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business ethics through governance, oversight, and central control. And they do it strictly as volunteers.

“Ethics have always been an integral part of corporate governance,” Grace says. “If a company wants a strong ethical environment, it must set the tone at the top and then establish a structure with the necessary checks and balances and transparency. That is how to prevent an unhealthy consolidation of power.”

Attitudes have changed since Milton Friedman wrote in 1970 that, “The only social responsibility of business is to make a profit.” Today, with the demise of Enron and scandals at Tyco, Adelphia, WorldCom, Hewlett-Packard, AIG, and others, the emphasis has turned sharply toward corporate responsibility and integrity.

The Aspen Institute reported that in 2005, 54 percent of business schools required credits in ethics compared to 34 percent in 2001. And in 2003, Northwestern University’s Kellogg School of Management added a 10-day course on business ethics that incoming MBA students must take. “Teaching ethics is important,” Grace says, “but teaching how to make an ethics program work is equally important.” And experience has taught him how to hone that skill into one basic strategy.

“We call it ESD—Encourage, Support, Deter—and both our volunteer and for-profit companies operate under this principle. If you want an ethics program that encourages everyone to support it, you must have the structure in place that supports those who want to work

Spreading the Gospel

Stephen Grace is on a mission to teach others how to make corporate integrity work.

IT BEGAN WITH FIVE MEN, members of the New York chapter of Financial Executives International (FEI), who believed in giving back. In 1993, they volunteered to share their professional experience with those who could not afford their help—Catholic schools, for instance, that needed advice on organization, record keeping, and purchasing. “We listened and gave them information we hoped they could use,” says H. Stephen Grace, Jr., Ph.D., president and CEO of H.S. Grace & Company, Inc. in Houston. “The unexpected thing was how much satisfaction we got out of it.”

A few years later, as he watched the financial scandals of Cendant and Sunbeam unfold, Grace decided to combine his beliefs in volunteerism and ethics and create a second company, the think tank Grace & Co. Consultancy, Inc. The sole mission of Grace and the 18 senior business executives who comprise his board of advisors is to write articles and give speeches that explore

ethically. If you want to deter those who are inclined to go off the narrow path, there had better be a big gun over there that means ‘Don’t come this way or you’re going to get hurt.’ If all a company has in place is an ethics program with no support or deterrence, no checks and balances, it will not succeed.”

Born in Louisiana and raised in Texas, Grace is a courteous man who speaks in the mellow cadence of the South. He earned a B.S. in industrial engineering from Lamar University, an M.B.A. from the University of Chicago, and a Ph.D. in economics from the University of Houston in 1970. “When I taught finance at Texas Southern University, I would tell my students that credibility is something you’ve got to earn.”

And earn it he did, most notably as vice president of finance and chief financial officer of Century Corporation and, simultaneously, senior vice president and chief financial officer of Century Development Corporation.

Later he became national director at large active in real estate, finance, and litigation consulting for the New York region at Touche Ross & Co./Deloitte & Touche.

Since 1993, he has led H.S. Grace & Company, Inc., his Texas-based firm with operations in New York, which consults on corporate governance, oversight, and control, offers advisory services in finance and operations, and assists in commercial litigation. That, along with his volunteer company, is where his strong emphasis on ethics comes most sharply into focus.

“We believe the overwhelming majority of people want to work ethically. You know, 2,000 years ago, Ovid said ‘The better things of life I see and approve; the worst things in life I follow.’ That’s as true today as it was then. Even honest people are sometimes tempted to go off the straight path.”

He articulates his passion for ethics and volunteerism in speeches and articles for his think tank, among them, “Building Ethical Behavior into an Organization,” “Gaining from Giving: the Benefits of Corporate Volunteerism,” and the article, as seriously thought out as it was tongue-in-cheek,

that appeared in May 2005 *CPA Journal*, “Effective Governance in an Ethicless Organization.” What did Grace mean by an ethicless organization? Think terrorist groups (Al Qaeda) and criminal groups (Mafia) that, Grace points out, run very effectively. Why? “One: everybody in them has a clear understanding of what his responsibilities are. Two: everybody is held strictly accountable for his responsibilities. And three: there are huge consequences if he doesn’t address those responsibilities.”

But ethics, of course, do matter. When companies come to H. S. Grace & Company for help, “We look first for the truth, the root of the problem,” Stephen says. “If it’s a company of creditable people attempting to do things the right way, we can usually find ways to help them. But let’s say it’s a financial problem and we find officers of questionable integrity. Creditors will feel they’ve been manipulated; there’s no easy way out.” ET

HS SG H.S. Grace & Company, Inc.

*H. Stephen Grace, Jr., Ph.D., President
Steve Grace, Director of Operations*

We serve as consulting and testifying experts, identifying and analyzing causation and damage issues. We serve as strategic consultants, developing the bases for explanations which lead to resolving problems in business governance, operations and finance.

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