of Philanthropic Funds
  - Presentation of Information
  - Compensation and Contracts

Source: <http://www.afpnet.org/files/ContentDocuments/CodeOfEthicsLong.pdf>



# Internalizing Principles

- Can we internalize ethical principles?
  - Internalizing principles means you abide even if no one would know.
- Are we stuck with enforcing rules?
- Yes and Yes
- Internalizing ethical principles will require the teaching of virtue.
- If you are uncomfortable teaching virtue you need to be comfortable enforcing the rules.

*“We are what we repeatedly do. Excellence, then, is not an act, but a Habit.” Aristotle*



# Virtues Required to Internalize Behavior

- Courage
- Integrity
- Honesty
- Fairness
- Generosity
  - Putting other peoples' wants and needs before your own



# Requirements for an Ethical Culture

- There is no substitute for leadership
- Leadership sets the tone and example
- The character of senior management is critical
  - Trustworthy, transparent and fair
- Keep promises and commitments
- Support others in adhering to ethics standards



# continued

- A climate of transparency at every level
  - Continually emphasized and reinforced
- Communicate directly and honestly with employees
  - Connection must be face-to-face
  - All managers need to be trained in communications
  - Know your employees and make personal connections
- There is no place for acting in anger or bullying in the work place

*“Everything I needed to know I learned in kindergarten.”*



# continued

- Employees must be invested – “*Emotional Ownership*”
  - Feel part of a team that values them and encourages them to be ethical
  - Have an important role to play in the organization
  - Share a vision that is larger than the daily ups and downs of work life
  - Everyone in the organization needs to lead, take ownership, and make a personal commitment
- Employees must be rewarded for speaking up
  - Even if it uncovers problems
- Everyone must appreciate the tough questions!
- Everyone must appreciate the silly and annoying questions!
  - It takes just as much courage



# continued

- Is there someone the employees can feel good about talking to other than their supervisor?
  - An ombudsman or use of a hotline?
  - Is there an opportunity to be anonymous?
- Assume positive intent on the part of the messenger.
  - Employees with an axe to grind will bring up fraud.
- Follow up, follow through, keep careful records and respond to employees.
- Follow your policies all the time.



# continued

- There is no such thing as a small ethical or compliance breach.
  - None can be ignored and no one is exempt
  - However, not all offenses are hanging offenses
- There is no such thing as situational honesty
- Moral behavior is not subjective and immoral behavior is wrong



# continued

- Don't assume things are going well
  - You just might not know what is going on
  - How would you be aware of unethical practices?
- Things will go wrong – practice responding
- Ethics is dependent on people's perception
  - Should you survey employees?
- Perform a risk assessment and consider periodic forensic investigations



# Reinforce Habits Every Day



**L**ead by example

**E**xpect excellence

**A**ssume positive intent

**D**o what's right

**E**mbrace intellectual curiosity

**R**espect others

**S**tretch your comfort zone



# Accountability

- As an organization who are we accountable to?
- Are we accountable to the donor and how does our responsibility to the donor play out in this approach?
- How is this communicated to others?
  - Employees
  - The organization we support
  - The donors themselves

## The danger of a utilitarian approach:

*“Ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. “*



## Contact Information:

**Bill LeClaire**

[wleclaire@larsonallen.com](mailto:wleclaire@larsonallen.com)

**David Little**

[dlittle@larsonallen.com](mailto:dlittle@larsonallen.com)

**LarsonAllen LLP**

220 South Sixth Street, Suite 300, Minneapolis, MN 55402

Main 612/376-4500, Fax 612/376-4850, [www.larsonallen.com](http://www.larsonallen.com)

LarsonAllen is a member of Nexia International, a worldwide network of independent accounting & consulting firms.

.....  
**NOTICEABLY DIFFERENT**

## 17<sup>th</sup> Annual Nonprofit and Foundation Conference



**LarsonAllen**  
LLP  
CPAs, Consultants & Advisors

