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Restoring Trust: The Role of HR in Corporate Governance

Patrick M. Wright

Cornell University, pmw6@cornell.edu

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Restoring Trust: The Role of HR in Corporate Governance

Abstract

Theories of knowledge-based competition focus on internal resources as the source of value creation. The HR architecture (Lepak & Snell, 1999) brought human resource management directly into this forum by developing a model of human capital allocation and management. We attempt to extend the HR architecture by introducing a framework of relational archetypes—entrepreneurial and cooperative—that are derived from unique combinations of three dimensions (cognitive, structural, and affective) that characterize internal and external relationships of core knowledge employees. Entrepreneurial archetypes facilitate value creation from external partnerships while cooperative archetypes facilitate value creation from internal partnerships. This paper identifies how each of these archetypes is managed by a corresponding HR configuration and how they together contribute to value creation by facilitating organizational learning via exploration and exploitation.

Keywords

trust, HR, organization, performance, firm, business, corporate, scandal, compensation

Disciplines

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Comments

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CAHRS / Cornell University
187 Ives Hall
Ithaca, NY 14853-3901 USA
Tel. 607 255-9358
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Patrick M. Wright

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Patrick M. Wright

Professor of Human Resource Studies
Research Director
Center for Advanced Human Resource Studies (CAHRS)
School of Industrial and Labor Relations
Cornell University
Ithaca, NY 14853-3901
607-255-3429
pmw6@cornell.edu

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<http://www.ilr.cornell.edu/cahrs>

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Restoring Trust: The Role of HR in Corporate Governance

The recent corporate scandals have shed increasing light on the inability of current governance systems to adequately monitor and control top executive behavior. Executives at companies such as Enron, Worldcom, Adelphi, Qwest, Tyco, Arthur Andersen, and K-Mart seemingly engaged in unethical and even illegal decision making that lined their own pockets while leaving shareholders holding the bill.¹ The results have been undeniable. The stock market, which relies on trust in order to work efficiently, has floundered for over a year, in spite of an economy whose fundamentals are relatively strong. Employee trust in top management has eroded to a point almost unheard of since the great depression. Finally, recent polling data suggests that the public at large has become disenchanted with corporate executives. In fact, a poll by Harris Interactive found that 68% of those surveyed believe that corporate executives are less honest and trustworthy than they were 10 years ago, compared to only 14 % who believe they are more trustworthy (The Harris Poll, 2002). Hart-Teeter polls reveal that the percentage of Americans who have confidence in large corporations has declined to 12% in July of 2002 from 26% in January of 2000, and the percentage who do not have confidence in large corporations has increased to 49% from 30% during the same period (Hart Teeter, 2002). Clearly, these scandals have resulted in a crisis of trust.

At least in part, some have attributed the cause of scandals to a failure of senior members of the HR function to play a leadership role in governance. This absence of HR influence may have been due to HR not being integral enough a part of the senior management team to be aware that such illegal or unethical decisions and behavior were taking place. This is certainly a possibility. However, a recent gathering of HR executives organized by the Center for Advanced HR Studies (CAHRS) revealed that in some cases HR may have been remiss in

¹ I do not mean to imply that these executives were actually guilty of either unethical or illegal behavior. However, one cannot ignore that numerous accusations have been made against these individuals, that true or false, have resulted in this crisis of trust. Consequently, throughout this paper I will use these examples because of the accusations, while acknowledging that some, many, or all of the executives may have been completely innocent.

creating systems and controls to discourage such actions, and perhaps even when HR executives are aware of such behavior, they may not act. The question is why not? Senior HR leaders possess a fiduciary responsibility to shareholders and a moral responsibility to employees and it is necessary to examine how to effectively fulfill these responsibilities.

The purpose of this paper is to explore the potential underlying causes behind the current crisis of trust. In it I will examine some of the major theories on what has caused the scandalous behavior of a few top executives. Within the context of each, I will examine some of the solutions that have been offered from the standpoint of HR leaders actions. More importantly, I will raise some of the deeper challenges of which HR leaders need to be aware, and ones that are both critical to solving the crisis of trust, while being extremely risky for HR leaders to bring up.

Theories on the “Cause” of the Current Crisis of Trust

A number of potential causes for the unethical and illegal behavior of corporate executives have been suggested. First, many have attributed these problems to “a few bad apples,” in essence arguing that (a) the problem is not endemic to corporate executives and (b) that the incentives, controls and system worked well, but a few excessively shrewd and immoral individuals found ways to behave unethically. In essence, this theory is that the “competencies” of leaders (i.e., dishonesty) led to scandal. Second, some have argued that spiraling executive pay forms the foundation of the current crisis. This “incentive” argument suggests that immense amounts of pay tied to certain financial indicators (in particular, stock options) provide the incentive for executives to manipulate financial reports in order to “cash in.” Third, the “controls” argument posits a lack of adequate corporate controls, primarily through board oversight and outside auditors, resulted in dysfunctional executive behavior. Finally, some have attributed the problem to “the system.” When executives are judged by shareholders based on stock prices, and analysts play an integral role in setting those stock prices, executives have incentives to court, deceive, and/or control the analysts.

In response to these suggested causes of the crisis, the larger business and regulatory communities have offered solutions in 4 basic areas: Selection of leaders, design of incentives, structuring of control systems (particularly Boards of Directors), and fixing the dysfunctional “system.” Interestingly, each of these areas are ones in which, at least with the rest of the organization, HR is seen as possessing core competence and responsibility, or at least a deeper knowledge of human behavior that might inform the discussion. In this chapter I hope to raise some of the issues that HR leaders must grapple with if they want to contribute the fixing the problem. Many of these issues present positive opportunities for HR leaders to proactively add value in ways that will be admired by their line peers. However, many of them are fraught with challenges that will require significant credibility, and more importantly courage, because the can easily result in dismissal.

The Competencies Theory: Bad Apples

Probably one of the most often offered defenses of the current state of corporate America is that the problem stems from a few “bad apples,” or individuals who manipulated the system to benefit themselves. The argument goes that most executives are honest, upright, and of the highest integrity, and people like Jeffrey Skilling (Enron), Dennis Kozlowski (Tyco), Bernie Ebbers (WorldCom) and the Rigas family (Adelphi) simply slipped through the system, achieve positions of power, and then exploited their companies to enrich themselves.

Such a cause becomes readily apparent when considering how HR leaders seek to solve the problem. In an informal set of interviews I conducted with a number of senior HR leaders who are part of the senior management team at Fortune 200 companies, the most frequently cited way to avoid scandals is through selecting the right leaders. The conventional thinking goes that through selecting leaders who are persons of the utmost integrity, firms win the battle before it even has to be fought. Interestingly, this is one case where the theory of the practitioners may not meet the reality of their practice.

Many organizations have implemented “competency models” for the selection and development of their organizational leaders. These models specify the competencies, defined as the knowledge, skills, behaviors, and other characteristics that effective leaders must possess. Such competency profiles guide the selection (some competencies must be possessed by an individual before s/he can be hired or promoted) and development (some competencies will be proactively developed in individuals by the organization designing a series of training and development experiences). Given the preponderance of competency profiles/models in organizations, and the prevailing view that these scandals are due to “a few bad apples” (i.e., selection mistakes), one would expect to see “honesty/integrity” as one of the most popular competencies.

However, as part of a best practice benchmarking process, CAHRS research assistants conducted interviews with HR leaders at 21 Fortune 200 companies to learn about their leadership development processes (Sovina, Wherry, & Stepp, 2003). All were companies that self-nominated, because they believed that they possessed world class leadership development systems. As part of the research process, 19 companies provided CAHRS with their leadership competency models. Again, if selection of leaders were key to avoiding scandals, one would have expected to see all 19 companies with “Honesty” or “Integrity” as leadership competencies. In reality, only two listed these characteristics as competencies.

One defense offered when confronted with these results is that honesty/integrity are not really competencies to be selected for, but part of the firms’ core values. Interestingly, this defense often comes from individuals who previously stated that “selecting the right leaders” prevents the problem, but then are confronted with the fact that their rhetoric does not match their organizational reality. However, if honesty/integrity is one of the core values, to what extent is this value given weight in the selection and development of organizational leaders? Is it possible that the executives now accused of wrongdoing lived saintly lives right up until the last minute that they suddenly decided to exploit their companies? Or is it more possible that these

individuals had track records that might have led astute observers to believe that, under the right circumstance, these individuals would carelessly disregard any moral compunction for their own personal gain? Whether honesty/integrity comprises a competency or core value is less important than trying to examine the kinds of characteristics that might be risk factors leading to dishonest behavior

One could never hope to develop an exhaustive list of characteristics of dishonest/dishonorable individuals. Therefore, the ones I offer here provide only a starting point for the larger discussion. However, while not exhaustive, I think that few would argue that individuals who (a) lack a moral compass, (b) possess excessive selfishness or greed, and/or (c) have immense egos are ones who may be particularly prone to engaging in behavior that ends up in scandal.

While the phrase “lacking a moral compass” may seem ambiguous, it need not be. One need not agree on the exact moral system (a topic to which I will return later), to believe that individuals without a firm moral system present a serious risk of engaging in immoral behavior. Individuals who firmly believe in certain things being right and wrong must at least implicitly compare their behavior to their self-imposed standards. This does not preclude unethical behavior, because having fought the conflict, they may still succumb to selfish motivation and violate the system.

Those who have not grappled with developing an internal set of moral standards, however, will have no fight. They can be expected to do what benefits them because they have no other standards by which to judge the outcome of their behavior. An era increasingly dominated by post-modern philosophy (there is no objective truth) and situational ethics (the rightness/wrongness of any behavior depends upon the situation) can serve as an impediment to the development of an internal system of standards. In fact, in response to Bill Pollard’s address (Pollard, 2003), one HR executive stated “In today’s global world, how can anyone be

so naïve as to think that there is one right and wrong.” That worldview can be used to ultimately justify any behavior.

Second, as noted above, excessive selfishness and greed often form the foundational motivation underlying dishonesty and a lack of integrity. Gordon Gecko in the movie “Wall Street” gives an impassioned defense of greed, arguing that “greed is good” because it motivates individuals toward progress, and companies toward competitive success. Many have attributed such thinking to Adam Smith, the founder of basic economic philosophy of capitalism. While Smith argued that individuals seeking to benefit themselves in the market results in the “invisible hand” that brings economic progress, by no means did he ever aspire to unbridled greed.

In his book The Theory of Moral Sentiments he wrote “The perfectly virtuous man desires not only to be loved, but to be lovely...not only praise, but praiseworthiness...To feel much for others and little for ourselves,...to restrain our selfish and to indulge our benevolent affections constitutes the perfection of human nature,” (Smith, 1790). Certainly his philosophy argued for a system in which individuals pursued their self interests within the confines of a deep moral code. In essence, our capitalist system depends on individuals who seek to better their standing through meeting the needs and desires of others, but greed, opportunism, and selfishness exist when individuals seek to meet their own needs and desires at the expense of others.

Finally, immense egos proliferate among top executives. How can one reach the zenith of their organizational career and not feel they must possess “what it takes” to a greater extent than all those below? Whether ego is the driver that enables executives to reach the top, or the outcome of having reached it, such ego can result in catastrophic consequences. Egotism refers to an over high opinion of oneself. It can result in executives feeling they “deserve” whatever they can get. It clouds their ability to listen to negative feedback or contrary opinions. Under either of these conditions, they may be prone toward seeking and justifying maximum

individual outcomes in spite of the consequences to others. It can also lead them to believe that “fudging the numbers” in the current month or quarter is fine, because they will bring the organization back the next month or next quarter.

What is HR to do? Most HR executives would adhere, at least in part, to the “bad apples” theory of corruption. If so, they bear an inescapable burden to expand the firm’s ability to assess potential risk factors. One option would be to look for behavioral indicators that would serve as “red flags” for current or potential future leaders.

For instance, an individual who repeatedly lies to others would certainly be called into question. However, what kind of lies matter? For instance, individuals who lie about their academic degree or work history are often terminated immediately. How about individuals who lie on expense reports? Fudged reports, although they may not result in huge monetary losses, certainly indicate that the individual has exploited his or her employer for personal gain. Or, even more interestingly, how about individuals who are engaged in extra-marital affairs? Often firms argue that this is irrelevant because this behavior does not impact the firm. However, an equally valid argument can be made that individuals who lie to the objects of their deepest oaths cannot be expected to tell the truth to those to whom they have lesser commitments.

A second group of indicators evidencing an excessive focus on money, power, or self might also provide warnings. For instance, individuals who engage in constant self-promotion over others might be prone to later promoting themselves over the organization. Individuals with poor credit histories, or even more importantly, poor present credit conditions (excessive debt beyond what reasonable income could support) may lead to a situation where the individual is tempted to engage in unethical behavior. Such situations may develop when an executive’s lifestyle rises to a level supported by tremendous returns from stock options, only to later find the stock options underwater. Finally, how an individual treats subordinates may provide insight into his or her character. When executives treat assistants or direct reports as

servants who are obligated to fulfill their every desire, one can expect that it will not be long before they feel the same way about shareholders.

This does not mean that individuals with such indicators should never be hired or promoted. In fact one SVPHR described his previous CEO as having a long and constant track record of extramarital affairs, yet having been an outstanding business leader. The key is to know that such an individual needs a strong set of external controls to ensure that this character does not spill over into business decision making. These indicators can be considered risk factors: they do not indicate dishonesty or a lack of integrity, but they do indicate potential risk.

In sum, HR must devote considerably more wide-eyed effort and attention to assessing the honesty and integrity of organizational decision makers. In some cases these assessments may lead to termination, or failure to promote. In other cases, they may lead to additional controls. However, assessments must be thorough, ongoing, and in all aspects of an individual's life. It is hard to believe that the top executives who are now suspected, indicted, or convicted of illegal behavior (a) have been brazen liars, cheats, and/or thieves for their entire careers (it's just that no one noticed?) or even (b) sat down and consciously thought "I think I'll break a big law today?" Buddha wrote "Do not think lightly of evil, saying 'It will not come to me.' By the constant fall of water drops a pitcher is filled; likewise, the unwise person, accumulating evil little by little, becomes full of evil." Similarly, bad apples were probably not always bad. Rather as they constantly brushed up against the legal and ethical boundaries, they probably woke up one morning (awakened by the SEC!), to find that they had crossed it without knowing. HR professionals need to keep these executives from getting close to the boundaries, and speak up as soon as they cross them.

The Incentives

Many have attributed the dysfunctional behavior of top executives to the presence of heavy stock option packages. One of the most consistently demonstrated research findings in the social science literature is the proposition that tying pay to performance results in higher

performance on the performance dimension to which pay is tied. However, many have noted that tying pay to performance often has unintended, and sometimes dysfunctional consequences.

The growth of stock options as a percentage of executive compensation increased substantially over the past decade. Stock options tie executive pay to increases in shareholder wealth as defined by the stock price. Consequently, such pay systems have been advocated as a means through which the interests of executives and shareholders can be aligned. In addition, with the dot.com boom, many start-up companies offered stock options in lieu of large cash compensation, presenting potential employees with the possibility of accruing significant wealth. Older, more traditional companies increased their use of stock options in efforts to minimize the flight of talent to these dot.coms.

While stock options resulted in some alignment with shareholders, and led to the creation of a number of millionaires, they also led to some unintended consequences. For instance, many of the millionaires capitalized on the “bubble” as stock prices inflated far beyond their true value. However, once the bubble burst, the retention value of the options disappeared as well.

In addition, options focused executive behavior on the stock price as the ultimate metric by which they would be judged. This led to two additional unintended consequences. First, it put analysts in the position of becoming the supreme arbiters of company performance, and made pleasing the analysts one of the highest priorities. If analysts sought revenue growth over profits (which they did), then companies needed to produce revenue growth. Traditionally “Most Admired” corporations could produce revenue and earnings growth in low double digits and be penalized at the expense of start-ups producing exponential revenue growth while incurring fantastic losses.

Consider the criticisms Merck has faced over their decision to book co-payments to pharmacies as revenues. Note that the payments were also noted as expenses, thus having no

impact on profits. Note also that accounting rules consider the practice legitimate and many of Merck's competitors engaged in the same accounting practices. However, when analysts reward revenue growth over profits, then such a practice would seem logical because it could produce significant revenues by simply changing accounting practices.

Second, it provided an incentive to manipulate accounting statements to hide any potential numbers that might displease the analysts. For instance, Bill Macy, Professor of Law at Cornell University, notes that in 1998, an MBA student group in an accounting class at the Johnson School of Management was assigned the Enron books to examine. As one part of their assignment they performed a Beneish analysis which combines a number of financial indicators to reveal the possibility that a firm is engaging in earnings manipulations. These MBA students calculated a Beneish score of -1.89, indicating a high probability that Enron was manipulating earnings (Ghosh, Ocampo, Harris, Simpson, Kruger, and Vaidhyanathan, 1998). Subsequent post-mortems have demonstrated the accuracy of these students' analyses.

Stock compensation also resulted in an additional outcome: extremely high levels of pay. While wealth creation is the engine that moves capitalist economies, one must also recognize the potential dysfunctional consequences. One would like to think that as people make more money, it becomes less important to them. However, evidence suggests the contrary; the more people make, the more they focus on making more. For instance, Daniel Vasella, CEO of Novartis stated in *Fortune* magazine, "The strange part is, the more I made, the more I got preoccupied with money. When suddenly I didn't have to think about money as much, I found myself starting to think increasingly about it. Money corrupts the mind." (Vasella & Leaf, 2002)

Was Vasella correct? Consider its impact on Dennis Kozlowski:

"The oddest aspect of Kozlowski's conduct, for those of us naïve enough to think that people take money because they somehow need it, is that he began availing himself of what became hundreds of millions of dollars in company loans...precisely at the moment that his pay was exploding...Kozlowski began regularly taking loans in 1996 and 1997 – just as his board approved compensation leaped from \$8.8 million to \$52.8. It wasn't until '98 and '99 though, that he really went hog-wild on the borrowing. Apparently his approved compensation of \$136.1 in 1999 left him in a cash squeeze." (Varchaver, 2002).

Finally, what about the “spinning of IPO’s” that has recently come to light. Under such arrangements, CEO’s and other top managers received access to IPO’s from the investment banks with which they did business. I often ask HR executives if their firm has a policy regarding procurement managers limiting them to receiving gifts valued at no more than \$25 or \$50, and have yet to find a company without such policy. Yet, top executives at some of these companies were able to receive preferred IPO access worth potentially millions of dollars from the suppliers of capital. HR executives lamely defend this practice, stating that this was the CEO’s own personal wealth, as if a supplier providing such benefits (maybe providing stock at below market prices) to a purchasing agent would be considered legitimate.

What is HR to do? Understanding HR’s role in executive compensation should be obvious. Competent HR professionals have the best knowledge of the impact of incentives, both functional and dysfunctional, relative to anyone else in the firm. Yet, given the prevalence of these scandals or even more recent negative press (e.g., Airline executives huge “retention” packages provided at the same time they were demanding unions to take significant wage cuts), one would think (or at least hope) that HR was nowhere to be found.

For instance, we know that tying pay to any performance measure will have the potential for dysfunctional consequences, so why would stock based compensation be any different? Did the vast amounts of money made by executives and pilloried by the press ever appear on the radar screens of HR as something that may potentially distort decision making? Did HR executives somehow see a moral distinction between a purchaser receiving \$100 in gifts from a supplier and a CEO receiving \$100,000 from an investment bank?

The point is not that stock-based compensation should be eliminated, that executive pay is too high, or that CEO’s should be precluded from earning any outside income. However, it appears that in most cases, these questions were never even asked. HR executives seemed either bought off (with huge pay packages of their own), implicitly threatened (with discharge for resisting these pay packages) or ignorant. None of these alternatives are particularly flattering.

However, this highlights the importance of HR professionals who possess the competence to understand all the consequences of incentive systems, and the courage to speak up.

The Controls

Critics also cite a lack of controls as an important cause of the current crisis in trust. They argue that accountants and boards did not exhibit sufficient oversight, and in some cases may have been complicit with the executives.

Obviously the conflict created by accounting firms extending their businesses into consulting created potential internal conflicts, and such conflicts may have contributed to the demise of Arthur Andersen. One HR executive within the firm (who wishes to remain anonymous for obvious reasons) suggested that one could feel the culture within the company change as consulting fees became a larger and larger percentage of revenues. He stated that without anyone ever explicitly encouraging, or anyone necessarily consciously deciding, the accounting professionals within the firm became more and more focused on generating consulting fees. From the outside, some have suggested that revenues generated from consulting and auditing at Enron was such a small percentage of AA's worldwide revenues, that they could not have encouraged auditors to overlook questionable practices. However, one must recognize that these revenues were the overwhelming percentage of revenues generated by the Houston office of AA.

Similarly, conflicting incentives also seemed to plague Boards of Directors at some of the companies marred by the recent scandals. Board members of Adelphi Communications were considered by some to be hand picked by the Rigas family. Tyco was paying one of its Board members for facilitating an acquisition. Finally, the problem of interlocking boards (situations where executives sit on one another's boards) has long been criticized by those interested in good corporate governance.

What is HR to do? Obviously, the choice and management of auditors and tax consultants is not something that was ever on the radar screens of top HR executives. In

addition, some HR executives have little say over the choice of board members. However, these scandals should provide adequate incentives for HR to expand its view of where it should be involved. Who within the organization better understands incentives, and how such incentives can create conflicts? Just as they should have noted the internal conflicts between analysts and investment bankers within their firms, they should be best able to identify potential conflicting incentives within different units of their suppliers.

In addition, HR certainly has become more involved in the selection of board members. Their focus for the future must be not just on the competence of the members, but those potential members' relational networks. One certainly could not have as a member of a compensation committee a CEO on whose compensation committee their firm's CEO sits. One would also have to be cautious of having any board members on whose board its own top managers sit. Finally, HR can play a lead role in directing the processes for board functioning. Many firms have gone to evaluating boards and board members. Many have begun requiring or subsidizing board members to receive training. Many have moved to having chances for the boards to meet without managers present. Again, the competencies of top HR executives such as team building, group processes, selection, training, performance management, etc. are all critical to an effectively functioning board. Consequently, HR's role must expand to include these activities at the board, not just the organization level.

The System

Another potential cause of the current crisis was "the system," i.e., the current system where investment analysts provide ratings of company stocks, and consequently hold extreme power over executive decision making. Certainly analysts serve an important and necessary function within our capital markets. They are able to aggregate and synthesize reams of data practically unavailable to the common investor and provide that common investor with guidance. However, while their function is useful, we might consider the criteria they use that has driven considerable company decision making.

In essence, analysts consider a number of factors in providing recommendations. However, one important aspect is their tendency to reward and or punish companies' stock price based on quarterly earnings, particularly meeting earnings expectations, growing earnings, and consistent growth of earnings. Without a doubt attempts to meet quarterly earnings expectations has resulted in significant manipulations of earnings. Companies book sales, expenses, acquisitions, divestitures, etc. in one quarter vs. another often solely based on how it will impact that quarter's earnings. These earnings reports are further manipulated to ensure that the earnings appear to be consistent (i.e., the same from quarter to quarter within a year) and growing (from year to year).

This system creates problems because company performance in the real world seldom reflects consistency from quarter to quarter, and may not always grow. While over time, the short term temporal manipulations often wash out, they certainly have an "inoculation" effect in teaching executives that such manipulations are a legitimate business practice. What happens when performance declines in one quarter? Executives may manipulate the earnings with the assumption that they will make it up the next quarter. However, if the next quarter falters, and the quarter after that, soon these reports are not innocent manipulations, but fraud. Note that the executives may never have meant to engage in fraud, but the system has inoculated them from seeing the problems, and continued engagement in minor manipulations then inadvertently leads to illegality. In fact, again, Daniel Vasella stated, "Once you get under the domination of making the quarter – even unwittingly – you start to compromise in the gray area of the business, that wide swath of terrain between the top and bottom lines." (Vasella & Leaf, 2002).

In addition, as noted before, the system encourages top executives to tell the analysts what they want to hear. Being human, too, analysts can make the same errors in human judgment (being duped, overly impressed, failing to see what they did not want to see, etc.) as any other person. Enron was a rising star because their information-rich, e-business, deregulation, whole-new-way-of-trading-energy business model impressed analysts. Analysts

were so impressed that Enron's stock ratings soared in spite of the fact that the future fall was available for anyone to predict. Returning to our Cornell MBA students, we find that in 1998, using the same numbers available to the analysts, they issued a definite "sell" recommendation, noting that in 1997 "net income available to common fell 85%," (Ghosh et al., 1998). Again, these same publicly available numbers suggested that Enron was engaged in earnings manipulations, yet not a single one flagged Enron as a risk at that time. In other words, honest, independent amateurs seemed better able to police the capital markets than sophisticated, but conflicted professionals.

What is HR to do? Can HR change the entire market system, as it exists today?

Certainly not. However, who in the organization is better skilled at understanding incentives and their impact on human behavior? An astute HR executive should be able to identify the pressures facing top executives, see the impact of these pressures on decision making, and hold the mirror up to them so that they can understand how these pressures may undermine the effectiveness of their decision making. They need to be socially sensitive enough to see when top managers are implicitly giving orders that they would never make explicit and courageous enough to call it out. Finally, and most importantly, they will provide tremendous value when they can provide "a way out" for top executives, be it the refusal to provide earnings guidance, working with board members and/or analysts to understand that honest earnings should trump consistent earnings, or simply being the support for the CEO who decides to buck the system in the name of integrity.

The Additional Role of HR: Integrity Officer

The traditional roles of strategic partner, employee advocate, administrative expert, and change agent have not disappeared, nor will they decrease in importance. However, these scandals undoubtedly added to these current responsibilities one of serving as an integrity officer. Some firms have often used HR professional as their ethics or compliance officers, but this new role goes beyond a simple structural arrangement. Top HR executives must actively

and constantly analyze the environment faced by top decision makers. They must accurately identify the pressures and incentives that could encourage these decision makers to put self-interest above the organization's interests. They must consistently assess the evolving character of decision makers, recognizing that individuals who had high integrity, and may still aspire to high integrity, can slowly, and incrementally slide down a path of destruction. They must expand the focus of relevant organizational actors beyond internal executives to include auditors, consultants, investment bankers, and board members, and be on constant vigil to spot potential conflicts of interest. Most importantly, at the first hint of dishonest behavior, HR executives must have the confidence and courage to explicitly and specifically put it on the table for top managers and/or the board to see.

Interestingly, many executives refer to the HR function as serving a role as the "conscience" of the organization. While a "conscience" should infiltrate all organizational members rather than be isolated in one function, certainly HR professionals must take this role seriously. Such a role creates a conflict that the field must recognize and to which it must respond.

Top HR executives are most often hired and fired by the CEO. When HR executives serve at the pleasure of those they may be called upon to call out, they cannot be sufficiently independent to be expected to do so. Consequently, this may call for exploring changes in the employment relationship of top HR executives. Perhaps HR executives should have a direct reporting relationship to the board of directors. Or, maybe their employment contracts should include significant golden parachutes for top HR executives who are fired for effectively playing this "conscience" role. The point here is not to suggest the perfect answer, but to recognize that all of the issues discussed above as potential causes of CEO misbehavior can similarly characterize the situations of HR executives. Consequently, as the field seeks to play a role in designing systems to encourage honest behavior in CEO's, it must simultaneously examine its own situation to ensure that these systems cannot be circumvented.

Conclusion

No one can blame the problems that have resulted in the current crisis of trust on HR. Clearly, bad apples, with incentives to do bad things, functioning under inadequate controls, and working within a flawed system resulted in the problems we see today. HR did not cause this problem.

However, to say that HR did not cause the problem does not absolve HR from responsibility. Many of the pieces to this puzzle seemed obvious before the scandals; the scandals simply put the pieces together. Now with the puzzle solved, we can only expect that new pieces will be added. HR executives must be diligent to seek out these pieces, try to put them together, and create the puzzle solution before the next crisis breaks. It will require greater proactivity, diligence, and courage that has been evidenced in the past.

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