



Building an ethical future for a connected world

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The invisible hand of ethics

Good afternoon! Mike, I appreciate your very gracious introduction, and your leadership as Deloitte's Chief Ethics and Compliance Officer. And to all of you here today, including some of my colleagues from Deloitte, thank you for your warm welcome. And thank you, Keith, for inviting me to speak with this very important audience. About a year and a half ago, we invited Keith to our board room at Deloitte to talk about ethics. His comments were insightful and appreciated by our board as we continue to look for best practices.

While I just referred to this as a very important audience, I was not saying that as part of a perfunctory introduction. You are an important audience because of what you do and what you stand for. You may remember the economist Adam Smith writing about the "invisible hand" that he believed drove free markets. I believe that another "invisible hand" has always driven free markets—the

shared language of ethical values that makes it possible for people to conduct business with each other, wherever they may be, where a deal can be sealed with a handshake and your word is your bond.

Everyone here today plays a vital role in making that a possibility. Your efforts help create robust markets where trust and integrity can prevail. But I also believe that the work of ethics and compliance officers has never been more necessary—and never more difficult.

Often, we see headlines that take us to business stories with a common thread. Choices.

Hard choices. Tempting

choices. Choices that often took those who made them dangerously off course. As we read each of these stories, it becomes evident that if these decision-makers had consulted with people like you or checked their own moral compass, they could have kept themselves and their companies running safely between the guardrails.

Today, while we are all hoping for a change for the better, we face the most challenging economic environment in 80 years. We arrived at this difficult place because of choices made by others. And the direction that we go from here will, as always, hinge on the choices of leaders.

Which is why this is your time—a time for you to take your seat at the table as an acknowledged leader, and

ensure that what is right is always considered and incorporated into the choices that ultimately become your organization's brand. So many people count on you. Because, when you think about it, you have been entrusted with a vast mission—to help build an ethical future for a connected world.

And our world is connected as never before. The buffers of the past—oceans, borders, cultures, languages—their ability to act as barriers has dwindled, transcended by modern technology.

So as distance has shrunk and a global marketplace has essentially become local, I ask that you help keep us stitched together. And you can by promoting the ethical behavior that enables businesses to connect and grow.

It won't be easy. Every day, the people of the world decide who to follow. It is crucial that they cast their ballots for you and what you stand for. But you have competition for those votes—a lot of it. The seeds of that competition were planted many years ago and reached countless people both here and abroad. Let's turn back the clock and take a look at some of the influences that have brought us to this point.

Appearing now in behavior near you

Twenty years ago, the Boomer Generation of which I am a member was just approaching its prime. So was our economy. For business executives, the 1990s provided the longest sustained period of economic expansion in U.S. history. It was an era when anything seemed possible. A time when businesses expected double-digit growth—the Street demanded it—and entitlement began to mean something other than Medicare, Medicaid, and Social Security.

But, as with so many things in our society today, the first wave of things to come often builds slowly in the distance before we find it suddenly washing over us. The influence of popular culture on ethical behavior has been building for years, and we simply cannot discount its impact.

I'm a huge believer in the power of role models. But that power can cut both ways—good and bad. Twenty years ago, two of the most powerful role models in business weren't even in business at all. Instead, these role models portrayed on stage a vision of business that some would later act out in real life.

You might remember the actor Larry Hagman sneering his way to superstardom in the hit television series, "Dallas." For 13 seasons his character, J.R. Ewing, took business ethics on a weekly race to the bottom—doing whatever it took, mostly unethical, to crush his competitors and be "successful." But J.R. would be just a warm-up act for who would soon follow him on the silver screen.

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Two days from now, a long-publicized movie will finally make its U.S. debut. In New York and here in Los Angeles, stretch limos will roll to a stop and movie stars will emerge to walk the red carpet. That's when Michael Douglas will reprise his Academy-Award winning role as corporate raider Gordon Gekko in "Wall Street II: The Money Never Sleeps." If you've forgotten the power of Mr. Douglas's original performance, just go to YouTube and type in "Gordon Gekko." There, you'll find his iconic speech to a roomful of shareholders in which he says, "Greed ... is good. Greed is right. Greed works." (And some thought scenes like that could only happen in the movies.)

We will never know if Larry Hagman or Michael Douglas inspired anyone to cross the line into ethical breach. But this we do know. The fictional characters of Mr. Ewing and Mr. Gekko were wildly popular. In fact, once during an interview with the *New York Times*, Michael Douglas said that he could do without (quote) "one more drunken Wall Street broker" approaching him and saying, "You're the man!"

Popular culture can drive real behavior. And we all know what's possible if unethical behavior takes root. To help build an ethical future for a connected world, I believe that ethics and compliance officers must work together with the leaders of their organizations to overcome three major disconnects.

The pressures that come with a ticking clock and the expectations of continuous growth have created a difficult workout regimen for executives. I call it the "corporate treadmill."

Disconnects in a connected world

The first is generational. Earlier, I said that 20 years ago, Baby Boomers like me were just coming into their prime. And today, the newest generation to arrive in the workplace, the "Millennials," is just now beginning to approach theirs.

Our young people of today are fascinating, and not without controversy. Some refer to them as "Generation Me." I prefer

to focus instead on the many strengths that they bring to the workplace. Millennials are smart, confident collaborators who can work in teams (or cyberspace) with an ease that seems innate. Interestingly, they also candidly acknowledge that their moral values may not be as strong as those of previous generations.

We can—and must—fix this disconnect. As always, it starts with communications. And to do it right, it's often important to connect with an audience on their terms. That's why *how* ethics and compliance officers engage with Millennials becomes important.

As a result, our efforts at Deloitte have taken a fresh approach. We've completely revamped our "Ethics in Action" training for new hires by making it online, interactive, and attractive. Besides having two facilitators signed-on live, we also employ an avatar named "Casey Conduct." Casey is a young lady who walks our new hires through various ethical scenarios and even an interview with Mike Zychinski, our Chief Ethics and Compliance Officer—all geared toward keeping our new hires dialed in over the course of a two-hour virtual classroom session. This is but one of several programs we've created specifically targeted to engage Millennials on their terms, through media that are familiar to them.

That's vital, especially when recent research indicates that Millennial workers are far less likely to stay with a company for five or more years—and twice as likely to want to leave a company within one year—than their Gen X or Boomer counterparts.

That, incidentally, leads me to a second major disconnect that we must address—short-termism. The pressures that come with a ticking clock and the expectations of continuous growth have created a difficult workout regimen for executives. I call it the "corporate treadmill," in which the incline is set straight uphill and the speed is ratcheted up to an all-out, three-month sprint.

It's a grueling exercise. However, as aerobic as it might be, it's not particularly conducive to the long-term health of an enterprise—or, its chief executive. When executives climb aboard the corporate treadmill, their businesses can come up short—as in short-sighted, driven by short-term goals increasingly administered by short-tenured CEOs. Since 1995, the average CEO tenure in major corporations has declined from almost ten years to just slightly more than six.

But continuity in leadership is not all that can be lost to short-termism. We also need to consider the hidden costs that become all too visible when a stable workforce, long-term investment, and a sustainable business disappear all too quickly in the rear-view mirror.

I believe there is a link between short-termism and unethical conduct. Such is the nature of short-termism, which disdains the work that long-term relationships take while embracing the payback of quick, impersonal transactions. We need look no farther than the recent mortgage crisis for an example of what can happen. Whether it was the borrower seeking the loan, the banker making the loan, or the broker packaging and selling risky obligations, the only glue that held them together was the transaction itself.

Some might call that the "enlightened self-interest" that profit demands. I call it a recipe for unethical behavior. Because when we forget (or worse yet, don't care) that there are people involved in every transaction, relationships are not possible.

To provide the most value and the greatest good, ethics and compliance officers need access to everyone in an organization—especially senior leadership.

And ethical decision-making not only involves doing what's right, but also doing what's right by others.

The third major disconnect to be addressed is trust. Unfortunately for employees in this recession, trust seems to be in short supply. That's one of the major findings from Deloitte's 2010 Ethics and Workplace Survey, the fourth in a series of annual surveys that I've commissioned as chairman.

I've been proud to contribute to the ever-growing body of ethics research. Our first survey in 2007 found an undeniable linkage between an employee's "career/life fit" and ethical behavior on the job. Our subsequent surveys examined the ties between leader transparency and a

more ethical and productive workplace—as well as the vast divide that exists between executives and employees about what constitutes responsible social networking.

This year's survey reveals that the recession has battered not only the economy, but also the trust of employees who will be vital to its recovery. Here are some of our key findings:

- 34% of employees consider themselves likely to look for a new job when the economy becomes more stable.
- Of those, 48% cite a loss of trust in their employer during the recession as their reason for leaving. 46 percent say that a lack of transparent communication from their company's leadership has affected their decision to seek new employment opportunities. I might add that these weren't the only reasons for leaving that we asked about, but they drew the heaviest response from employees.
- They weren't alone. 65% of Fortune 1000 executives polled believe that employees' loss of trust in their employers will be a factor in increasing voluntary turnover.

Like ethics, trust is good business. A variety of studies indicates that replacing lost employees can range anywhere between 25 to 250 percent of their annual salary, depending on industry and job type.

Think of all the productivity that could be gained if employees trusted their employers implicitly. Think of all the costs that could be saved in hiring, training, and productivity ramp-up—not to mention the value of institutional knowledge that will continue to reside in your organization.

The continued engagement of employees is one of the greatest benefits of workplace trust. So, "How?"—you might ask—can you as ethics and compliance officers help businesses rebuild employee trust? By counseling business leaders to do the exact same thing that they would do to build and strengthen the trust of customers or clients. And that's to further develop their relationships through direct, regular, and open interactions.

Speaking of relationships, I'd now like to discuss one of the most important connections in business today: your direct, regular, and open contact with the leadership of your organization.

Your ability to be seen and, most importantly, heard

Today, 90 percent of Fortune 500 companies have an ethics and compliance officer, with the remaining 10 percent assigning those duties to a general counsel, or—in rare cases—to no one at all.

So the importance of ethics and compliance is almost universally understood. But are executives fully aware of what you do and of the business value you bring to the organization? Maybe not if you find yourself stuck in a silo somewhere, out of sight, out of mind, or out of shouting distance from those who could truly benefit from your guidance. To provide the most value and the greatest good, ethics and compliance officers need access to everyone in an organization—especially senior leadership. That's why I strongly encourage you to seek the position that you deserve—a seat at the table in the C-suite and the board room where you can be seen—and, more importantly, heard. While that sounds like a great place to be, the larger question might be how to get there. Here are some quick suggestions.

First—ask. If your interaction with senior executives is less than you would like, go ahead—make yourself visible. I was fortunate to learn early in my career that it was important to let people know the good work you are doing and that it can be done without being a braggart.

Ask for visibility. Ask to make a presentation to your senior executives or the board, possibly about the organization's current state of ethics and compliance. That's an important topic. Those who lead will want to learn more.

I also believe it's important to not just create visibility for yourself, but for the programs and initiatives you sponsor. The employees of your respective organizations must understand the importance of creating an ethical culture. As this happens, your visibility—and, consequently, your ability to influence the organization—will grow. Mike did this at Deloitte! While we had always heard from our Chief Ethics Officer once a year, we now hear from Mike more often in our board room, and I have regular private meetings with him—he makes sure of it!

Second, it's not about your title. Remember—you've been asked, implicitly or not, to help achieve an outcome. But don't let others define that outcome for you based on your job title alone—particularly if your senior executives think of it along the lines of “Keep us clean. Keep us quiet. Keep us out of trouble.”

That's vastly underestimating the value that you can provide. You can and should position yourself as a trusted and strategic advisor, someone completely in touch with the ethical best practices that your organization needs. Demonstrate how your responsibilities align

with the mission of the organization—and why a clear consciousness of ethical responsibility must permeate the entire organization.

At Deloitte, Mike's strategic response has been to implement a major ethics and compliance campaign including training and communications called the “Power of One.” The Power of One recognizes the importance of one's

individual choices and behaviors and how we each have the responsibility to act with personal integrity to sustain the public's trust. In fact, the tagline for our ethics and compliance program, from its inception to now, is “Personal Integrity, Public Trust.” Our success in implementing this program brings me to a final suggestion for connecting with senior leaders.

Finally, convey your message in terms that executives will understand. And that starts by understanding what will get their attention.

Case in point. For Deloitte's Ethics and Workplace Survey last year, I must admit—I was not immediately receptive when Maureen Mohlenkamp from our ethics team suggested that we do a survey about social media. I really wasn't a user of social media. I'm not on Facebook and I only tweeted for the first time last week from our U.S. partners meeting.

But Maureen and the team recast the survey's messaging in terms that got my attention—namely, that employee usage of social media could bring reputational risk to your brand. That caught my attention.

Your challenge is much the same. As long as the guiding premise of business executives is to enhance shareholder value—(and I don't see that changing anytime soon)—

the language you speak will have to communicate more than what's wrong and what's right. For your voice to be heard—especially if you find yourself in an environment of short-termism—you'll also need to convey the value of what's wrong and what's right.

As an accountant, I've long believed that numbers tell a story. Here's one that you might share in the C-suite or board room:

- First, calculate your organization's enterprise value or market capitalization.
- Then, discuss the implications of how the lack of an ethical culture can bring down the entire enterprise. (This is not theoretical—it has happened before as we know all too well.)
- Finally, draw the connection between ethical behavior and the value of the entire enterprise.

When people ask me the cost of our ethics programs at Deloitte, I use this calculation to explain that it's not about what our programs cost but what they're worth—for us, as a partnership, I think they're worth almost \$11 billion, which happens to be our annual revenue.

This story of Ethics Cost Accounting 101 speaks a language that senior executives will understand and appreciate. It also demonstrates that you can and should be more visible, that you have strategic insights that go well beyond compliance, and that you can contribute bottom-line value—by making ethics and compliance top-of-mind.

A connected world that will vote for you

And it needs to be top-of-mind in a world that has grown so competitive, so complex, and so connected. Today, organizations need to make doubly sure that how they conduct business is worthy of the value their customers expect and clearly represents the values of the enterprise. This is where you can provide the greatest value, and I'm not overstating it to say the success of your business depends on it. Such a role is vital—and it is worth fighting for.

So, in closing, I challenge each of you to connect with everyone in your organization, especially the leaders in the C-suite and board room. Your time has come to be more than an “invisible hand.” Every day, people choose who to follow. Through greater visibility, trusted counsel, and the influence of your example, you can give those people every reason to cast their votes for you.

Thank you so much for inviting me to be with you today. I'll be glad to answer any questions that you may have.

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