



TM

CENTER FOR ETHICAL
BUSINESS CULTURES

ANNUAL REPORT

2001-2002

Members and Friends:

Now more than ever, CEBC's mission – *assisting business leaders in creating ethical and profitable business cultures* – is critical. The ethical scandals of the past year and the subsequent collapse of Enron, Arthur Andersen, WorldCom, Global Crossing and others underscore the relationship between ethical behavior and long-term, sustainable profitability. When companies behave unethically, the consequences can be devastating to their stakeholders.

The public uproar growing out of these scandals has generated numerous invitations for the Center to share its message with business and community leaders and with the wider public. We spoke on corporate responsibility at the President's Economic Forum and hosted *Shaping Tomorrow's Debate: Ethics, Compliance and the Organizational Sentencing Guidelines*. Over 2,800 individuals participated in 39 events sponsored and/or led by CEBC, in addition to the thousands who read about our work in the print media, heard us on radio or saw us on television.

This *Annual Report, 2001-2002* summarizes the work we have done this year and describes the progress we are making towards our mission.

Your investment in the Center makes possible our work in three primary ways:

- Promoting awareness – through research, publications and public speaking – of the importance of building ethical cultures
- Developing services that help organizations as they strive to build ethical cultures
- Helping to educate the next generation of leaders on the importance of building ethical cultures

Thank you for your backing as we advance the mission of CEBC. I hope you are as excited as we are about this important endeavor. In spite of many challenges, we are moving forward.

We depend on your sustained financial support to continue this work – **now more than ever**.

I'd love to hear from you!

Ron James
President and CEO

Developing Intellectual Content & Promoting Awareness

Through its research, publications and public presentations, CEBC builds awareness of the critical importance of creating ethical cultures.

Research and Publications

Phase One of the Ethical Value Project Completed:

Under the direction of Executive Business Fellow James A. Mitchell (retired chair of IDS Life Insurance), Phase One of this on-going project articulated the economic business case for creating ethical business cultures. Entitled *The Ethical Advantage: Why Ethical Leadership Is Good Business*, this publication will be available from the Center in January 2002. Phase Two focuses on creating a set of tools to assist companies in building and maintaining those cultures.

Ethics Scan Collaboration

Undertaken: CEBC is working with University of St. Thomas (UST) College of Business Professor Sally Power to gather ethical themes in the workplace as identified by UST MBA students.

Federal Sentencing Guidelines Revision Underway:

CEBC CEO Ron James serves as one of 15 members of the Advisory Group responsible for reviewing and proposing needed improvements to the 10-year old Organizational Sentencing Guidelines promulgated by the United States Sentencing Commission. The Commission is chaired by Judge Diana E. Murphy of the U. S. Court of Appeals for the Eighth Circuit.

Retention Research Concluded: Seeking to assist employers with employee retention, this CEBC-sponsored research by UST Professor Teresa Rothausen worked with four CEBC member companies to examine the work/life factors which cause good employees to leave their employers.

Mergers and Giving Study Published: With the partial support of a \$3,500 grant from the Minneapolis Foundation, CEBC completed a research study, *Mergers: Implications for*

Corporate Philanthropy and the Community. An examination of the effects corporate mergers and acquisitions have on corporate philanthropy and the non-profit community, the report was published in January 2002 along with a *StarTribune* Business Forum article based on the report, "Mergers and Community: Does 1+1=2?".

Collaborative Statewide Study of Business Giving: David Rodbourne, the Center's Vice President, chairs the Research Committee for **Building Business Investment in Community** (BBIC), a major Minnesota-wide study of business giving and community involvement. Funded through a three-year grant from New Ventures in Philanthropy, 14 BBIC partners include, among others, the Minnesota Council on Foundations, the Minnesota Keystone Program and the Minnesota and Greater Minneapolis Chambers of Commerce. The complete report can be found at www.minnesotabusinessgiving.org.

Responsible Debt Project

Initiated: CEBC and partners from business (including the banking industry), academia and the community are studying the marketing and consumer use of credit.

Media Presence

Increased attention to business ethics by the print and broadcast media during the past year has led to a significant growth in CEBC's visibility in the press. Coverage has included articles in the *St. Paul Pioneer Press*, the *StarTribune*, appearances on

WCCO, KCCO and Minnesota Public Radio and on WCCO, KSTP and KARE television.

Building National & International Relationships

To stay abreast of global trends, emerging issues and best practices, CEBC staff meet regularly with colleagues from related institutions around the world. In 2001-2002, staff members met with and/or collaborated in program sponsorship with representatives from U.S. and international organizations:

United States: Boston College Center for Corporate Citizenship (Boston); Business for Social Responsibility (San Francisco); Emory University Center for Ethics (Atlanta); Ethics Officer Association (Belmont, MA); Ethics Resource Center (Washington); Markkula Center for Applied Ethics,

CEOs play two important roles. They build great companies and they are stewards of capitalism. When they fail their companies by providing poor ethical leadership, they fail the system, too.

Donald Evans
U. S. Secretary of Commerce

Santa Clara University (Santa Clara, CA); and The United States Sentencing Commission (Washington).

International: Business and Human Rights (online library & resource center) (London, England); Canadian Centre for Ethics and Corporate Policy (now known as ethicscentre.ca)(Toronto, Canada); Caux Round Table (Caux, Switzerland); Corporate Responsibility Group (comprising the United Kingdom's 57 largest corporations) (London); Ecumenical Church Loan Fund (Geneva, Switzerland); European Business Ethics Network (Sandvika, Norway); Institute for Business Ethics (London); and the Prince of Wales International Business Leaders Forum (London).

Speeches & Presentations

CEBC staff speaks and makes presentations to business, community and educational audiences. Some examples of topics and audiences are listed below:

Ron James, President and CEO

“Business Ethics...An Oxymoron?” University of Minnesota Carlson School of Management First Tuesday Luncheon.

“The Role of Corporate Governance in Overseeing an ‘Effective Program.’” Panel at *Shaping Tomorrow's Debate—Ethics, Compliance and the Organizational Sentencing Guidelines.* Co-sponsored by the United States Sentencing Commission and the Ethics Officer Association.

“Who Stole My Ethics?” Minnesota Women's Roundtable Economic Forum.

David Rodbourne, Vice President

“Flexibility in Organizations.” College and University Work Family Association, San Francisco.

James A. Mitchell, Executive Business Fellow

“The Ethical Advantage.” Dallas Business Ethics Award Banquet.

Building & Providing Services

CEBC develops and provides services for its member companies in ethical leadership and management, corporate citizenship and in the critical employer/employee relationship, including work/life.

Conferences, Seminars & Professional Networks

THE ETHICAL ADVANTAGE Offered. This seminar, led by CEBC's Executive Business Fellow, James A. Mitchell, presented the business case developed in Phase One of the Ethical Value Project, designed to demonstrate the economic value of creating an ethical business culture.

The purpose of business is to serve people.

David Koch
Chairman Emeritus
Graco, Inc.

Third Annual Minnesota Business Ethics Award™ Recognizes Ethical Excellence: Co-sponsored by CEBC and the Twin Cities Chapter of the Society of Financial Service Professionals, the MBEA

honors companies which have excelled in ethical performance. This year's recipients were

⇒ **S & W Plastics, LLC** Small Company (Under 100 employees)

⇒ **Reell Precision Manufacturing Corporation** Mid-Sized Company (100 – 500 employees)

⇒ **HealthPartners** Large Company (Over 500 employees)

The MBEA Educational Forum equips the leaders of small and mid-sized companies with the practical tools and knowledge needed for superior performance in business ethics. *For a 2003 MBEA Nomination Form or Submission Requirements & Entry Form, visit the Center's web site: www.cebcglobal.org.*

Shaping Tomorrow's Debate: Ethics, Compliance and the Organizational Sentencing Guidelines. Participants from across the United States attended this conference focused on the upcoming revision of the federal Organizational Sentencing Guidelines. Hosted by CEBC and co-sponsored by The United States Sentencing Commission and the Ethics Officer Association, this was one of 8 events nationwide.

Leadership Institute in Corporate CounselingSM: When Disaster Strikes: Ethical Communication Through the Media. Co-sponsored by CEBC, the Minnesota Chapter of the American Corporate Counsel Association, the University of St. Thomas School of Law and the William Mitchell College of Law, this seminar brought together corporate counsel, trial lawyers, judges, business executives and business ethicists to examine the ethical issues in the case of Northwest Airlines vs WCCO-TV. Panelists included Don Shelby of WCCO-TV, Jon Austin, formerly of Northwest Airlines, Justice Paul Anderson of the Minnesota Supreme Court, Ken Goodpaster of UST and Norman Baer of Anthony, Ostlund & Baer, PA.

BUSINESS ETHICS NETWORKSM focused on *Ethics and Technology: Software License Compliance*. The network provides leadership, networking, bench-marking and educational opportunities for those with responsibility for ethics, compliance and business conduct programs.

The Work↔Life NetworkSM addressed *Gaining the Competitive Edge: The Business Advantages of Employer-Assisted Child Care and Work/Life: Where Is the Field Going? A Roundtable Discussion*. The network links professionals working on organizational strategies that enable employees to balance work responsibilities with those in their personal lives. Network members have concluded that effective work/life strategies build stronger, more productive organizations. They search for new ideas and share information on work/life issues, implementation strategies and best practices.

2000 Census Addressed at 14th Annual Multi-Cultural Forum. Former Minneapolis Mayor Sharon Sayles-Belton and CEBC CEO Ron James led *Census 2000 and the Workplace: Facing Facts* at the 14th Annual Multi-Cultural Forum, co-sponsored by CEBC, the UST College of Business and the National Black MBA Association.

12th Annual Stakeholder Dialogue Examines Corporate Courage. *Corporate Courage: Principled Action in the Face of Fear* was the topic for the Stakeholder Dialogue which featured Peter Bruce, Senior Executive Vice President of Northwestern Mutual Life. This annual event is sponsored by UST's Koch Endowed Chair in Business Ethics in collaboration with CEBC.

Consulting & Training Services

The Center's consulting has included intervention following an ethical crisis and consultation on developing compliance advice lines. Training has included Leadership Development. (See page 7 for more detailed information on Consulting and Training Services.)

Educating the Next Generation

The market is severely disciplining those companies whose numbers are not real. The period where all that mattered was the numbers for this quarter . . . is over.

Prof. Neil Hamilton
Minnesota Lawyer
University of St. Thomas School of Law

Working with its two university partners, the UST College of Business and the University of Minnesota (UMN) Carlson School of Management, CEBC helps to develop succeeding generations of business leaders.

Ethics, Culture and Business: A European Perspective in a Global Economy. CEBC, in conjunction with UST College of Business faculty, developed and led the first ethics-focused graduate study-abroad offered through UST. Traveling to

Belgium and France, students visited 3M Europe, Oppenheimer, Wolff & Donnelly, the European Union, the Organization for Economic Cooperation and Development, Electricité de France and INSEAD. This course will be offered again June 14-22, 2003, with travel to Belgium and England.

The Ethical Environment of International Business.

Working with UMN Professor Norman E. Bowie, CEBC is developing an ethics-focused graduate study-abroad to be offered May 19-31, 2003 through the Carlson School. Students will travel to Belgium and England.

The Pogo SimulationTM Used With Student Groups

Focused on the ethical challenges encountered operating an international company, this simulation has been used with high school, undergraduate and graduate students to enhance ethical decision-making skills.

Work Begun on Bioethics Simulation: Devra R. Hirshfeld, an honors biochemistry graduate from the University of Wisconsin, Madison, has completed a new simulation based on ethical issues in a biomedical firm.

Guest lectures at UST, UMN and the University of St. Catherine.

Kudos to CEBC's Academic Directors, Kenneth E. Goodpaster, Ph.D., UST's Koch Endowed Chair in Business Ethics, and Norman E. Bowie, Ph.D., the UMN's Andersen Chair in Corporate Responsibility, who have received significant media attention this year. Goodpaster has been quoted in *The New York Times* and *The Wall Street Journal*. Bowie has been featured on Minnesota Public Radio. Goodpaster received an Innovation in Teaching Business Excellence award from UST's College of Business.

Welcome, New Deans! Both partner universities have new deans in their business schools. Christopher P. Puto, Ph.D., leads UST's College of Business and Lawrence M. Benveniste, Ph.D., heads the UMN Carlson School. Both deans have made strong commitments to strengthening the CEBC partnership.

Ethics Research Web Site Developed. Creating a model which can be replicated by both partner schools, the Carlson School funded an internship which developed a web site to identify research done on ethical themes anywhere in the UMN. Through this site, CEBC was able to find and collaborate with Professor Stuart Albert whose work on the timing of dissent has been very useful to a number of CEBC client organizations.

New Carlson School Professorship Established in Ethical Business Cultures. Through the generosity of one of its alumni, a new Carlson School professorship is being created – in collaboration with CEBC – with research to focus on ethical business cultures.

Thanks to Our Student Workers & Interns! CEBC depends on the support of undergraduate and graduate students from our academic partners. We are grateful to those who have assisted us in the past year: UST Work/Study Students Rachael Olson and Elena Gochberg and to Organizational Ethics Strategies Interns Al Strauss from UST and Marnie Rainford from the Carlson School.

Building Capacity

CEBC is building its organizational capacity so that it can better serve its member companies and fulfill its mission.

Governance

From its founding 24 years ago, CEBC has been governed by a business Board of Directors. **Thank you to retiring CEBC Directors Jim Campbell, Robert Dayton, George Halvorson and John Turner.** The Board proposed the election of **David R. Garfield**, Vice President and General Counsel, Well Fargo Bank Minnesota, **Christopher P. Puto, Ph.D.**, the new dean of UST's College of Business, and **David J. Scott**, Senior Vice President, General Counsel and Secretary, Medtronic, Inc.

Funding

A declining economy and the after-effects of the attacks on September 11th combined to make fund-raising a major challenge this past year. Maintaining tight fiscal control has allowed us to end the year with a balanced budget. CEBC's funding for Fiscal Year 2001-2002 came from four sources:

1. Membership contributions from 64 corporate and individual members (\$155,475)
2. Revenue generated by services provided (\$35,609)
3. Gifts from donors (\$250,594 from five donors) **Many thanks to Tony Andersen, the James A. and Linda R. Mitchell Fund of The Minneapolis Foundation, Tom Holloran, Chuck Denny and the Robins, Kaplan, Miller & Ciresi Charitable Foundation.**
4. Grants (\$6,500)

The major fiscal challenges for the upcoming year include growing the Center's membership and engaging additional donors and grantors.

CEBC received an unqualified opinion from its auditor, PricewaterhouseCoopers, certifying its financial statements for the the years ended June 30, 2002 and 2001.

You can help! Gifts to the Center are tax-deductible contributions and empower our work.

Our Mission

We assist business leaders in creating ethical and profitable business cultures at the enterprise, community and global levels.

CEBC Services, Products & Research

Forums

- ◆ **Public programs** focused on the challenges and opportunities in building ethical business cultures including making the business case, aligning values and actions, the role of senior leaders, and corporate citizenship.
- ◆ **Leadership Institute in Corporate CounselingSM** – Bringing together judges, trial lawyers, corporate counsels, and business ethicists to examine the ethical and legal issues involved in specific lawsuits.
- ◆ **Minnesota Business Ethics AwardTM and Educational Forum** – Recognition of excellence together with resources for ethical leadership & management targeted to the needs of small and mid-sized companies; in collaboration with the Society of Financial Service Professionals.

Training Tools

◆ Simulations

PogoTM

While ethical decision-making is sometimes a matter of choosing between right and wrong, it can also be a matter of choosing between right and right, for example, choosing between maximizing earnings for investor/owners versus maintaining high paying jobs for employees. Led by the CEBC staff, this simulation confronts participants with multiple ethical challenges encountered in running an international business. In small groups, participants become the leadership team of Pogo, a multinational corporation. *Pogo* also provides an opportunity to examine leadership, team-building, and conflict-resolution skills.

REGENERATION, INC.TM

Now in alpha testing, this simulation focuses on the

multiple ethical challenges inherent in the operation of a small, privately-held biomedical company which is working to bring new products to market and confronting the next stage of growth.

◆ *CEBC Ethics Training ScenariosTM – Volume I*

How does your business assist employees in choosing wisely when confronted by ethical dilemmas? Like muscles, ethical decision-making skills can be developed and strengthened with use. Through practice, leaders and employees can become more adept in aligning ethical decisions with your company's values. With a comprehensive overview of adult learning styles and training techniques, the 25 scenarios in Volume I are designed for use by both novice and veteran trainers. They can be customized to include your organization's values and code of conduct.

◆ **Training Modules**

Ethics Overview for Senior Executives

Created by Lisa H. Dercks, J.D., LL.M., an Advisor to the Center and the former Associate General Counsel and Ethics Officer for Honeywell, Inc., this tool, in PowerPoint format, provides a helpful look at the role senior leaders play in creating an ethical culture. It can be customized to include your company's mission, values and code of conduct.

Ethics Overview for Global Executives

Developed by Robert T. Sherman, Jr., J.D., President of RTS Solutions, LLC, and Lisa Dercks, J.D., LL.M., this presentation, in PowerPoint format, provides a survey for executives of the ethical and legal issues faced by U. S. companies doing business globally. This tool can be customized to include your company's mission, values and code of conduct.

◆ **Collaboration with Academic Partners**

Through its university partners, CEBC is able to link current research with its business members. Examples include Carlson School Professor Stu Albert's work on

**How the
Center
Can Help**

“the timing of dissent” and UST Professor Teresa Rothausen’s work on retention and work/life issues.

Networks

- ◆ **BUSINESS ETHICS NETWORKSM** Members exchange ideas, strategies, policies, best practices and training techniques in relationship to developing ethics and compliance programs.
- ◆ **The Work↔Life NetworkSM** links professionals from business and the community to share new ideas and information on work/life issues, implementation strategies and best practices.

Consulting Services

CEBC offers a range of consulting services focused on creating and sustaining ethical cultures. Following are examples of recent work the Center has done.

- ◆ **Aligning Mission/Vision/Values/ Code of Conduct/Strategic Plan/ Corporate Processes**

The Center worked with a client to redefine its mission, vision and values, and to implement a stakeholder listening process to secure feedback on and promote commitment to its redefined mission, vision and values.

CEBC assisted a client in building its business strategy grounded in the company’s core values.

The Center helped a client develop its code of conduct.

- ◆ **Leadership Development**

Working with its university partners, CEBC designed and led training for key leaders that integrates values and managerial competencies.

- ◆ **Ethical Culture Training**

The Center positioned a client to develop a code of conduct that integrates values as well as legal and regulatory requirements.

CEBC designed ethical decision-making workshops for clients’ employees and managers.

Research

- ◆ *Mergers: Consequences for Corporate Philanthropy and the Community.* Examining the impact of mergers and acquisitions on corporate citizenship in Minnesota. Partially funded by the Minneapolis Foundation.
- ◆ *The Ethical Advantage: Why Ethical Leadership Is Good Business.* Initial report from the Ethical Value Project investigating the business case for building ethical cultures.

Connections

- ◆ CEBC’s network of national and international relationships allows it to track best practices, emerging issues and global trends.

Creating ethical and profitable business cultures

CEBC Staff

- Ron James, *President & Chief Executive Officer*
- David H. Rodbourne, *Vice President*
- Terri L. Hastings, MIM, MBA, *Director, Programs & Operations*
- Robert C. Shoemake, M.Div., *Director, Programs & Membership*
- Douglas J. Jondle, Ph.D., MBA, *Ethics Management Coordinator*
- Judi M. Olson, *Administrative Assistant*
- James A. Mitchell, *Executive Business Fellow*
- Kenneth E. Goodpaster, Ph.D., *Academic Director, University of St. Thomas*
- Norman E. Bowie, Ph.D., *Academic Director, University of Minnesota*

Upcoming Events

November

November 20: *U. S. Employers' Family Policies & Benefits – National Survey Results. The Work↔Life NetworkSM*

December

December 5: *Caring for the Customer in the Face of Disaster: Toro's Alternative Dispute Resolution.* (Leadership Institute in Corporate CounselingSM)

January

January 13: Deadline for submitting nominations to 2003 Minnesota Business Ethics AwardTM

March

March 17: Deadline for submitting entries to 2003 Minnesota Business Ethics AwardTM

April

April 24: Fourth Annual *Minnesota Business Ethics AwardTM Educational Forum and Award Banquet.*

May

May 1: Dr. William May: "Called to Work: The Vocation of the Professional." *13th Annual Stakeholder Dialogue* sponsored by the UST Koch Chair with CEBC.

May 8-11: Moral Imagination Conference. Sponsored by UMN Carlson School, College of Liberal Arts & CEBC.

May 19-31: *The Ethical Environment of International Business.* CEBC/UMN Study Abroad

June

June 14-22: *Ethics, Culture and Business: A European Perspective in a Global Economy.* CEBC/UST Study Abroad.

Additional information and registration materials for each event listed here can be found on CEBC's web site:

www.cebcglobal.org

Contact Us

We invite you to take advantage of our services, including the *BUSINESS ETHICS NETWORKSM*, *The Work↔Life NetworkSM*, ethics training and consulting. For more information, visit us on the Web.

The Center's staff is located in offices at Room 300, 1020 Harmon Place (between 10th & 11th Streets) in downtown Minneapolis.

Our mailing address:

**1000 LaSalle Avenue, MJH 300
Minneapolis MN 55403-2005**

Phone: 651-962-4120

Fax: 651-962-4042

Email: mail@cebcglobal.org

Web: www.cebcglobal.org



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Minneapolis MN 55403-2005

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