HOW TO BUILD AN EFFECTIVE ETHICAL CULTURE WITHIN AN ORGANIZATION

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Our discussion today

- Ethics & Integrity

- Impact of ethics in an organisation

- Step by step guide towards achieving an ethical culture

  ➢Tone at the top
  ➢ethics risk assessment
  ➢Policy

- Causes of failure towards achieving an ethical culture

Ethics & Integrity

- Ethics – Moral principles that govern a persons behaviour i.e. recognition of what is right and wrong

- Integrity – ethical behaviour i.e. doing the right thing

- Culture - ideas, customs, and social behaviour of a particular people

- An ethical work environment does not come automatically from the presence of ethical people, it must be developed with a formal ethics program.

When do good people do not so good things?

Dan Ariely: People have two goals:

i) To look at ourselves in the mirror and feel good about ourselves, and

ii) to cheat and benefit from cheating.

There's a balance between these two goals. i.e. we cheat up to the level that we would find it comfortable [to still feel good about ourselves].

In his book *Essentials of Business Ethics*, Denis Collins reports the following statistics with regard to the extent of unethical behavior in the workplace:
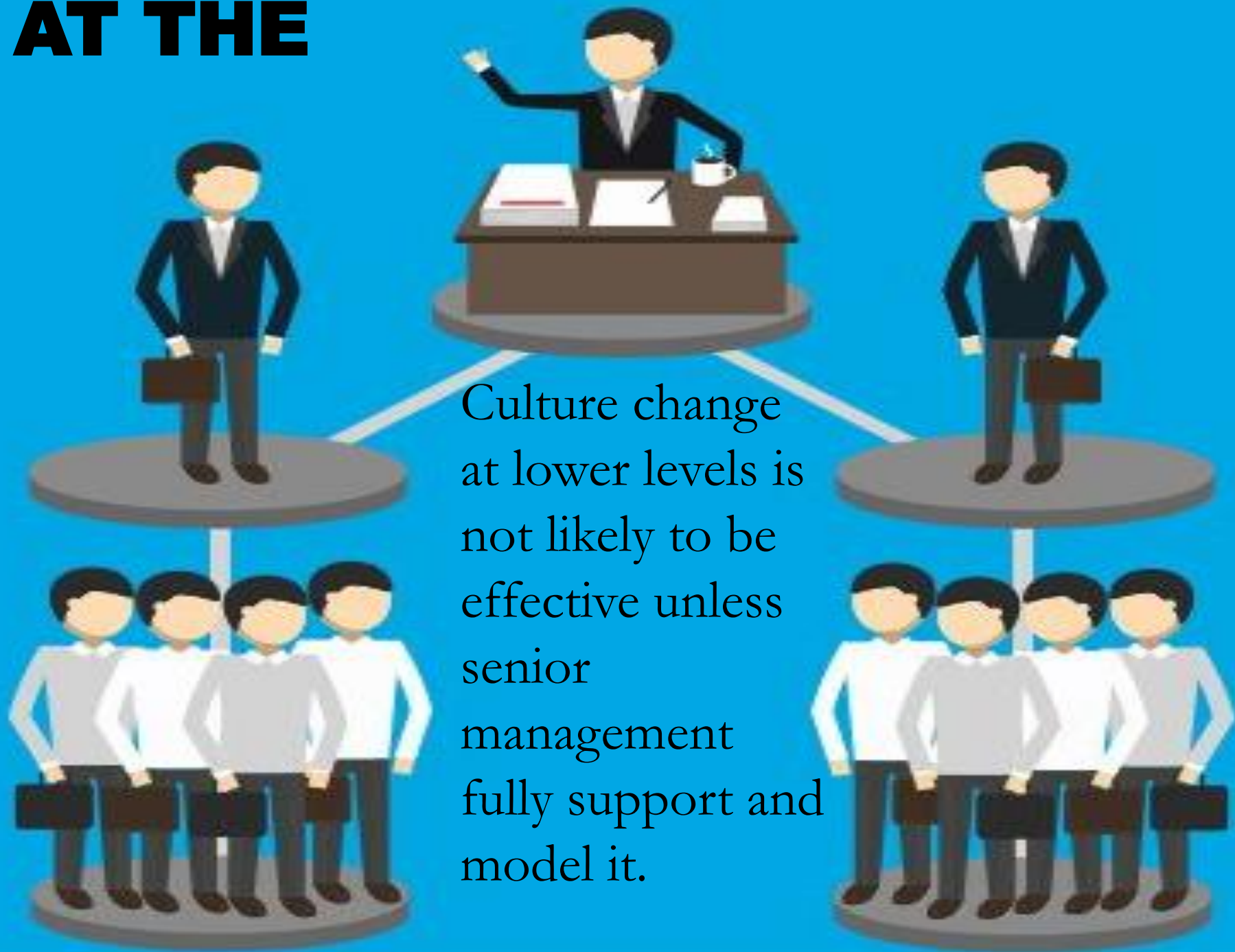
- ➤ 75 percent of employees have stolen at least once from their employer.

- ➤ 67 percent of CFOs have been pressured to misrepresent results.

- ➤ 33 percent of employees who call in sick are not actually ill.

- ➤ 25 percent of middle managers have written a fraudulent internal report.

Advantages

- Attraction and retention of higher quality employees, customers, suppliers, and investors.

- Earn goodwill with community members and government officials.

- Higher product quality.

- Avoiding legal problems e.g bribery penalties

Ethics Programs

Tone at the top → Ethics assessments → Policies → Policy Implementation → Monitoring → Tone at the top

TONE AT THE TOP

Culture change at lower levels is not likely to be effective unless senior management fully support and model it.

Ethics Assessments

- Tool through which an organisation finds out employee attitudes towards behaviours that may lead to ethical dilemmas such as bribery, discrimination, and time theft.

Ethics Assessments - Objectives

- Identify critical risk areas and control weaknesses.

- Assess where the organisation is vs where it would like to be. Determine the level of aggressiveness or response that is required

- Develop a systematic plan to remediate and enhance control processes and positively influence the organization's ethical culture.

- Identify ethics training and communication needs and opportunities.

- Raise ethics risk awareness and promote a culture of integrity.

Ethics assessment – FRAUD RISK ASSESSMENT tools

Key focus areas

- Employee assessments

- Management assessments

- Conflicts of interest (Includes bribery and gifts)

- Cash disbursements

- Reporting (financial statement fraud)

- Theft of proprietary information
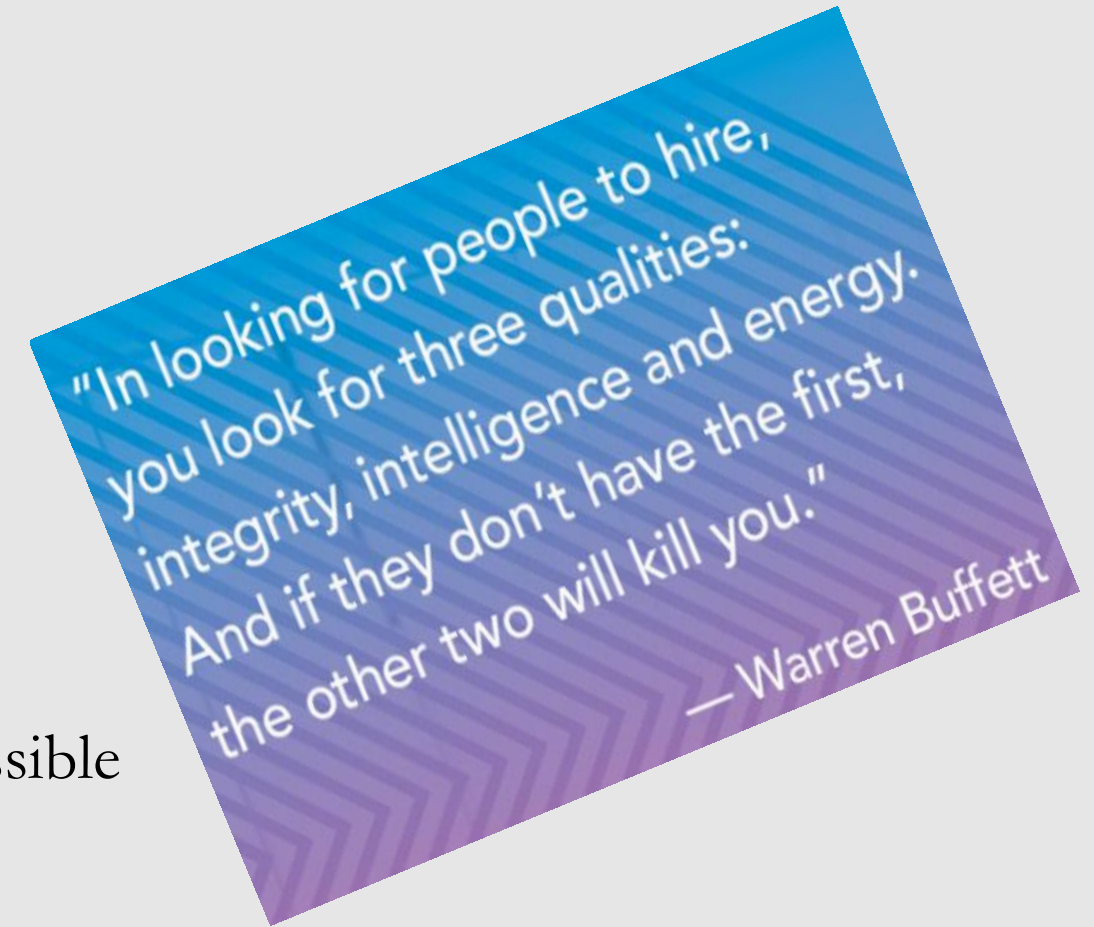
Organisational Policies

- Mission statement; vision statement core values

- Ethics Policy

- Code of conduct

- Conflict of interest policy

- Gift policy

- Whistle blower policies

Principles of a good policy

- Keep it short

- Use simple vocabulary

- Have a definitions & common sections

- Be clear and concise. Use active voice

- Provide examples (for example a WBP should have eexamples of allegations that should be reported)

- Consider audience

- Get feedback

Implementation of the Ethics policy

- Hire the right people
- Communication -
  - Make policies accessible
  - Make training a priority
  - Teach the policy
  - Use variety of media types
  - Tailor the training
  - Provide examples
  - Have managers conduct the training when possible
  - Teach on ethical decision Making

- Be aware of dangers of ethics for a day

"In looking for people to hire, you look for three qualities: integrity, intelligence and energy. And if they don't have the first, the other two will kill you."

—Warren Buffett

Post-Implementation Challenges

- Teaching employees how to identify an ethical dilemma

- Changing the mind set of staff and eventually the behaviour

- Addressing ethics across the globe

- Assessing the program's effectiveness – ethics surveys

Causes of failure

- Putting the policy in the shelf; lack of awareness

- Misguided recruitment practices

- Exclusive focus solely on financial performance

- Putting ethics implementer low in the org chart

- Having a hot line that's not credible

Questions?