

Will ethics be trampled in the rush for compliance?¹

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There is no doubt that the US Sarbanes-Oxley act of 2002 is having a far reaching effect well beyond the US borders. Enacted as a response to the ENRON and other corporate "scandals", its intention is to make senior company officers more accountable to shareholders - but at sizeable short term cost: estimates of \$20-\$30 million are not unusual for the large US listed corporations. In the UK the requirement to produce an Operating and Financial Review (OFR) is also said to be absorbing considerable cash and executive time.

So can businesses extract an increase in shareholder value from conforming to the new regulations? Certainly, inflows of new information generated by the compliance programmes (risk registers would be one example), can be used to increase overall productivity.

But a major concern about all the new and expensive activity is that it will generate a risk-adverse compliance culture. Put another way: will it undermine an enterprise and a value - based operation?

Regulators (SEC & FSA) have insisted that companies like Shell commit large sums to improve their compliance systems as part of settlements for breach of rules.

While compliance is obviously important, it has to be seen in the context of the overall business strategy.

The following table sets out the main characteristics of a compliance driven organisation and one primarily driven by values and ethics.

Ethics	Compliance
Slow burner Long time frame	Constant monitoring
Prevention	Detection
Principles based	Law based
Values driven	Fear driven

¹ This Comment first appeared in the April/May edition of *Corporate Responsibility Management* Vol 1, Issue 5.

Implicit	Explicit
Spirit of the law	Letter of the law
Grey	Black and white
Alignment with values	Requires obedience
Discretionary	Mandatory
More difficult	Easier

Ethics programmes in an organisation could well be in danger of being swamped by the new insistence on compliance and accountability.

This does not have to happen. If properly managed, an ethics policy can inform and guide the compliance team and, importantly, it could act as a vehicle for taking business ethics to those parts of an organisation that is not normally reached. To live together harmoniously, an ethics and compliance department should:

- Make a distinct (senior) person responsible for implementing the ethics part of the function
- Have a clear reporting route to the CEO/Board
- Make clear the role of internal audit
- Make sure there is an effective (continuous) training programme
- Always base the case for compliance on corporate values.