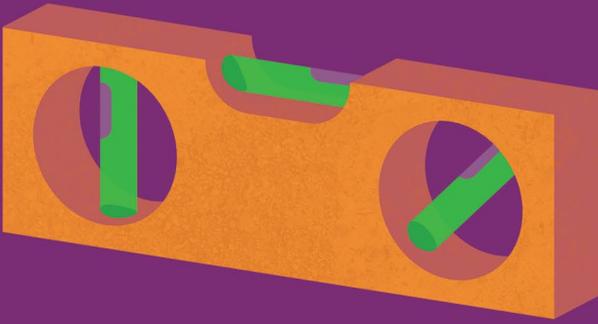


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Andrea Spencer-Cooke and Fran van Dijk

Creating a Culture of Integrity

Business Ethics for the 21st Century

DōShorts

Creating a Culture of Integrity

Business Ethics for the 21st Century

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First published in 2015 by Dō Sustainability
87 Lonsdale Road, Oxford OX2 7ET, UK

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ISBN 978-1-910174-60-9 (eBook-ePub)

ISBN 978-1-910174-61-6 (eBook-PDF)

ISBN 978-1-910174-59-3 (Paperback)

A catalogue record for this title is available from the British Library.

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See our sustainability policy at www.dosustainability.com.

Page design and typesetting by Alison Rayner

Cover by Orest Viruta

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Abstract

FOR COMPANIES, UNETHICAL BUSINESS PRACTICES such as bribery and corruption pose major business risks. Such conduct can result in significant financial costs in the form of fines, reputational damage, lost business opportunity and – increasingly – criminal or civil charges. Ethical conduct is therefore a critical governance and reputational concern and organisations have responded by putting in place rigorous formal integrity and compliance programs to set out and enforce clear standards for ethical business practice. But to really embed good conduct requires more than compliance alone. Companies also need to create an enduring culture of integrity that establishes doing the right thing as the cultural norm across the organisation. This book identifies the key actions needed to foster this cultural shift. As well as best-practice corporate examples of embedding ethical behaviour, it provides a toolkit that sustainability managers and compliance officers can draw on to engage everyone in the company around this critical issue.

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About the Authors



ANDREA SPENCER-COOKE has been involved in shaping sustainable business thinking and practice at leading companies for over two decades, including as editor of *Tomorrow – Global Sustainable Business* magazine and programme head at SustainAbility Ltd. Her focus is on corporate leadership and accountability, with a particular interest in changing management mindsets around business values and role in society. Andrea is a trained Primary Ethics teacher, with a background in social anthropology and responsible business.



FRAN VAN DIJK is a sustainability strategist working with leading companies to demonstrate the benefits of sustainability and turn risk into opportunity. Formerly a senior consultant and Head, Sustainable Lifestyles with SustainAbility Ltd, her clients have included BT, Procter & Gamble, RB, Gambro, Electrolux and Tetra Pak. In 2010, she was part of the ENDS Carbon team behind the FTSE CDP Carbon Strategy Index Series. Fran served on the board of the Macaulay Land Research Institute for seven years.

Acknowledgments

MANY PEOPLE HAVE HELPED TO SHAPE THIS BOOK through a shared interest in finding better ways to do business and we'd like to acknowledge the inspiration we've drawn from them (see Chapter 10). In particular, we would like to thank those we consulted and who generously made time to share their expertise and insights in business ethics: Tim Erblisch, Ethisphere; Simon Webley, Institute of Business Ethics; Kirk Hanson, Markkula Center for Applied Ethics, University of Santa Clara; John Haidt, NYU-Stern School of Business; John Neil and Simon Longstaff, St James Ethics Centre; Jacqueline Mees, University of Sydney and Bill O'Rourke, Wheatley Institution, Brigham Young University. A very special thanks goes to Alex Slippen and the Ethics Resource Center (ERC), for allowing us to use and reproduce ERC research, and to Kirk Hanson for sharing his first-rate MOOC on Creating an Ethical Corporate Culture.

We're also extremely grateful to the companies who talked with us so openly about their experience in embedding an ethical culture: Audrey Tillman, Aflac; Sam Al Jayousi, Carillion; Malin Ekefalk, Electrolux; Sefton Laing, RBS; Andreas Follér, Scania; and Michaela Ahlberg, TeliaSonera. Both Jens Schlyter and Helena Hagberg, Swedish Ministry of Enterprise, contributed a valuable public sector perspective. A number of One Stone client companies feature in the book and we'd like to underline again what a pleasure it is to work with you.

Finally, we'd like to recognise the talented Amy Brown for her help with research, interviews, editing and her enthusiasm and support; and Astrid

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Acknowledgments

von Schmeling at Purple Ivy, whose excellent interviews from Sweden enrich the book – *tack så mycket!* Comments on early drafts by Sarah Holloway and April Streeter were extremely helpful – any errors or omissions are ours alone. Finally, a big thank you to Nick Bellorini and the DōShorts team for making the book happen, and to our wonderful families for putting up with the long hours.

This book is dedicated to all those in business who do the right thing – you know who you are.

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CHAPTER 1

Introduction

ETHICS IS A GROWING BUSINESS ISSUE. You can barely open a newspaper today or turn on the TV without hearing something about yet another company paying the price for poor employee judgment, bad conduct or inadequate oversight. In a 24-hour news cycle world, nothing stays hidden for long – quite literally in the case of Petrobras, Brazil’s state-owned oil company, whose multi-billion dollar corruption probe has even led to calls for a suspect to be exhumed.¹

The penalty for such misconduct is high. Back in 2008, German engineering giant Siemens made corporate history when it paid US\$1.6 billion to settle charges of bribery across its global operations.² That has since been dwarfed by banking fines in the US and UK: \$1.9 billion to HSBC, \$2.6 billion to Credit Suisse, and a monumental \$8.9 billion to BNP Paribas. Their transgressions? Everything from mis-selling insurance and helping customers dodge tax to rigging forex markets and violating sanctions.³

The actual cost of irresponsible decision-making is even higher. UBS losses in the sub-prime mortgage crisis totalled US\$17 billion – the largest in Swiss corporate history – and could have been prevented with a different risk culture.⁴ Studies put the cost of reputational damage from ethics scandals at up to seven times the original fine in market value.⁵ World soccer federation FIFA is learning the hard way what graft

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does to your reputation, but it could be some time before the final price-tag for its appalling governance is known.

A shared burden

Added up, the burden of unethical business conduct on the economy as a whole is mindboggling. The B20 Anti-Corruption Working Group estimates that corruption consumes 3% of global GDP each year, and costs more than US\$2.6 trillion.⁶ It reduces government revenue, undermines growth and development, and increases the costs of doing business by up to 10% on average according to the World Economic Forum and OECD.⁷ The rationale for fighting corruption isn't just a question of ethics – we simply can't afford it.

The cost isn't only economic. Corruption undermines the rule of law and the power of democracy. As Harriet Kemp, Head of Development at the Institute of Business Ethics (IBE) puts it, 'corruption is not a victimless crime; it leads to decisions being made for the wrong reasons. Contracts are awarded because of kickbacks and not whether they're the best value for the community. Corruption costs people freedom, health and human rights and, in the worst cases, their lives.'⁸

Tightening the net

Little wonder that business 'conduct risk' is a red-hot topic for regulators. Around the world, standards and regulations are being developed and revised to combat unethical business practice more effectively, from the US Foreign Corrupt Practices Act (FCPA) and UK Bribery Act to China's Article 164. The OECD Anti-Bribery Convention, legally binding in over 40 countries, also makes it a crime to bribe foreign public officials in international business transactions.

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As well as legal frameworks, voluntary anti-corruption initiatives are proliferating. The United Nations Global Compact (UNGC), whose tenth principle targets ethical business conduct, now counts among its signatories over 8000 businesses across 145 countries. At industry level, too, bodies like the UK Banking Standards Review Council (BSRC) are being created to improve behaviour and restore public trust, while the Governor of the Bank of England Mark Carney has called for global standards to tackle the sector's 'culture of impunity'.⁹

The upshot at individual company level is a race to the top to foster good conduct by embedding effective ethics and compliance (E&C) frameworks that prevent, detect and respond to ethical violations. But no E&C programme alone can guarantee that everyone will always do the right thing. Unless it's accompanied by values-driven behaviour change that is aligned, integrated and reinforced at individual, organisational and systems levels, your E&C initiatives will struggle to make a lasting impact (see Chapter 9).

Rebuilding trust

At stake here for business is not just a hit to the bottom line in the form of fines, but a much wider issue of trust, credibility and organisational well-being. Most companies, most employees want to do the right thing. But in the words of Sam Al Jayousi, Group Compliance Manager at Carillion, one of the UK's leading integrated support services companies, 'reputational damage is contaminating'.¹⁰ A few rogue players in a company or industry can be enough to tarnish everybody – can you name a 'clean' bank?

When public trust takes a hit, a company's licence to operate is jeopardised. Regulators step in, employee morale tumbles, brand reputation suffers,

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customer loyalty weakens, investors and business partners flee and it becomes harder – much harder – to attract and retain top talent.

Conversely when a corporation gets it right, by promoting, supporting and celebrating personal and organisational integrity and empowering employees to ‘do the right thing’, not only is conduct risk reduced, but the foundations are laid for long-term business success. Reshaping your business culture is the best way of preventing ethical dilemmas from becoming ethics lapses in the first place.

“In the wake of the corruption scandal, Siemens was gripped by a mood of “something needs to happen.” Staff were shocked, but that gave rise to a sense of purpose and new beginning. We need to feel that again – albeit under more auspicious circumstances. Ultimately, strategy papers don’t make or break the future and sustained success of a company. Its corporate culture does.”

JOE KAESER, CEO SIEMENS¹¹

Why read this book?

Drawing on examples from pioneering companies around the world, this book demonstrates the importance of fostering a culture of integrity as a foundation for ongoing corporate anti-corruption initiatives.

Without a strong ethical culture companies have to rely on the compliance system to do all the heavy lifting. Investing in integrity means shifting from a ‘don’t get caught’ to a ‘right thing to do’ mindset that can positively reinforce compliance, and boost trust and openness.

Step one is adopting standards and setting up a compliance system to enforce them. Step two is about creating an enduring culture of integrity

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that embeds good business conduct as the cultural norm across the organisation. This book shows you how.

As well as examining the role of policies and codes (Chapter 3), it explores how recruitment, training, management processes and tone from the top can be harnessed to incentivise ethical practices and build a strong organisational culture of trust, openness and integrity (Chapters 4–7). It gives tips on what to do when things go wrong (Chapter 8). And it describes how, in a culturally diverse world, companies and stakeholders can work together to change the unwritten rules that work against us doing the right thing (Chapter 9).

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CHAPTER 5

Model: Leading by Example

IT'S A CLICHÉ, BUT WHEN IT COMES TO ETHICAL CULTURE, tone from the top – or how the most senior people in your organisation act – really does count. Leaders set the example. They determine direction, goals and priorities. They make important decisions and choose who and what to reward. And when things go wrong, they determine the consequences. Getting the role models and authority figures in your company to walk the talk may be the single most important thing you can do to build your culture of integrity.

How not to lead

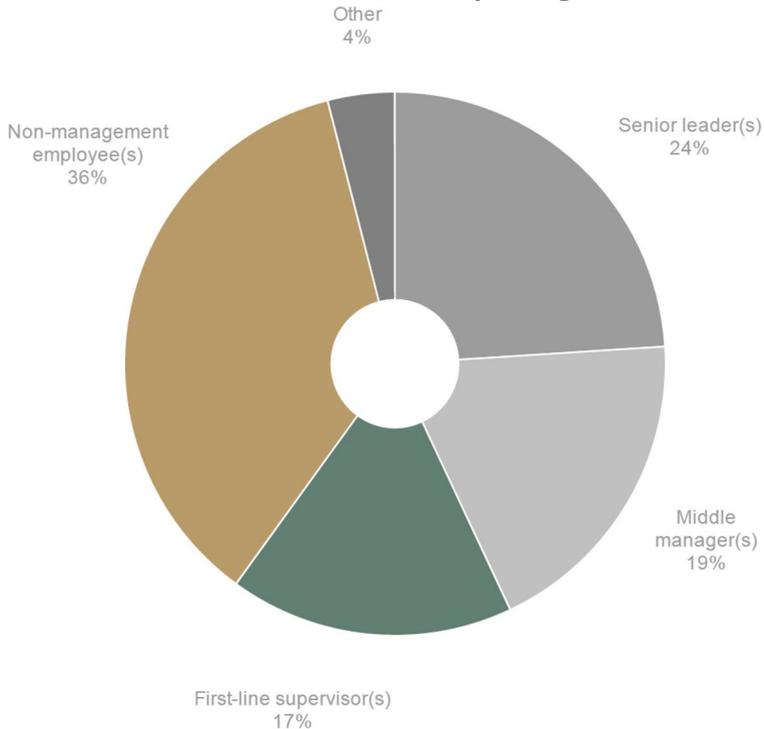
Figures show there's work to do to get corporate leaders to live by the high ethical standards expected of them. As people rise up the hierarchy the stakes get bigger, and so do the pressures and temptations. Yet if the very people who are meant to act as role models behave badly, this is bound to trickle down to employees, too.

OECD analysis of foreign bribery enforcement actions reveals that most international bribes are paid by large companies, with senior management knowledge.⁴³ This pattern is repeated in the US, where ERC's National Business Ethics Survey 2013 found that over half of misconduct incidents involved supervisory to top management (see **Figure 2**). Senior managers were responsible for a quarter of observed misdeeds and were more likely than lower-level managers to flout rules.⁴⁴

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FIGURE 2. Most misconduct committed by managers.



SOURCE: Ethics Resource Center, 2014. National Business Ethics Survey of the US Workforce (NBES 2013), Arlington: ERC.

Actions say it all

Integrity is a fundamental leadership attribute and it's essential for a strong, ethical culture that good conduct starts at the top. 'Do as I say, not as I do' cannot be the basis for a culture of integrity. Ethical leadership includes the following traits:⁴⁵

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- Aligning thoughts, words and deeds.
- Modelling the behaviour we ask of others.
- Learning as well as teaching.
- Considering stakeholder needs, including global society and the planet.

Leaders who demonstrate 24/7 integrity and establish ethical conduct as a priority by putting in place high standards, setting a good example and communicating openly will exert the positive influence on employees that is the oxygen of strong ethical culture. Follow-through is vital. A good example, according to Ethisphere's Timothy Erblich, is GE. 'When someone raises their hand they'll get a call from GE President and CEO Jeff Immelt or someone to say "Good job, we're glad you did that!"'⁴⁶

Making tough calls

Modelling good ethical behaviour isn't always easy: it involves having to make tough choices and trade-offs. For example, if you're going to adopt a 'zero tolerance' approach to bribery and corruption, you have to be willing to stick to your guns and forgo tainted business opportunities to stay clean, as Alcoa did in Russia (see **Box 6**).

BOX 6: Zero tolerance of bribery⁴⁷

Bill O'Rourke from the Wheatley Institution, and former Vice President, Sustainability and Environment, Health and Safety at Alcoa, knows how challenging taking a tough ethical stance can

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be from his time as President, Alcoa Russia. 'It wasn't easy. Russia has an entrenched system of corruption – that quickly became apparent – but consistently I said: 'We don't accept or pay bribes. We don't condone it, we don't participate in it, and we just won't do it.' It cost us as a company. When you don't pay in Russia the supply chain stops working. I had an annual capital budget of \$100 million and I only spent \$20 million in the first year – we couldn't get our investments underway.'

It cost O'Rourke personally, too – he was under pressure to get the investments underway and his bonus was tied to implementing them in the first year – 'But I didn't do it. We were delayed a year which wasn't good, but eventually we got there.'

Remaining steadfast under pressure is a core attribute of integrity. So too is knowing when to act decisively, something Aflac CEO Dan Amos had to do in 2011 when a brand issue arose following the tsunami in Japan (see **Box 7**).

BOX 7: Where the rubber meets the road⁴⁸

It's not enough to talk about ethics, you have to demonstrate it, says Aflac's Audrey Tillman. Here's what Aflac's CEO did.

'In 2011 when a terrible earthquake and tsunami struck Japan where we do 75% of our business, we were the first company to contribute to the emergency funds. In spite of recurring aftershocks, Dan Amos immediately set off to demonstrate our concern for the

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affected people and ensure them their claims would be processed promptly and with great care.

'At the same time, our celebrity spokesperson, the voice of the Aflac Duck, tweeted some unpleasant jokes about the tragedy. Yet in spite of the fact that every television commercial we had prepared contained his voice, Dan Amos fired him within one hour of hearing about the tweets, knowing it would put our entire marketing campaign at risk.

'In this case, our ethical reputation outweighed our marketing campaign. Dan acted the way that he did because it was the right thing to do. The general public in both the US and Japan responded to his swift, decisive and appropriate action: Aflac received a barrage of accolades and an estimated \$39 million worth of positive news stories. While that is not why we did what we did, it's nice to be rewarded for doing the right thing.'

Tips for dealing with tough calls include:

- Making your policies on unethical practices clear to business partners and sticking to them resolutely, even if it means a short-term loss. The value of good reputation is worth more in the long run. Brief the board too – tough calls are easier with their support.
- Giving employees permission to make tough calls and let them know they have your full support. When misconduct occurs, act quickly and transparently to put things right. Be willing to fire people if necessary, at every level.

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Ethics is everybody's business, but the CEO, board and management have special responsibilities when it comes to creating a culture of integrity.

The role of the CEO

As the head of the company, the CEO has an oversized role in shaping the ethical culture: they set the example. The way they act, the messages they send and the objectives they choose are key determinants of company culture. Scania's Andreas Follér agrees. 'The CEO is the company embodied', he stresses, 'I can't overemphasise how crucial it is that the CEO is active. That's more or less their top task – to safeguard and remind the organisation of its culture.'⁴⁹

The boss is a powerful influence when it comes to ethical culture change. Their role includes:

- Framing the big picture around ethics and leading the senior management team in determining the organisation's values.
- Articulating clear demands and expectations for 'how' as well as 'what' business objectives must be achieved in line with those values.
- Keeping an open door for dialogue and continually reinforcing ethical culture by being a 'storyteller'.
- Creating a positive legacy by empowering others to make right choices for the long term.

It takes around five years to push ethical culture change down through middle management. With the average tenure of a listed company chief executive just five years, their focus should be on leaving a positive

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legacy by embedding values for the long term and empowering others to carry on the baton.⁵⁰

The role of the board

The board's primary function in creating and maintaining a culture of integrity is to oversee the long-term interests of the company and its stakeholders and see that value is generated in an ethical way. Its responsibilities include helping to steer corporate values and ensuring that the executive team adequately balances corporate objectives with risk management and values-led behaviour so that long-term value generation is safeguarded for all stakeholders.

A well-functioning board holds the CEO and senior leadership to account by asking the right questions, verifying that adequate checks and balances are in place to manage risk, supporting tough calls and – if necessary – changing the team if they fail to deliver against company values and stakeholder expectations. Betsy Rafael, a director at Autodesk and GoDaddy, calls this a 'noses in but hands off' tactic. The board needs to stay alert to red flags like inconsistencies, decisions that clash with values, and make sure that particularly high-stakes situations where values may be compromised 'pass the sniff test'.⁵¹

By working closely with the relevant steering group, internal audit, ethics and HR functions, the board can monitor the ethical climate of the organisation and health of the E&C programme. A good way to take the ethical pulse is to invite open-ended discussion about problems and use visits to unofficially 'kick the tyres' and 'get under the hood' of the E&C programme.⁵²

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The role of the manager

It's when values are lived consistently by every person in the company that a culture of integrity is created. Managers are responsible for embedding values through the ranks. Says RBS's Laing: 'Tone from the top is very important but not helpful if that just turns into a diktat about how you must behave. People also have to think for themselves.'⁵³

Managers are key to ensuring this happens. They serve as an essential conduit to deliver and reinforce the message in a multitude of ways to frontline employees, and have the best view and insight into real-life operational challenges that people face on the job.

“Tone from the top is fine, but what about the “muddle in the middle?” 30,000 of our 42,000 people are either blue collar or frontline. If you don't embed the culture in these people you've failed. They won't breach the bribery act in a material way, the Serious Fraud Office won't be knocking on your door, but if you don't deal with the culture here, the culture won't be right in the organisation, and things will become problematic.”

SAM AL JAYOUSI, GROUP COMPLIANCE MANAGER, CARILLION⁵⁴

As well as being a role model, their first job is to engage their team or unit in defining how the values contained in the CoC translate and apply in daily work. This means using their unique understanding of each role – and the challenges and risks that go with it – to develop clear guidelines. These will differ according to function: sales, for example, face very different sets of issues to R&D and this should be factored into guidelines.

Their second task is to set balanced key performance indicators (KPIs) that reward behaviour consistent with the company's values and don't

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put staff under unfair pressure to cut corners. Giving immediate feedback – both good and bad – is essential, along with making sure promotions reflect good performance on values and ethics metrics as well as bottom line results.

Finally, the manager needs to foster a ‘speak-up’ culture by making it clear that their door is always open for discussion, that reports will be acted on, and that no sanctions will be taken against whistleblowers. Providing regular feedback on investigations helps build this trust.

Ultimately, values are everybody’s business. The integrity of an organisation boils down to the sum of individual choices and actions of every employee. Along with modelling ‘right’ behaviours, senior leaders need to ensure that effective education and incentives are there to empower each individual to do things right.

Leadership tips

- Make high personal integrity, good character and strong alignment with your company’s values key criteria for promotion to all leadership roles.
- Bake the requirement to consistently walk the talk into management job descriptions and monitor whether their stated business objectives actively support ethical conduct throughout the organisation.

Tips for the CEO

- Keep ethics high on your CEO’s radar with excellent regular briefings, strong messaging and great stories to tell that

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show why 'how' business is done is just as important as 'what' gets done.

- Encourage the CEO to take personal interest in, and openly celebrate, great examples of ethical employee behaviour and work with them to build ownership for legacy values into management systems so culture takes hold for the long term.

Tips for the board

- Consider appointing a non-executive director with expertise in ethics or consult outside expertise to stay abreast of good practice and societal expectations. Engage publicly in efforts to create industry frameworks and good practice.
- Check that the E&C function is appropriately empowered. Keep an open door for discussion of dilemmas and trade-offs and make your support for long-term, ethical value-creation over short-term, unethical profit widely known. Be prepared to fire the leadership team if they fail to deliver.

Tips for managers

- Engage your team in tailoring ethical guidelines to each role and serve as a conduit to push messages down and send feedback up the tree from the front lines.
- Set balanced KPIs, avoid undue pressure, give immediate feedback, and foster a speak-up culture by keeping your door open, protecting whistleblowers and always reporting back.