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Article as appeared on Ethisphere.com

Creating a Corporate Culture Demonstrating Ethical and Cooperative Leadership

When Functions Compete the Company Loses

By *Anne Simmons*

All organizations seek to establish common goals that will help them meet strategic objectives, rally their employees and inspire shareholders.

These goals, set by the senior executive team after soliciting input from key (or even all) departments within the organization, are usually blessed by the Board, polished by professional communicators, and launched to the wider employee community with great fanfare. Think of all the coffee mugs, notepads and pens with aspirational phrases such as "The Drive for Five Billion" or "Putting Our Customers First" you've seen throughout your career.

And yet most organizations are plagued with functional heads who, in pursuit of the goals handed to them by the executive team, are working at odds with their peers, and sometimes with the company's overall strategic objectives themselves.

Take, for instance, a telecommunications giant that from 1980s until the mid-1990s relied upon a network of third-party resellers to market and support customers for its messaging product suite. For years these agents built-up a steady client base that contributed a healthy revenue stream, at very little expense to the company. Many of the agents were able to penetrate Fortune 500 accounts, for which they developed solutions that used the messaging product line to automate mission-critical applications.

Later, in growing recognition of the strategic importance that messaging played in the corporation, the company assigned the same messaging product line to one of its direct sales organizations. New to the technology and lacking the confidence to initiate discussions with customers on their own, the direct sales team began appropriating the agents' customer base in order to meet their messaging quota. Their district managers, whose commissions were based on revenue brought in by the direct sales reps, fully supported the trend, arguing that as large and Fortune 500 companies, these customers represented strategic opportunities to sell additional services sold only by the direct reps.

For several years attempts were made to negotiate a redistribution of agent clients. For their part the agents, highly productive independent business people who were growing tired of losing customers to the direct sales force, threatened to stop selling the companies products and focus their expertise elsewhere. The company faced the possibility of a devastating brain drain for a pivotal product line.

A solution was finally reached when the division president decided to roll-up the agents' revenue to the same district managers who were responsible for managing the direct sales teams. In an instant, the district managers had an incentive to end to the pillaging of the agent customer base, and mandated their sales teams to go after new revenue opportunities.

While dividing up a customer base is a well-known source of competition, it's hardly the only basis for friction within the corporate environment. BAS is often called upon to help organizations sort out the issues that prevent cooperation among its internal departments; a competition that often thwarts the organization from achieving its greater goals, such as adding efficiency to its financial processes or balancing economic opportunity with controls.

Unfortunately, competition between functions is thoroughly entrenched throughout much of Corporate America. Why? Executive incentives are inextricably tied to performance. Performance objectives are not always aligned to support achieving the corporate objectives. Functional heads are focused on achieving the goals that will reward their slice of the enterprise, whether that slice is a specific customer segment or a specific function such as audit or underwriting.

To compound the problem, a goal often falls into the domain of two or more functional heads, each with a unique definition of success. For example, let's say Company X decides that increased profitability is its single most important goal for the upcoming fiscal year. How should each function respond to this goal? For sales executives, that goal will undoubtedly translate to a specific number of customers to be acquired – period. To the head of customer care, it will mean increasing first-contact resolution, an impossible goal if the sales force, in its drive to meet rising quotas, does a poor job of qualifying customers. The reality is success means very different things to executives charged with product development, managing inventory, controlling the supply chain, mitigating risk, ensuring compliance, and so on.

This is not to put blame on the functional executives, most of whom are, by all accounts, talented and hardworking individuals. The real culprit, BAS has discovered in working with clients, is the lack of sophistication and maturity that is required to view the organization as the Board of Directors would. Moreover, even if each functional leader were willing to walk in the shoes of their peers, they lack the time, resources and skills to identify, acknowledge and ultimately bridge the gap that exists between them.

Competition has Its Costs

The costs of internal competition to American businesses are profound. In each passing year we see the tarnishing of reputations of venerable corporations by the actions of a small segment of individuals, functions or divisions: Société Générale because a lone trader who, perhaps with the tacit approval of his manager (the legal system will sort that out), took the position of placing risky bets way too far. And 2008 has been marked by the continuing troubles of major financial institutions, whose divisions that packaged mortgage-backed securities failed to assess the risk of subprime mortgages. Sadly, the spectacular losses incurred by these vehicles have overshadowed the considerable success earned by the investment branches of the same companies.

It's not just revenue that suffers when divisions compete. All of the employees, customers, partners and investors of Mattel, Marsh & McLennan, Citigroup, MCI WorldCom, Arthur Anderson, and Enron have endured crippling blows that resulted from the overzealous pursuit of goals from a handful of employees, departments and suppliers. Half of those once great companies no longer exist today.

The Solution: Creating a Culture of Ethics in the Corporation

One of the greatest challenges facing American companies of all sizes is finding a way to set a corporate-wide agenda that encourages consistent, ethical, and complementary behavior among all its functions and employees.

By achieving that level of consistency, an organization does more than promote harmony within its employee base: it allows for an ethical culture in which to make decisions, set agendas, and implement strategy within each department to flourish.

So how does a company begin to create and implement such goals and agendas?

The first step is to appoint a high-level executive sponsor to serve as an ombudsman for key initiatives. The executive ombudsman must be aware of and willing to recognize the competing forces that exist between an initiative and the functional heads' self interest. Such honesty paves the way for the development and implementation of a plan of action, customized to each function, to make meaningful contributions to the initiative.

Second, our experience has shown that most functional heads need to be coached on how to translate their self-interest (and usually short-term goals) into actions that serve the long-term interests of the company. For instance, BAS coached the functional heads of a major financial services company on how to communicate their requirements to the IT department so that IT will be positioned to make technology decisions that support the company's long-term growth strategy.

Often, coaching requires us to teach one department how to use the language of their peers in other departments. As part of our work with the financial services company, BAS helped the IT department understand and use the language and terms of the business units. By enabling the IT staff to speak the same language, they were better able to support the goals of the business units, and better understand the impact that IT solutions had on the business. A byproduct of this exercise was a significant increase in trust between IT and the business units.

Finally, each department must see how they fit in to the entire process. This is perhaps the greatest value that outside consultants such as BAS deliver to clients: as independent observers with no vested interest, we are able to view an initiative, process, or organization as a whole, and make recommendations that benefit the whole.

While the steps outlined here may feel like a lot of extra work to pile on to an already stressed management team, they go a long way towards alleviating the problems that arise from unchecked internal competition and miscommunication. And as we continue to see every time we open the business section of the newspapers, cleaning up after that competition can be far more time and energy consuming than the foresight and planning that

BAS recommends. At the end of a day, an ethical corporate environment happens to be an extremely efficient way to run a business.

Anne Simmons is the co-founder, president and CEO of Board Advisory Services (BAS), a consultancy group founded on the fundamental belief that organizations can find a balanced approach to ethics, controls, and compliance to drive improved shareholder contributions in the near- and long-term. Ms. Simmons has functioned as an executive in number capacities, delivering business value through line of business leadership for mission-critical transaction businesses, development of de novo consulting organizations within Fortune 500 firms, establishing professional services capabilities in a turnaround situation, and business evaluation and implementation of emerging technology based business propositions seeking venture capital. Ms. Simmons actively advises C-Suite executives on numerous projects concerning risk assessment, corporate governance, business development, and executive staff coaching. Anne Simmons can be reached at anne.simmons@boardadvisors.com.