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Corporate Philanthropy Awards Honor Trend

Submitted by Danielle Lee on Tue, 2007-02-27 20:27. Social Responsibility

While some companies are rewarded for their philanthropic work, others are forced to scale back.

GlaxoSmithKline, Salesforce.com and the National Academy Foundation were honored for their philanthropic initiatives by the Committee Encouraging Corporate Philanthropy (CECP) during the Excellence in Corporate Philanthropy Awards luncheon Monday, Feb. 26, in New York City.

The awards, which have been presented since 2000, recognize CEO leadership, innovation, measurement practices and partnerships in philanthropy.

During the luncheon, which fell on National Corporate Philanthropy Day, GlaxoSmithKline CEO Jean-Pierre Garnier said the drug giant's philanthropy efforts were driven not only by a desire to help society but also, in part, by a need to recruit highly qualified research scientists. For these scientists, "a lot of it has to do with more than money," he said. "The 110,000 really wonderful people who work for us want to change the world for millions of people – and they do." Philanthropy, he added, is "not just doing the right thing – it's also a competitive advantage.

This sentiment may be part of a growing trend in corporate giving. A January 2007 Conference Board study reports that corporate contributions to worthy causes have increased in recent years (up 18 percent in 2005 among the largest corporations and foundations). And as part of National Corporate Philanthropy Day, Microsoft Corp. announced that it is rewarding \$55 million in cash, software and community learning curriculum worldwide through the Microsoft Unlimited Potential 2007 program, which provides computer access and IT skills training to the global workforce.

However, Monday did not mark only good news for corporate philanthropy. On the same day as the awards and Microsoft announcement, Fannie Mae said that it would shut down its foundation, which has been in existence for more than 28 years and awarded \$61 million last year alone. The foundation has attracted criticism for using tax-exempt contributions to advance corporate interests.

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Dartmouth Team Wins National Ethics Competition

The following is a slightly edited Dartmouth College press release. Editor

By Rebecca Bailey

A team of Dartmouth undergraduates recently took first prize in a national business ethics competition, beating teams from 33 other institutions, both undergraduate and graduate.

The National Intercollegiate Business Ethics Competition, hosted April 20-21 by the Center for Ethics and Business at Loyola Marymount University, is the centerpiece of the Center's annual "Business Ethics Fortnight" program, now in its 12th year. This is the first year a Dartmouth team has competed. The team also earned a \$2,000 prize.

Each team, consisting of between three and five students, made a 20-to-30-minute presentation explaining the legal, financial and ethical dimensions of a recent real-life business matter. The Dartmouth team...chose to focus on the pretexting scandal at Hewlett Packard, in which senior management invaded the private phone records of HP board members who were suspected of leaking confidential information.

What set the Dartmouth team apart was the fact that the team approached the matter from many perspectives, including those of the CEO, the board chair, the employees and stockholders, and the board member accused of leaking damaging information to the press, said Aine Donovan, executive director of the Dartmouth College Ethics Institute and the ethics team's faculty advisor.

In addition to Donovan's help, the team was assisted by graduate students from the Tuck School of Business, who had worked as consultants and were especially helpful in polishing the team's presentation skills, critiquing such fine points as vocal delivery, hand gestures, and the quality of their power point, said Tzfadya.

Other institutions who sent undergraduate teams included Loyola University of Chicago, the University of Southern California, McGill University, New York University, Texas A&M University, Tuskegee University, the U.S. Military Academy at West Point, and the U.S. Naval Academy. Institutions sending graduate-student teams included Duquesne and Pepperdine universities, and the Wharton School of Business/School of Medicine, University of Pennsylvania....

The competition began with preliminary rounds on April 19 and 20 from which Dartmouth and McGill emerged as undergraduate finalists, and Duquesne and Loyola Marymount were the graduate finalists. In the final rounds on April 21, each finalist team gave a 15-minute version of their presentation dealing exclusively with the ethical dimension of their case...."

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Council for Ethical Leadership

Editorial

By J. Michael Houlahan

This issue features an article recommending business philanthropy as a competitive advantage, a piece on an unusual national business ethics competition pitting undergraduate and graduate student teams against each other, and a profile of Jim Abrams, our new Council Chair. We also include a book review of World Inc. by Dr. Bruce Piasecki. The author will be speaking at The Ohio State University later this month.

A short review of a luncheon talk by Andy Dahle of Pricewaterhouse Coopers, who addressed "Responses to Fraud Risk in the New Millennium" and an op-ed piece on the "Corrosive Effect of Excessive Executive Compensation" round out the issue.

Ohio Secretary of State Jennifer Brunner will be our next lunchbreak speaker at 11:30 on Thursday, May 17 at the Confluence Restaurant, 679 West Spring Street. Her topic is "Good Public Service Equals Good Stewardship." According to Secretary Brunner, "Good public service is about good stewardship of the public trust and taxpayer money. Public service is about working for the greater good of a community. When this is the driving force, ethical conduct follows." Reservations can be made online at www.businessethics.org.

We welcome readers' comments and solicit articles for possible publication. Views expressed in this newsletter are those of the authors and do not necessarily reflect the opinion of the Council.

Profile: Council Board Chairman

By J. Michael Houlahan

After many successful years as a California businessman, Council Chairman James D. Abrams made a mid-career change of locale and profession, moving to Columbus in 1996 and graduating with a *summa cum laude* JD from Capital University's law school. Jim joined the law firm of Chester, Wilcox and Saxbe, where he now is an Associate, concentrating on commercial litigation and employment law.



Abrams is a member of the Ohio Bar, as well as the Bars of the District of Columbia, U.S. Sixth Circuit Court of Appeals and the U.S. District Court for Southern Ohio, where he served as an extern to the Honorable Edmund A. Sargus, Jr. He is author of "A Missed Opportunity: Medical Use of Marijuana is Defensible". Case Note: U.S. v. Oakland Cannabis, Capital U.L.R. 31 Vol. 4.

Born and raised in California's Central Valley, Jim earned his BA and MBA in the San Francisco Bay Area, and then built an impressive résumé of practical business experience as a senior executive, serving both publicly traded and privately held

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businesses, including as Chief Financial Officer for GAP, Inc. and Williams-Sonoma, Inc. He currently serves as a member of the Board of Directors and Chair of the Audit Committee for Harold's, Inc., a national specialty retailer.

When interviewed for this profile, he made the following comments:

Q: What is a clear example of ethical leadership you've observed or implemented?

A: I've experienced a number of examples. I was involved in a transaction involving venture capital investment of a significant amount. In order to get the "deal" done and move the concept forward, we accepted "seed" money in anticipation of the closing of the full transaction. The "seed" money was to be used only with authorization in advance. I was entrusted with the funds in a business account. In order to get a lease transaction important to the business completed, the CEO, who had signature authority, delivered a check to the landlord without obtaining pre-authorization. Although the investors did not view this as an ethical lapse, I personally saw the behavior as a foreshadowing of the future. As a result, I did not go forward with the transaction, giving up a substantial gain. In the end, the investors and the CEO had a falling out over the CEO's performance and the business failed.

Another example involved a troubled company with which I was involved. By having open communications with employees and vendors, we were able to turn the business around to profitability. The key was complete honesty with the vendors and not making promises that we could not keep. The vendors respected the candor and continued to partner with us. The employees saw the proper way to run the business and worked harder at making the turnaround succeed.

Q: Have you observed any useful or striking example of failed ethical leadership while in business or practicing law?

A: The best example of failed ethical leadership came when I sold a business to a buyer who claimed to be acquiring the business to help it grow. Part of the decision to sell to this buyer was the representation that the business would be properly funded on a forward going basis. It turned out that the buyer took the cash flow from the newly acquired business and used it in another venture. The result was two business failures rather than a success.

Q: Do you see ethical leadership as a moral or a practical imperative; or both?

A: Initially, the concept of ethical leadership is a moral imperative. However, ethical leadership has significant practical implications. Success in one's business or professional life is dependent upon trust. Setting the best example helps achieve success.

Q: How do you think a moral leader best passes on this imperative to subordinates?

A: By consistent example and with open discussion.

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Council for Ethical Leadership

Q: Do you aspire to take the Council in new directions? If so, what are they?

A: I would like to transform the organization into one where the Board can focus on governance rather than doing the day-to-day work. That simply means I want the Council to grow and consistently deliver on its mission. However, it's the Board that must define the direction of the Council. It's not an individual perspective.

Jim Abrams and his wife of forty years have a married son and a 15-month-old granddaughter.

World Inc.

How the Growing Power of Business is Revolutionizing Profits, People and the Future of Both

©Bruce Piasecki

Sourcebooks, Inc., Naperville, IL, 2007

Reviewed by Joseph R. Cook, J.D., M.B.A.



How can business contribute to the increasing challenges facing our world? How can multinational corporations survive in the future? How can investors assess the risks and potentials of companies operating in the new global economy?

These are some of the questions addressed in *World Inc.* by Bruce Piasecki. Dr. Piasecki draws on his experience as president and founder of the American Hazard Control Group, a management consulting firm specializing in energy, materials and environmental corporate matters. As he describes in the book, AHC Group has consulted with a number of prominent multinational firms on key strategic initiatives, and has regularly held workshops and forums with top global business leaders. *World Inc.* is the result of these experiences and discussions.

The book explores the central theme that mounting social pressures facing our world will encourage the search for new products, and that the most successful firms (and the ones that will survive) will be those providing products that satisfy the requirements of price, technical quality and social response. The author introduces the concept of the "S Frontier". This is the frontier of new business strategy considering three critical realities: "the Swiftness of new global market information"; "the Severity of some of the leading social problems before us (climate change and the rising price of oil)"; and "the need for Social response capitalists". These themes are discussed throughout the book in terms of strategies and opportunities for a business to prosper in the new century.

Tentative Upcoming Lunchbreak Programs:

May 17, 2007

Jennifer Brunner
Ohio Secretary of State
Good Public Service=Good Stewardship

October 25, 2007

Art Schlichter
Former OSU Quarterback

Council for Ethical Leadership

Dr. Piasecki focuses on the enormous influence of the multinational corporation (MNC) in the global economy. Some facts cited: fifty-one of the largest economies in the world are new corporations; three hundred MNC's account for 25% of the world's total assets; and 40% of world trade now occurs within MNC's. With the power and resources of the MNC, it is difficult to think that government alone can solve the problems facing our future. Therefore, the author argues that business in the new global economy will need to respond to societal pressures to create better products and consider the higher good which, in turn, leads to their own self-interest (profit and survival).

The book provides important insights on how progressive companies are responding to the new challenges by several case studies, including examples of actions taken by Toyota Motor Company and Hewlett-Packard (HP). Dr. Piasecki has provided consulting services to both firms and describes .for example, Toyota's anticipation of future energy costs by the development history of the Prius hybrid car, and HP's "e-inclusion strategy" to identify 4 billion potential HP customers from the disadvantaged areas of the world. These are examples of corporations responding to future social needs by developing innovative products and services that address those needs.

One chapter of the book focuses on leadership and offers 10 important lessons for developing leaders for this new form of capitalism. Dr. Piasecki draws an interesting distinction between what he calls "leaders who hurt" and "leaders who heal". He argues that there are corporations headed by individuals who don't care who is hurt so long as they are making a profit. In contrast, there are corporate leaders who heal by answering pressing social needs. These latter firms are the ones we come to trust as consumers, and are likely the ones to make the future contributions to our world by social response product development.

Finally, from the investor viewpoint, the book addresses what the author describes as the new global equity culture. All of us are in some respect investors or have a stake in the equity markets either through individual purchases or participation in institutional investments such as mutual funds, 401(k) plans, or variable annuities. In this new global equity culture, the author sees a convergence of individual investor decisions and social response product development. As a result, we investors need to re-think our techniques to assess the financial and business prospects of a business.

The author argues that past approaches to making investment decisions fail to recognize the hidden value of a company that has launched initiatives such as social response product development to reduce future liabilities and create new business opportunities. A concluding chapter of the book discusses third party rating services and how these services are beginning to focus on social product response as a factor in risk evaluation of firms.

World Inc. offers important insights into what businesses today ought to be considering for their long-term strategy. As the author points out, this book is a start toward thinking about the role of the corporation in this new global business culture. As companies get bigger, the intelligent leaders understand that their social obligations have increased. Dr. Piasecki states the challenge this way: "It will be the intelligent union

of both government and corporate leadership that will better the world.” The challenge, of course, is how to achieve that intelligent union.

Mr. Cook is a member of the Council for Ethical Leadership Board of Trustees and teaches Business Ethics and Social Responsibility at Capital University, School of Management.

*Dr. Bruce Piasecki will discuss his new book *World Inc.* on Tuesday, May 22 at 4 p.m. at 250 Knowlton Hall at the OSU School of Architecture northeast of the football stadium next to Tuttle garage. His talk is sponsored by the Solid Waste Authority of Central Ohio (SWACO) and is part of the Sustainability Roundtable of Central Ohio's program series. The first eighty people will receive a complimentary copy of his book following the talk. Editor*

A King's Ransom: The Corrosive Effect of Excessive Executive Compensation

By J. Michael Houlahan

The story is a familiar one. CEOs receiving a king's ransom in salaries, bonuses and stock options seemingly uncoupled from management efficiency or company success. Recently *The Times* reported that the average top large-company executive salary in 2004 was 170 times the average worker's pay.

The situation may even be worse. According to a joint survey by United for a Fair Economy and the Institute for Policy Studies “the ratio of CEO pay to average worker pay in the United States went from 42:1 in 1980 to 107:1 in 1991 and 411:1 in 2005.”

Large numbers of companies—more than 140 by one account—are conducting internal reviews or are undergoing government investigation for backdating stock options, an illegal method of increasing executive compensation. A recent study published by the *Financial Times* documented that median pay package consisting of salary, bonuses and exercised stock options of S&P 500 CEOs rose 20 percent during the past fiscal year, to about \$5 million. Over that same period, net profits rose 15 percent and shareholder returns 9 percent.

Investors are increasingly outraged by this and by the fact that executive compensation is often detached from the actual performance of the company. These abuses also are noticed by employees suffering from stagnating wages and threatened by downsizing and outsourcing.

The decoupling of remuneration from performance perhaps can best be seen in the “golden parachutes” often given to terminated executives. Some examples:

- Home Depot, Inc. CEO: \$210 million;
- Pfizer CEO, whose company's stock lost \$137 billion in market value during his six year reign: \$198.8 million;

- KB Home CEO, who resigned over a stock option scandal: \$175 million;
- Gap CEO let go just before a major restructuring: \$36 million;
- Verizon CEO, released when stock fell 26 percent: \$19.4 million;
- According to the *New York Times* (as reported in a "Toledo Blade" Editorial), "corporate shareholders were left 'holding the bag' to the tune [of] at least \$1 billion last year under these so-called 'pay for failure' arrangements."

If failure is so lucrative, we might ask, how then is success rewarded?

This varies greatly, of course, but one high end example with negative public relations consequences, was the retirement package of nearly \$400 million given to the ExxonMobil CEO at a time that gasoline prices were skyrocketing.

After analyzing U.S. Census Bureau figures, The Economic Policy Institute concluded that family income (adjusted for inflation) rose by 3 percent from 1979 to 2001 for the lowest-paid 20 percent of Americans, while it rose by 53 percent for the top 20 percent. Some more Census Bureau examples from 2004:

- The economy grew 4.2 percent, but real median family income sank.
- The real income of the richest 1 percent of Americans surged by almost 12.5 percent, even when stock market profits were excluded.
- The average real income of the bottom 99 percent of the population rose only 1.5 percent.
- The real earnings of the average college graduate fell.

In fairness, some companies are getting the message and deciding executive pay policies with an eye to public relations impact on their workforce and share holders. Ben & Jerry's was an early practitioner of this, establishing a 7:1 ratio between the highest and lowest salaries for the last twenty years. Whole Foods uses a somewhat more generous 19:1 ratio. Unfortunately these much lower ratios are still uncommon in this country and are much closer to executive compensation offered by many European and Asian firms competing ever more successfully with American businesses.

[CEL Lunchbreak Series: Andy Dahle of Pricewaterhouse Coopers speaks on "Responses to Fraud Risk in the New Millennium--A Public Accounting Perspective"](#)

By LeRoy Johnston

Speaking at the March 29 Lunchbreak session, Andy Dahle of PWC reviewed the responsibility of public auditors to detect fraud, and argued the case for linking fraud prevention to corporate ethics and compliance programs. The overall goal, he said, should be to "prevent and detect fraud, rather than merely react to it."



"Fraud is a significant and growing threat," said Dalhe. "Forty-five percent of companies worldwide have fallen victim to economic crime in the past two years."

Dahle speaks from experience. As a certified fraud examiner, CPA, and partner in PWC's Advisory Services Group, he has been heavily involved in forensic accounting investigations of internal fraud.

He said that changes in accounting profession regulation as a result of recent scandals require outside auditors to take a more affirmative role in the fight against fraud. The Public Company Accounting Oversight Board, or PCAOB, was created as a result of the Sarbanes-Oxley Act of 2002 to oversee the auditors of public companies to better protect investors and the public. PCAOB rules now require auditors to design their audits from the start to consider:

- How the financial statements might be susceptible to material misrepresentation;
- How management might perpetrate and conceal financial reporting fraud;
- How assets might be misappropriated.

During an audit, PCAOB rules also require auditors to challenge assumptions, to respond to fraud risk factors by digging deeper, and to affirmatively probe whether small misstatements are due to fraud or mere neglect. "If you find mistakes—and you will—you must look further," he said.

Dahle said the rules require auditors to recognize that management has a unique ability to perpetrate fraud by overriding controls. He said that overriding of controls is a danger signal common to recent scandals and can indicate unethical leadership.

"Your organization is rightly named, because ethical leadership is the biggest factor in reducing fraud exposure," he said.

Dahle then offered a model anti-fraud program in which risk is continuously defined, assessed, controlled and monitored. Wrapping up, he said it was essential to link the antifraud program to the corporate ethics and compliance programs to ensure that the right culture is established to drive compliance with the program.

LeRoy Johnston is Vice President, Chief Ethics Officer at Nationwide Insurance and a member of our editorial Board.

Join us!

Membership in the Council for Ethical Leadership is a valuable resource. Our \$100 individual annual membership dues entitles you to discounts on all Lunchbreak Series programs, the Annual Meeting dinner, and all other Council offerings. In addition, you receive the Council's quarterly newsletter ***Ethical Leadership***. With your support, we can further our mission to promote organizational and personal responsibility. If you have questions about membership in the Council, please contact Lisa Mueller at 221-8661.

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