



# Ethical Outlook

by Sharon Shinn

**T**imothy Flynn loves to talk about ethics in the workplace. As chairman of KPMG LLP, he has focused on creating a culture where employees understand the company's values and speak up if they think those values are being compromised.

"I want this to be the kind of firm where, if employees see a fellow worker moving outside the white line, they pull him back," says Flynn, who also is chairman of KPMG International. "They raise their hands. And they know that if they raise their hands to talk about an issue, they will be rewarded, not punished."

Under Flynn's reign, the audit, tax, and advisory firm has launched several specific and wide-ranging ethics initiatives. For instance, a hotline allows employees or clients to report ethics violations anonymously. An Ethics and Compliance Report, distributed to all employees and available on KPMG's Web site, outlines the company's values, offers transcripts of conversations with ethics experts, and provides information on how the company has dealt with recent violations. But KPMG also has reached outside the company walls to share its vision of how a corporation should act. It



collaborated with Fordham University accounting professor Barbara Porco to design an “ethical toolkit” to instruct business students on ethical conduct. The kit—which includes interactive video, role-playing scenarios, and case studies—has been made available free to colleges and universities around the U.S.

The subject of ethics was top of mind for Flynn in 2005 when he took over as CEO of the New York-based company, which was facing federal prosecution over allegedly fraudulent tax shelter deals. Flynn’s first priorities were to settle the government charge, re-establish client faith in KPMG, and rebuild employee morale. A little more than

**The CEO of KPMG speaks up about creating cultures that emphasize integrity—both in the corporate boardroom and on the college campus.**

three years later, it seems his approach is working. In 2008, the company placed high in a diverse set of media rankings, landing in the top ten of best companies for working mothers, in the top five for employee training, and in the top 50 for best places to launch a career.

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Flynn reached the CEO’s office nearly 30 years after taking his first job with KPMG in 1979. Among his varied posts have been stints as Global Managing Partner for Audit and Global Managing Partner for Human Resources, KPMG International. He also spent time in manufacturing, retail and distribution, and high technology. “Every step along the way—as I became certified and got promoted and made partner—I opened up my horizons and faced new challenges,” he says. His own experience has made him an enthusiastic advocate of an accounting degree as a gateway to many careers.

Flynn often speaks at business schools about ethics and leadership, and he is a member of the board of trustees for the University of St. Thomas in St. Paul, Minnesota, where he earned his bachelor’s degree in accounting. He also has served on the World Economic Forum’s International Business Council, the Business Roundtable’s Corporate Governance task force, and the board of trustees of the Financial Accounting Foundation. If anyone asks for volunteers to participate in shaping the future of the accounting profession, it’s clear that Flynn would be one of the first to raise his hand.

**How would you describe the state of the accounting profession today after the scandals of 2001 and 2002?**

I think the profession is as strong as it’s ever been. Nothing is ever stable, so I won’t use that word, but I think we have a clearer vision of the accountability of capital markets, we have adapted to Sarbanes Oxley, and we have clarity about our work. At KPMG, we always say we work *for* the audit committee, *with* management, on *behalf* of investors and shareholders. We understand the critical role we play.

The profession is also strong today because we’ve attracted tremendous talent into the field over the last number of years.

**Yes, we’ve heard from business schools that applications to accounting programs are up and more top students are choosing to study accounting. If you were talking to a group of college students who hadn’t decided on their majors, how would you get them excited about the accounting profession?**

I’d tell them that they’d get to work with really bright people on complex issues with the world’s leading companies in a dynamic, changing environment. When they take a job with an accounting firm such as KPMG, they receive on-the-job training, they cross borders to do on-location assignments, and they work on multidisciplinary teams. They can move across audit, tax, and advisory functions, and they can develop specialties in complex financial instruments such as

valuations, mergers and acquisitions, and core audits.

A career in accounting opens doors and creates opportunities. I tell students that if they go into accounting, they’ll have jobs when they graduate—and their careers can take many different paths. If they take jobs at KPMG, they can have ten different careers within one, or they can use their time here as a credential when they go somewhere else.

At KPMG, we’ve built something called Employee Career Architecture, which helps new hires map out their careers, and we make this available to students who interview with us. If, for instance, a new graduate wants to become a manager in five years, Career Architecture tells him which training courses he should take, which job experiences he should have, and what those job descriptions entail. Career Architecture also shows students the different careers they can have and allows them to customize their paths.

**In 2005, your own career path took you to the C-suite.**

**What were your immediate goals for the company when you became CEO, and what were your long-term goals?**

I took over at a very difficult time in the firm’s history. We were dealing with legacy tax shelter matters, and these were at a critical stage with the regulatory authorities. At the same time, my predecessor, Eugene O’Kelly, discovered he had terminal brain cancer, so I very quickly lost a great friend and partner. There were a lot of challenges that first summer of 2005.

It was clear to me that the firm had a great brand, and I wanted to make sure that the KPMG I had known throughout my career was the KPMG that all of our people would know. I wanted to put our past behind us and focus on what I call our promise of professionalism—first to each other, then to clients and the capital markets we serve. To do this, we had to build a values-based compliance culture, where everyone at the firm knew what we stood for and how we were going to act.

In the last three years, we’ve advanced a great deal in building that culture. When I took over the company in 2005, our employee satisfaction level was in the mid-60s. Today it’s in the mid-80s. Today, 86 percent of our people believe in the integrity of KPMG. Almost 90 percent believe that we will do the right thing, no matter what the circumstances are.

**Integrity is something a lot of CEOs promise but don’t always manage to deliver. How do you convince employees that integrity is more than a word in a mission statement?**

We put in a number of vehicles for people to raise their hands,



from anonymous reporting to addressing the executive board. In 2008, we published our second Ethics and Compliance Report, which provides statistics about how many situations were reported in the past year and how many calls we had to the hotline. We put the incidents in categories, give examples, and describe the actions we took as a firm to deal with them. All this information is designed to help our people understand what we consider ethical decision making.

**You've spoken about integrity at a number of college campuses, yet many educators still debate whether business schools can teach ethics to their students. Do you think integrity is a teachable trait?**

I think you have to use situational learning to teach ethics.

You always wonder how people get into these traps, because some situations seem so black-and-white. But I believe things move from black-and-white to gray. Some days people find they've crossed a line, and they didn't even realize it.

I believe three things contribute to ethical lapses. One is rationalization. Someone thinks, "I'm just going to do this once. It's for the good of the shareholders, or the good of the employees. I'll never do it again."

The second one is implied permission. "Dan knows I'm doing it. He's my supervisor. He'd tell me to stop if it wasn't OK." The third one is fear. "It's not my place to raise my hand. If I don't keep my head down, I could lose my job."

I tell students to think to think about how these situations can apply in social settings, in academic settings, and in their future work life. I say, "*You* are the one who will set your compass. Once you lose integrity, it's almost impossible to get it back—but it's in your hands to retain it." I remind students that they're totally in control of their own decision making.

Now, there can be short-term consequences. They can lose their jobs if they speak up. But there are long-term consequences to unethical decision making that they can't undo.

**Tell me how you use the "toolkit" you've made available to business schools to help students develop skills in ethical decision making.**

We don't just make it available to universities—partners at KPMG become active participants in the classroom exercises. When I'm talking to students, I walk them through pretty clear examples of unethical decision making, and then I take them through one that's a little less clear.

For instance, at KPMG, if employees work past 9 o'clock at night, they can hire a car service to take them home. Say you work late Monday, Tuesday, Wednesday, and Thursday, but you take the train home instead of calling for a car. On Saturday night as you plan to go into the city with friends, you decide to use the car service and charge it to the company. You rationalize that you didn't hire the car when you could have, so you deserve it now. But when it comes time to attach the receipt to your time sheet, you realize that its date stamp is Saturday, and you didn't work Saturday, so you have to doctor the receipt. Everything starts to snowball.

The ethical toolkit takes students through situational learning with examples like that. They talk over what happened and discuss alternative actions. They don't have to come up with the right answer, because there isn't just one right answer, but they go through the ethical decision-making process and come to a conclusion. We also discuss research findings and case studies about ethical decision making.

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**In addition to learning about ethics, accounting students soon will need to understand international financial reporting standards, which the SEC wants U.S. companies to integrate by 2014. How quickly do you expect IFRS to become the standard among global accounting firms?**

If nothing else, the events of the last year have shown us how connected capital markets are around the world. Having a common language to communicate to investors about the financial health of an organization is critically important.

While I believe the U.S. will convert to IFRS—as opposed to merging IFRS and GAAP—I think the events of the last few months might slow that down a little. I also think some of the standard-setting they’ve done in Europe, and the modifications they did on fair-value accounting, might slow the process a little. But the conversion is inevitable. It’s unstoppable. It’s just a matter of getting the right global regulatory framework in place, getting the right oversight for the standard-setting process, and working out the complexity.

**How soon do you think accounting graduates will have a thorough understanding of IFRS?**

We surveyed hundreds of professors and asked them what their readiness level is. Only 5 percent expect the class of 2009 to have substantial knowledge of IFRS. Seventeen percent expect that to be true for the class of 2010. So there’s clearly an acceleration.

**How is KPMG helping schools prepare their graduates for the conversion to international standards?**

We’ve created the IFRS Institute, which includes Webcasts and other materials to help faculty understand IFRS and build the standards into the curriculum. The Institute also has information for users of financial statements, for preparers of financial statements, and for regulators. It’s designed to help everyone on the supply chain move along at the appropriate pace so that at the end of the journey, everyone’s prepared for the implementation of the new standards.

**Besides ethical decision making and international standards, what do you think business schools should emphasize in the accounting classroom?**

Students need strong communication skills, both oral and written. And, as the world grows more complex, they need a specialization in some part of the economy. In addition, they need greater familiarity with technology. They can’t just know how to use a spreadsheet. They have to know about technology security, data protection issues, and risk controls.



I think schools also should be more focused on human resource elements. They need to emphasize performance management and goal setting so students understand how to map out their career paths.

**What advice do you offer students as they prepare for careers in the accounting field?**

Especially in an economy like we have today, it’s really important for people to continually refresh their skill sets. They need to have a vision of where they’re going in the organization, know how to navigate that path, and make sure they don’t become stale. They need to invest in themselves—and make sure the organization is investing in them as well.

I also encourage them to become students of leadership from the first day they start school. They should think about the teachers who motivate them, the coaches who help them accomplish something they didn’t think they could do. Why do some people help others create a sense of passion? Why are some people great to work for? What makes these people successful? They also should study the professors and individuals they *don’t* like and figure out why. If students study other people during their college and professional careers, they will develop a leadership style that makes them very effective.

**Like many major corporations, KPMG is involved in philanthropic efforts that align with the company’s goals. In your case, much of the philanthropy focuses on education and diversity—such as the PhD Project,**

**which recruits and sponsors minority candidates who pursue doctoral degrees. Can you describe some of the programs you support?**

We've developed a three-tiered system to give back to the community. The first tier is KPMG Family for Literacy, which works with disadvantaged communities by putting books in the hands of kids. There's a great correlation between access to age-appropriate books and literacy. So far, we've given out 350,000 books.

The second tier takes place at the high school level as KPMG sponsors a program called Reviving Baseball in Inner Cities, or RBI. We use baseball and softball to teach young men and women the values of life. For every hour they spend on the baseball diamond, we spend substantial time in the classroom teaching them math and economics and ethical decision making. We build the programs around the economics of baseball.

The third tier is the PhD Project, which we support because we want to have more minority role models in the classroom. People don't normally go to school and say, "I want to be an accountant"—but all business students take an accounting course. Studies show that a student's experience with a really good teacher is what helps him decide which career could be the life for him. We'd love to increase the minority population in the accounting profession, and putting role models in the classroom is one way to accomplish that.

**Looking ahead, what do you think your biggest challenges will be in the years to come?**

Clearly, the conversion to IFRS is going to be a huge one, even though I believe the broader business community will reap great benefits from it. There's also a challenge in just understanding the sheer complexities of business today. How do we simplify them, increase transparency, and gain back the confidence that has been lost during this economic crisis?

But the greatest challenge for the next 24 months or so will be the difficult economic environment. Our markets today really suffer from a lack of confidence. We will need to determine the right decisions to make for our people, our clients, the capital markets we serve, and the community we live in.

What I tell people at KPMG is that we have to demonstrate our own confidence and resolve to get through this. The global economy will recover, the capital markets will stabilize, the financial systems will get regulated, and the fundamentals will matter. I am absolutely confident that we will come out of this in 24 months with a stronger foundation to build from. And we can't lose sight of that prize as we go through the day-to-day grind of dealing with the issues in front of us today. **Z**



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