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The price of ethics

Managing in tough times

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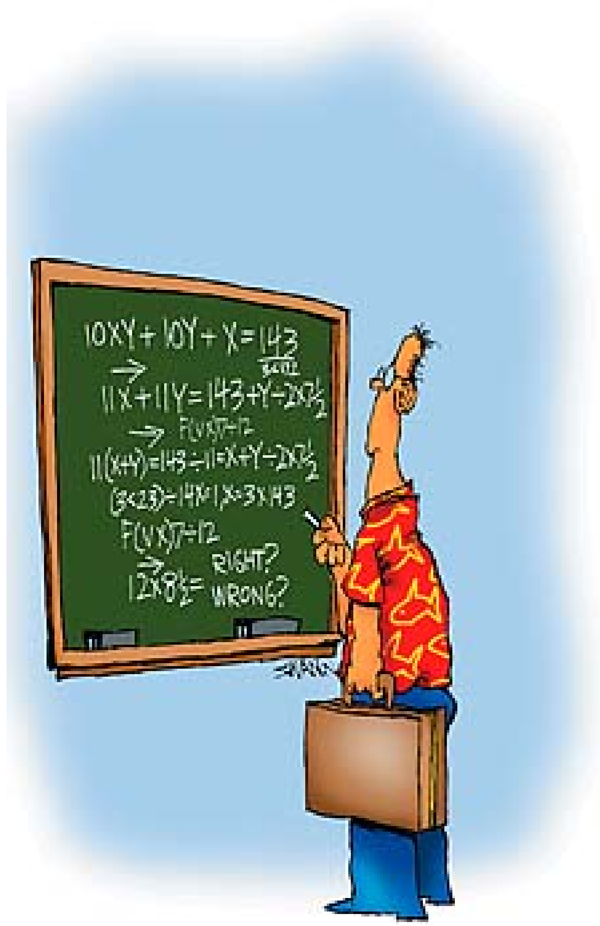

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The price of ethics

Doing the right thing can have its price, but as Enron shows, so can not doing it

By Michelle Alarcon

If the cost of doing business includes the financial ramifications of the firm or individual's morals, how would this be written on financial statements? Perhaps something similar to goodwill, an intangible but very real value item. What about "goodwill plus" -- a rating of a company's history of ethical practices, which may increase or decrease the value of a company? With Enron emerging as the ethical landmark case of the 21st century, perhaps we have to take a closer look at organizational valuation and include an ethical rating system.

How do businesses quantify "ethics?"

Codes of ethics come in various forms -- from religious guidelines to society's laws, and further into company policies, standards of conduct, statements of personal values, promises, etc. Yet despite this web of guidelines, individuals, businesses and even the government still constantly encounter ethical dilemmas.

Interestingly, these dilemmas seem to increase in direct proportion to some imaginary financial factor, sometimes cloaked in social mores. Take the case of businesses contemplating toxic waste dumping or deciding on massive layoffs in order to save the company. What are they weighing here? Whether the organization should do the right thing, or whether the right thing is more costly?

Clearly, businesses have lots of money at stake. And so, with every decision, employees, management and executives constantly weigh their options -- even ethical issues -- either because they are not sure if the action is wrong, or to determine whether the financial stake of doing the right thing is too high. If this is true, are most ethical dilemmas in business decided on the magnitude and probability of tangible financial risks instead of just deciding on what is right? Is doing the right thing even subject to deliberation?

The recent plight of Enron has brought a slew of ethical gurus swarming with lessons about the defunct corporation's wrongdoings. One guru recommends telling mothers to teach their children about Enron's unethical practices so they can learn from them.

There is much to learn from Enron. One major lesson is that ethics come with a cost; in the case of Enron, one apparently too high to even deliberate. Enron executives face questions about deceptive accounting and reporting practices.

The company has failed at a cost of billions of dollars, along with a legacy of irreversible ill-will toward the alleged wrongdoers. Its collapse cost thousands of jobs, meant thousands of broken lives because of lost retirement funds, and is ringing up a huge bill for taxpayers to cover investigations and litigation. The total is unquantifiable.

These costs extend beyond the financial. The failure of a company the size of Enron means ripple effects in the economy and society; its employees, suppliers and all its stakeholders. In addition, this gap in societal expectation will likely lead to more regulations of securities, the energy industry, external audit procedures and even pension funds.

What price ethics?

Michelle Alarcon is an assistant professor of management at Hawaii Pacific University.
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Veteran Hawaii executives have strategies for managing in tough economies

By Jeff Bloom and Rob Kay

For the past two decades Hawaii's economy has teetered between flush times, primed by tourism and real estate booms, and recessions as the pendulum reversed direction. Throughout this period, Hawaii's top executives have had to learn more economic lessons -- sometimes in just a few years -- than their mainland counterparts might face in a lifetime.

The repercussions of the Sept. 11 tragedy have clearly pushed Hawaii's economy to the edge of the abyss. With tourism on the skids, leaders must look at the current economic situation with steely-eyed realism.

How do businesses get through tough times and what guidance do battle-scarred veterans have for Hawaii managers?

To help answer these questions we sat down with leaders from Hawaii's "old" and "new" economies.

David Heenan | Scott Bradley | Rick Marine | Connie Lau

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David Heenan

David Heenan is a former dean of University of Hawaii business school and a veteran of the business world. At 61, he has more than 30 years experience as a manager in Hawaii, both in the public and private sectors.

As chairman of the board of trustees for the Estate of James Campbell, he oversees the strategic direction of the estate, which means managing the allocation of real estate and asset portfolios. We asked him what steps he would take if faced with tough times.

Heenan: It really depends how vulnerable you are to cyclical or structural downturn or if the environment was of a more temporary nature. Some general comments I'd make are:

>> Don't be a Pollyanna and hope that your problems will sort themselves out.

>> Look at cost structures realistically and eliminate flab without cutting though the muscle. Stay close to your customers -- don't compromise your service elements.

>> Don't demoralize your staff. If you are going to have reductions tell people upfront what your plans are and assure the survivors as you go forward that you intend to keep them so that they don't wait for the next shoe to drop. Also, where you do trim the work force, people will be working harder making up for those who were let go. You have to be careful that you don't burn people out.

>> You don't have to solve all your problems on your own. You want to explain problems to others who can offer help -- your board, the government, employees, etc. This will help you explore ways by which problems can be buffered.

>> You may have to ask people to take pay concessions for a while. Managers should also take pay cuts and forego perks like stock options. If you're soliciting help from organized labor or government and you don't seem to be sharing in the sacrifice why should they

agree to help you? You have to engender a "We're all in this together spirit."

Hawaii managers or business owners should use the current economic situation to re-evaluate and focus core strategies. Also in this kind of environment, you really need to communicate and interact 100 percent with your employees. I would organize more company get-togethers, coffee klatches and the like.

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Scott Bradley

Scott Bradley, 39, is managing director of Coldwell Banker Pacific Properties. As a manager for 15 years, he has grown Coldwell Banker despite challenging economic times for the real estate market.

We asked him what types of down markets he has endured over the years.

Bradley: The real estate industry is especially volatile in Hawaii. In 1991, at the onset of the Gulf War, real estate transactions dropped by approximately 30 percent in one year. By 1995, volume had dropped 50 percent. It was a painful time for the industry, spanning six years before sales began to recover. Coldwell Banker Pacific Properties was actually founded in 1995 at the bottom of the market cycle so we established our roots in times very similar to today.

There are four critical factors to being successful in this market:

>> Clear vision to differentiate your company from its competitors along with a strategic plan that details how you will operate in both up and down cycles. Everyone in the organization must understand their role in the vision.

>> Attract and retain the best people in your industry.

>> Don't wait for things to get better. Learn to thrive in a weak economy. Set aggressive milestones in your strategic plan to move the company forward regardless of the economic environment.

>> Turn overhead into a strategic advantage. Look at all your costs and all of the vendors that you do business with and work toward making them partners in the success of your

business.

Hawaii managers or business owners need to recognize that the biggest challenge in today's environment is uncertainty. The full impact of the events of Sept. 11 is still unknown. Talk to your vendors, customers and bankers and get the best information you can. Then, be honest with your employees about what to expect and enlist their support. Second, make written contingency plans for various scenarios. Know what you will do if sales fall 5, 10, 30 or even 50 percent. Then stick to those plans.

Misery may love company but it's far more rewarding to find opportunities and move ahead. Cut your loses and promote your successes.

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Rick Marine

Rick Marine, age 41, founded Century Computers in 1983 after a stint as a cryptographer in the Navy. His company, which will have about $7 million in sales this year, has generated profits through good and bad economic times. It provides networking solutions and IT outsourcing for businesses.

We asked him about the role of technology companies in diversifying Hawaii's economy.

Marine: Technology is going to sell whether it's a good or bad economy. For example in a bad economy customers will want to enhance their technology to make their staff more productive or potentially outsource their IT altogether in order to reduce cost. In a good economy they buy more technology to grow. The upshot is customers are always going to need technology and a smart manager will use it to his or her advantage in good times or bad.

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Connie Lau

Connie Lau, 49, is president and chief executive officer of American Savings Bank and a Kamehameha Schools trustee.

We asked her what steps she has taken at the bank to adjust the business to the current environment.

Lau: One thing you really have to do is take the pulse of your customers. For example, each borrower has to be considered on an individual basis. If someone, say a client with a great track record, is having problems repaying a loan we may need to make adjustments that end up being a win-win for both the customer and our bank. In the current climate I give middle managers and loan officers quite a bit of autonomy because they're in touch with our customers and in the best position to know what's happening.

In times like this local managers need to think out of the box. When things are going downhill you have to know what levers to pull that will ameliorate the situation. Knee-jerk reactions are not necessarily the right way to go about things. With the economy in the tank, some businesses have a tendency to cut, cut and cut more expenses. That may make sense for the short term but strategically it could hurt you when things come back.

For example, our bank is in the midst of upgrading our technology infrastructure. It began last September and will take a while to complete but the goal is to make us more productive and more competitive. All told this is a huge capital outlay but despite the current climate we're committed to it. It's only going to make us stronger in the end.

I'd also tell managers, particularly those in larger institutions, that they have to act responsibly in a situation like this.

If we did something radical with our loan portfolio or let go an inordinate amount of employees it might have a detrimental ripple effect for our state. Large companies really have to consider the consequences of their actions.

Jeff Bloom is the founder of Computer Training Academy/Network Resource Center, a computer education/consulting firm based in Honolulu. Reach him at **jeffb@cta.net.** Rob Kay is a Honolulu-based public relations practitioner specializing in technology. Reach him at **rkay@pactechcom.com**.

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