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Catt-alyst for Profitability

Sarbanes-Oxley Mandates Trust in Organizations

Starting with the Enron and Arthur Anderson scandals, the US has experienced the equivalent of an economic earthquake, with aftershocks and tremors following in the form of other well-publicized corporate wrongdoings. Additionally, an enormous rift has grown in the public's trust of corporate leadership.

What has been done to repair the damage to the economic landscape and contribute to its recovery? And what can be done to rebuild the public's trust in corporate leadership? What follows is my response to these two questions.

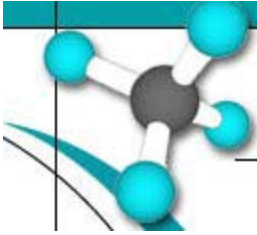
In response to my first question I turn to the surprisingly swift enactment by the Federal Government of the Sarbanes-Oxley Act of 2002, specifically Section 404 of the Act. (The Act applies only to publicly-held organizations who must be in compliance by June of 2004).

Section 404 addresses several major issues relating to the accurate documentation and reporting of internal controls and processes. These issues are:

Internal hard controls: That issued financial statements accurately reflect the true financial and operational state of the organization, and that SEC requirements are being met. These requirements have been around for a long time, but now will be more assiduously scrutinized and will hold both the CEO and CFO accountable..

Internal soft controls: This comprises the most interesting focus of Section 404 and requires that non-financial disclosure controls be quantified and measured. According to the definition in a publication entitled "*Internal Auditor's Role in Corporate Governance*", researched by The Institute of Internal Auditors, Research Foundation (www.theiia.org), internal soft controls refer to "...directed leadership, shared values and a culture that emphasizes accountability for control". The way to measure the abstract concepts of leadership, shared values and culture is by measuring employees' perception (good or bad), so that problem areas can be identified, improved, and measured again to monitor progress.

The El Paso Survey: One instrument designed to measure such perceptions is the *El Paso Survey* (so called because it was developed by the El Paso Corporation), which is also detailed in the above publication. This survey provides a nice means of "checks and balances" since it is given to different levels of the organization at different times of the year. If only top-level executives were to complete it, credibility might be



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compromised. With perspectives from all levels of the organization, this improves the veracity and gives the results greater credibility, as well as specifically being able to identify problem areas, such as poor leadership or low levels of trust.

Assertions: In order to ensure a higher level of integrity, both the CEO and CFO are now jointly held accountable in the eyes of the law and have to assert in writing that the culture of their organization is one that ensures reporting integrity. This gives the Act some much needed “teeth”.

Attestations: External auditors are also held accountable in the eyes of the law since they have to attest in writing to the veracity of the assertions made by the CEO and CFO. In response to my second question, I will refer to the work of two California consultants, Arky Ciancutti, MD, and Thomas L. Stedding, PhD. They have developed a process that successfully builds a culture of trust in organizations. (Their Trust Model is published in their book: *“Built On Trust: Gaining Competitive Advantage in Any Organization”*, Chicago: Contemporary Books, 2000). This provides a step-by-step, methodical and conscious approach to imbedding a culture of trust in any organization, once again holding upper-level executives accountable for leading the way and maintaining the change.

Based on six simple principles, or behaviors (commitment, closure, communication, resolution, respect and responsibility), the model demonstrates how we can imbed these behaviors into every interaction, how to overcome typical obstacles, how to address concerns and fears, and how to foster a culture where people aren’t afraid to speak up, or expose unethical behavior. Employees are also free to be creative, and innovative, thus greatly improving the financial, operational and cultural health of the organization.

Much reliable data exist attesting to the positive impact of a culture of trust on employee performance, productivity, and business results. Enduringly great companies have discovered this. So the Federal Government may have actually done us a favor by mandating that corporations implement a culture of accountability and trust

Will it work? Are we on the right path? The answers will ultimately come from the tough proving grounds of public opinion and the stock market. Stay tuned.