

BUSINESS'S ETHICAL QUAGMIRE

The case for improved governance and control through new
paradigm hiring practices

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In the wake of the collapse of Enron and the dismemberment of Anderson, ethics has come to the forefront of classroom, coffee house and boardroom conversations. First were knee jerk reactions, the emergency meetings and heated discussions. Reactions common among those who panic when institutions whose permanence and stability was taken for granted but whose demise shakes the ground that we all stand upon. The fallout was felt around the world as global economies were shaken by instability. The effects closer to home were felt as well with professors suddenly beginning to take interest in the frequently skipped chapters on ethics, CEOs cracked down on management, and with congressmen Sarbanes and Oxley putting forth legislation to protect against a travesty such as this from happening again. I want to look at how we, as businessmen and women in the United States, have come to the point that we are willing to falsify numbers risking global economic downturns, losing thousands of employees' retirement, and more importantly that we would compromise the last thing we have when we have lost all else- our integrity. I then want to explore how we are combatting this problem through legislation and evaluate whether or not it will be effective.

The first and perhaps most important question to explore is how we as business people came to the point that we would sacrifice not only our integrity but the wellbeing of thousands of others in pursuit of wealth. Businessweek reported in November 2003 that it is becoming increasingly difficult for sons to outearn their fathers and that the generation born in the 80's is 30% less likely to outearn their fathers than the previous generation. This among other factors such as economic downturns have led to more pressure on breadwinners to continue growing family wealth. The cold facts show that it isn't the poor who are falsifying statements hiding millions of dollars of losses but instead is the wealthy. This leads me to believe that it is not a matter of hard work and drive leading an incessant passion for the pursuit of wealth, but instead in some cases, it is simply a matter of greed- a get richer faster approach to business. I think that although all American Capitolists want to make a fortune, some have lost their morality and integrity in the quest for wealth.

So where do we go from here? What is there that we can do to bring corporate America back to the bootstrapping values and integrity of our grandfathers? Congressmen Sarbanes and Oxley think that by tightening legislation around corporate governance and audit, we will be able to

control falsified financial statements because people will be forced to operate with integrity or they will pay with fines and jail time. Section 404 of the Sarbanes Oxley Act states that management must attest to the effectiveness of the organizations internal control structure and procedures for financial reporting and that failure to implement an effective control environment may result in a material weakness leading to inaccurate financial statements, which is now punishable by imprisonment and fines. Large companies have scrambled to comply, spending millions on consulting assistance from accounting firms to guide them through compliance. With the time constraints and the mass quantities of documentation and systems to audit, it is less than likely that the first round of compliance audits will turn up many material weaknesses as accounting firms and the market race to understand the new precedent as it is being created.

Even after the legislation, I believe that the business world will only find more creative ways of finding loopholes and legislation without teeth. Legislation alone is not the answer, although it's a good step in the right direction, but I believe the answer lies in a firm's hiring practices. Most firms hire solely on past performance, talent, and the general impression of the candidate. Seldom does a candidate's interview contain questions that directly relate to their integrity. I believe that companies should follow the Gallup Organization's lead on their hiring process. Gallup specializes in Human Resources and Management consulting and they have a series of questions which directly identifies a candidate's natural talents as well as their level of integrity. Gallup places a high value on integrity level and their interview process contains a significant number of behavioral questions that challenge the candidate to relate past experiences that either directly or indirectly portray their feelings about the lines between right and wrong.

In our quest for power through the almighty dollar, we have lost some of the basic foundation that made our ancestors integrity which gave them the pride and wealth they acquired. When some of us are blinded by the power and the coin, we lose site of the thousands of lives that our decisions impact, such how the decisions made at Enron and possibly Anderson impacted not only the US but the world. In a resolute attempt to curb future dishonesty, congress passed the Sarbanes-Oxley act, placing stiff penalties on companies who falsify SEC filings. Legislation alone is not the answer, but coupled with in depth behavioral interviews in the hiring process

with questions focusing on integrity, we will begin to see a return to morals and actions of integrity. I believe that once companies use these types of questions as a standard for their interview process, they will begin to see the talent and integrity of their new hires increase driving an increase in trust both internally and with clients. With the comfort of trust and the unspoken and unwritten promise of following through promises, internal employees will be more comfortable and more productive, client will feel more secure and more satisfied, and repeat business and new referrals will increase. In the end, the quest for increased governance and controls and the quest for improved revenue will be the end result, not the method used to get there.

APPENDIX:

SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS.

(a) **RULES REQUIRED.**—The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) to contain an internal control report, which shall—

(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

(b) **INTERNAL CONTROL EVALUATION AND REPORTING.**—With respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.