Guest Editorial

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It seems that a day does not pass when there isn't a report of real or perceived ethical misconduct in the media and, it comes from all sectors – business, government and nonprofit organizations. Recent examples include, reports of government officials taking a bribe from undercover real estate developers, a company misappropriating charitable funds raised from donors for those charities and, of course, U.S. Securities and Exchange Commission (SEC) charges against Goldman Sachs. Frankly, there are so many of these types of reports that they are too numerous to mention.

At a recent conference presented by the Rutgers Institute for Ethical Leadership, Keith Darcy, Executive Director of the Ethics and Compliance Officer Association, spoke to the audience about the challenges faced by the business community and the results of the many egregious actions on the part of leaders that lead to extremely negative impacts on individual companies, industries and the economy as a whole. The substance of Mr Darcy's talk – where we have been, where we are today and where we are going – is found in an article contained in this issue of the Journal.

A recent project completed at the Rutgers Institute for Ethical Leadership is filled with more bad news than good about our citizens, youth and leaders. We must wake up if our country is to avoid continuing ethical lapses that create bankrupt companies, failing economies, corrupt governance and misappropriation of philanthropic funds.

The new report titled the *State of Ethics in our Society: A Call for Action* (most of the report is included in this issue of the Journal), notes that the rates of observed misconduct on the part of employees are high, and nothing short of an embarrassment to our organizations and institutions. One out of two employees, according

to 2009 National Business Ethics Survey conducted by the Ethics Resource Center (ERC), reported observed misconduct in that year alone. Misconduct includes a list of behaviors such as fraud, misappropriation of company resources and other actions that would damage a company's reputation if made public. Things get even worse when we face an economic crisis and companies implement recessionary tactics such as layoffs and benefit reductions. In this case, observed misconduct is even higher.

Couple this with the fact that nearly half of survey respondents lack confidence that if they report the misconduct they will be protected. This creates a dangerous mixture.

Trust in government, business and nonprofit leaders have dropped significantly in the recent recession. Only 40 per cent of respondents in the 2010 Edelman Trustbarometer, consider CEOs as credible when speaking about their companies. In addition, for the first time, survey respondents state that having a company that has transparency, honest practices and a high degree of trust is even more important than that company having high quality products and services.

The future doesn't look so good either. Only one out of four MBA students strongly agree that their educational program is helping them learn how to make business decisions that will avert a financial crisis similar to the one we just experienced. Surveys of both college and high school students illustrate an alarming level of justification for cheating. And, as one of the surveys notes, people who cheat in high school are more likely as adults to lie to customers and employers, and to cheat on expense reports.

Further down in the pipeline of future employees, the 2007 Junior Achievement Worldwide – Deloitte Teen Ethics Survey, reports that nearly 40 per cent of our teens

believe lying, cheating, plagiarizing and violence are sometimes necessary to succeed in school.

The Institute's report notes that it is important to be realistic about people and to understand that there will always be dishonest, unethical people among us. However, this is not an excuse for not taking actions necessary to strengthen our institutions' and organizations' ethical cultures. Here are just a few of the things noted in the report that leaders in all sectors should consider.

- Decision making needs to take into account all stakeholders and the potential impact on them.
- Leaders and managers can help to create an atmosphere where unethical behavior will not thrive. They can do this by demonstrating their own ethical behavior, and recognizing and rewarding that behavior in others.
- Organizations with strong ethical programs report less observed misconduct than those without such programs.
- Leaders need to set the tone from the top.
- Human resource processes, such as recruiting, selection, performance evaluation and promotion should include ethical behavior when decisions are made.
- First-line supervisors need the most training, as they are typically the first to receive reports of misconduct.
- Whistle blowing systems need strengthening and employees must be protected if they report misconduct.
- Heavily regulated industries have less misconduct than non-regulated industries. More regulations may be needed until leaders earn the right to have less regulation.
- As our future employees, our young people, appear to provide little hope for change with the ethical issues we face, we should consider making ethics and personal values a strong part of pre-college and college education.

The change we need starts with each one of us recognizing that our behavior either adds to or detracts from our society. I'm hopeful that the articles by Mr. Darcy and myself will spark discussion and debate within your organizations so that creating and maintaining strong ethical cultures becomes an important goal.

A copy of the full report *The State of Ethics in Our Society: A Call to Action* is available from the Rutgers Institute for Ethical Leadership by contacting leadership@business.rutgers.edu.

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