



## **Why Ethics Has No Place in 21st Century Organizations: How Transparency and the Internet Have Sent Watchdogs to the Pound**

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In the 20<sup>th</sup> century, high marks from government inspectors and watchdog agencies was all it took for an organization to receive social trust. Today, even the highest such marks are becoming increasingly irrelevant in a world where ordinary citizens are considered more trustworthy evaluators of an organization's ethics than watchdog agencies. Such agencies operate under a cloud of public skepticism due to lapses in vigilance and even complicity in wrongdoing made public by the ubiquity of technology. This paper argues that, in the 21<sup>st</sup> century, transparency, more than official regulation and expert approval, has become the main criteria of evaluation embraced by the public. The point is made that organizations seeking to be regarded as ethical must do more than meet the standards of official regulators. They must continually expose their finances, policies, and plans to the full range of interested individuals and social networks, which now function as the de facto regulators of a new ethical order. It is concluded that governments and churches are not exempt from this arrangement and must learn how to inform and manage multiple public constituencies, including some hostile ones, in order to secure the participation and trust of the public.

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### **Living in the Post-Enron Age of Ethics**

**I**n the 20<sup>th</sup> century an organization could—and, as statistics attest, frequently did—make ongoing appeals to a range of external expert evaluations or regulatory approvals in order to demonstrate to the public that it was, in the broadest and most general sense, ethical. Whether in the form of a positive Better Business Bureau rating, government inspection, or annual audited financial statement, external stamps of approval from watchdog groups served as a common form of ethical currency transacted between organizations and the general public.

### **Then along came Enron.**

Enron is hardly the only case of an organization betraying the public trust, but its residual effects have proven to be among the most enduring because Enron is much more than the story of an organization betraying the public trust. As Ide and Yarn note, Enron may be even more noteworthy as a story of how an organization, sworn to protect the public trust, intentionally betrayed it:

Enron executives were closely connected with the highest levels of the government. The independent auditing system not only failed miserably in detecting the abuses, it even participated in them to some degree. It is now widely known that the accounting industry actively opposed reforms that may have prevented some of the abuses and that its primary lobbyist was Harvey Pitt, former chairman of the SEC, which itself could be criticized for its failure to prevent these abuses. Congressman Tauzin, chairing one of the House committees developing reforms, was a previous champion of the antireform lobby. Burdened by conflicts of interest, financial analysts failed to provide objective assessments and in some cases gave glowing assessments of companies that they knew were unsound. In this sense, the trust-generating institutions that provide people with enough confidence to extend their trust to these corporations have themselves failed and are now distrusted.<sup>1</sup>

The declining level of public trust in the watchdog and regulatory agencies established to protect that trust is well illustrated by two trend lines that intersected around the turn of the millennium. One of the trend lines is described by Waddock as “one of the striking developments in the [corporate citizenship] arena since the late 1990s...the proliferation of codes of conduct, standards, and principles that attempt to set the bar higher for corporate performance around issues related to how different stakeholder groups are treated.”<sup>2</sup> The other trend line, also reported by Waddock, is thus paradoxical:

The US Better Business Bureau reported in 2007 that less than half of 1200 individuals surveyed trusted businesses and what trust existed previously was in decline, with the exception that two-thirds of those surveyed said that they trusted small businesses more than large ones.<sup>3</sup>

In other words, as voluntary submission to external regulations and published codes of conduct rose, public trust fell. It is beyond the bounds of this paper to assert a cause, but it would not be irresponsible to hypothesize that organizations opted for external validation in the face of rising public skepticism and, in so doing, badly misread a public that was as skeptical of external validation as it was of organizational ethics.

### **The Public is Still Quite Trusting—Just Not of Us**

This skepticism does not mean that the public simply became more wary in general. It means that the public began to redefine the sources of information it would turn to and trust as it determined, first, what it meant for an organization to be ethical, and, second, which organizations were successful at meeting the public’s new and myriad informal standards—standards as numerous and diverse as the evaluators themselves. Recent research by Owyang, for

example, contends that 77% of people trust information from people they know compared to only 60% who trust consumer product ratings.<sup>4</sup>

Financially, this “trust reallocation,” away from traditional regulatory sources and toward public evaluation, meant a demand not simply for a reform in the way audits are done, but rather in an insistence that stakeholders have access to much of the same raw data that auditors see, in order to facilitate the public’s desire to come to its own conclusions and to evaluate the evaluators.<sup>5</sup>

As DiPiazza and Eccles note, however, this requires more than information sharing; it necessitates a wholesale revision in how business operates—and in what counts as ethical:

For various reasons, management and boards are not consistently making available information that they know investors would want. Too often, this failure is based on a mistaken belief that playing *The Earnings Game*—managing and beating the market’s expectations about next period’s earnings—will increase shareholder value. Sometimes business leaders want to hide such issues as compensation policies and conflicts of interest, which they know would not meet public approval if they became visible.

Today, shareholders and stakeholders are demanding a much higher level of transparency. Recognizing that transparency is necessary to create and protect value, they will no longer accept being left in the dark.<sup>6</sup>

The cry of the 21<sup>st</sup> century public does not appear to be for more stringent audits. In the face of lost trust in regulating agencies and expert evaluations, even the most stringent of audits meant stakeholders still felt that they were “being left in the dark,” because auditing firms are objects, not dispellers, of suspicion. Instead, as DiPiazza and Eccles note, the cry of the 21<sup>st</sup> century public appears to be for transparency.<sup>7</sup> Let us see the same numbers you see, the public seems to be saying to organizations and auditing agencies, and we will decide for ourselves if what you are doing is ethical and valuable.

### **Transparency: Social Regulation through Technology**

The democratization of organizational ethics is facilitated in the 21st century by the omnipresence of technology. Even the shift in the public definition of what constitutes credible regulation is only possible when the public is able to view in their homes the same raw data that gets reworked into reports that show up on the PowerPoint screen in the boardroom. And when one is looking at much of the same raw data as the chairman of the board but is able to shape it and make of it what one chooses, one becomes not only an investor but a de facto collaborator—at least in those organizations intent on staying in business. As Waddock notes, what the public requires is anything but “window dressing.”<sup>8</sup> Consumers are intent on using the availability of information online to pressure a move beyond “businesses undertaking philanthropic, collaborative, or volunteer initiatives designed to disguise the fact that, for example, their supply chain policies permit mistreatment of workers in factories, their products are produced wastefully, are harmful, or create excessive pollution, or other important standards of responsible corporate practice are not met.”<sup>9</sup>

The call for transparency and not just expert regulation and evaluation extends beyond public involvement in corporations. Whole social revolutions in the 21<sup>st</sup> century are springing from the

ability of people to communicate via the Internet and mobile phone technology about their governments.<sup>10</sup> What was originally conceived of as “citizen journalism” is today revealing itself to be more than the public exercising an accountability function. More than commentary and accountability, the Internet enables actual protest against an authority that has been identified as unethical—what Parker calls a “Coup d’Tweet.”<sup>11</sup>

This democratization of ethics facilitates the ability of average consumers or citizens to analyze an organization’s or government’s behavior and to make decisions for themselves about whether these institutions are behaving ethically and then to act accordingly, typically in concert with other consumers and citizens.

Governments are understandably nervous. No less a power than the Chinese government’s own Academy of Social Sciences accused the United States and other western nations of such a strategy. More telling still, the Academy recognizes the threat such tools pose in the hands of China’s own citizens. In their report entitled *Development of China’s New Media*, they warn, “We must pay attention to the potential risks and threats to state security as the popularity of social-networking sites continues to grow. We must immediately step up supervision of social-networking sites.”<sup>12</sup>

### **Regulation by Many Someones Like Me**

Viewed collectively, what the above developments signal is that organizational ethics, as traditionally understood and practiced by organizations and institutions, is dead. That is, ethics as submission to regulations under the watchful eye of regulatory agencies in order to generate public trust has astonishingly little public cachet in the 21<sup>st</sup> century organization. It has simply been rendered obsolete. In a world where “a person like me” is considered “the most credible source of information about a company”—which is exactly what a 2008 Edelman study determined of consumers in Brazil, Canada, Germany, the Netherlands, Spain, Sweden, and the United States<sup>13</sup>—then ethics has given way to, or been operatively redefined as, transparency by the general public.

In the 21<sup>st</sup> century, an organization must earn the appellation “ethical,” not merely one or a few times a year from those to whom an evaluation function has been expressly delegated, but daily, with each individual and public that elects to take an interest in the organization, whether for good or for ill. To the degree that the organization submits its finances, hiring practices, and company values not only to regulatory agencies but also to information repositories where anyone who has an interest can view and evaluate—and impact—the organization’s record personally, it has paid the price of entry for ethical consideration. The subsequent judgment of what constitutes ethical behavior, however, is left to each individual citizen.

Transparency, in other words, is the new organizational ethics. Organizations in the 21<sup>st</sup> century must drive to be transparent to a degree that organizations even a decade ago would have considered fatal to their competitive advantage, not to mention simply invasive. Documents and data streams never before published by organizations, filled with information that might have recently been construed as confidential and competitive, is now routinely available on the Internet from largely unregulated third party sources. Organizations must choose either to foster or inhibit that information flow, and whether to add a ‘flow’ of their own to ensure its accuracy

and favorable interpretation. When organizations fail to make such information routinely available on the Internet, the public responds with indignation and anger.

There is no sign that the public's demand for organizational transparency will abate anytime soon. Due to the increasingly tenuous link between consumer and citizen activism, there is no shortage of lawmakers who are minded to arrest this transparency dividend, which they often view with suspicion and concern and as a threat to their ability to govern. Witness South Africa, whose post-apartheid constitution proclaims, "Everyone has the right of access to any information held by the state. And any information that is held by another person and that is required for the exercise or protection of any rights."<sup>14</sup> Sixteen years later, the curiously named Protection of Information Bill hedges that stand, acknowledging "the harm of excessive secrecy"<sup>15</sup> while "recognizing the importance of information to the national security, territorial integrity and well-being of the Republic."<sup>16</sup> The Bill seeks to protect not the transparency of information—it is in fact a self-avowed repeal of the 1982 Protection of Information Act—but rather the transparency of the legislative process that regulates information. With its goal of a "transparent and sustainable legislative framework,"<sup>17</sup> it continues to draw ongoing opposition from a variety of South African publics that see the "protection" of information as a cover for corruption. In the words of Unemployed People's Movement Chairperson Ayanda Kota,

Had it not been for the Constitutional right of access to information, we would not have uncovered that the Zuma regime spent R1.5 billion of taxpayers money on luxuries. Some of the expenditure includes Lindiwe Sisulu's purchase of a R7million Mercedes – Benz vehicle. Siphwe Nyanda who spent R515 000 dining with girlfriends and boyfriends at different five star luxurious hotels. We would not have uncovered that Jacob Zuma's son, Duduzane Zuma is heading for his first billion while Kgalema Montlante's lover is also going for her first billion.<sup>18</sup>

Cultivating public trust through enhanced regulation runs exactly counter to Stewart Brand's famous aphorism which is an apt preamble to 21<sup>st</sup> century organizational ethics: "Information wants to be free."<sup>19</sup>

### **The Beginning, Not the End, of Genuine Public Values**

Non-profit organizations and churches would do well to note these trends. If the most credible source of information about an organization is "a person like me," then membership in the Evangelical Council on Financial Accountability may be helpful but woefully insufficient. Nonprofits and many churches are now required by the government to submit annual Form 990s, including the salary and compensation of the top executives and board members, and disclosure of conflicts of interest, programmatic expenditures, and fund raising costs. Executives of these organizations should consider that the government's receipt of the information (there is no active evaluation of it, just the barest of form completion checking) is less significant than the public's ability to read it online and interact with the organization about it. To the degree that a 21<sup>st</sup> century nonprofit or church facilitates the highest levels of transparency and interaction with the public, it is far more likely to be considered ethical by a public that is wary of organizational assurances of strong internal controls and faithful submission to external regulations.

Transparency may mean the end of organizational ethics shaped primarily by regulatory agencies, but it hardly means the end of values. Provided that an organization freely discloses

information to the satisfaction of the public, consumers and citizens are then more than willing to render their own judgments of whether an organization is in their view ethical. One organization, for example, might have practices that restrict hiring to people of a particular faith. While this may be considered the height of ethical practice by people of that faith, it is simultaneously derided as unethical by people who are not of that faith. The government's opinion is relatively unimportant to the citizen consumer in the matter.

Witness the recent challenges to the Christian Legal Society's college club program guidelines in *Christian Legal Society vs. Martinez*.<sup>20</sup> Is a Christian Legal Society that includes non-Christians more or less ethical than one that excludes them? In the past, such a question has typically engendered and been resolved through court battles. In the 21<sup>st</sup> century, such a question simply becomes one more data point for individuals and their associated social networks to consider as they evaluate the broadest range of possible responses to the news, from social protest against the government on one end of the spectrum to social protest against Christian Legal Society on the other. The organizational ethics of this new century are anything but monolithic and are typically not amenable to simple resolution by court order.

### **Conclusion: The Transparency Ethics of Post-Enronism**

More than ever, organizations will need to understand the variety of publics which they must address, and the reasons for each address. They must be willing to provide each public with information not only according to what the law requires and not only according to the purpose for which the organization needs or desires to cultivate each group. The organization must become accustomed to supplying information of the type, quantity, frequency, and accessibility that the public—not the government or the watchdog agency or the organization—considers helpful. Rulings by governments and courts and regulatory agencies enforce laws but do not define the ethics of the average consumer citizen. Management of diverse publics becomes an indispensable part of 21<sup>st</sup> century ethics.

We live in a post-Enron culture. "Post-Enronism," as it might appropriately be termed, dictates that it is not enough for companies to be ethical according to their own standards or those of regulatory agencies to whom they have traditionally submitted. With trust shifted to "people like me," transparency becomes the standard every organization must meet in order to be adjudged ethical. Even then, such a judgment is always preliminary because transparency will yield a variety of publics, each with a different (and, possibly, shifting) ethical evaluation of the organization according to individual and social network values.

Every consumer and citizen and the sphere of influence in which he or she is imbedded is in some sense today a walking regulatory agency. "Transparency ethics" is now the foundation for the relationship between the organization and each member of its constituencies. While ethics as traditionally defined no longer has a place in 21<sup>st</sup> century organizations, greater transparency and public involvement in the watchdog process may mark a new beginning and re-establish the value of a robust organizational ethics in the marketplace, civil society, and the church.

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