Checklist: Building an Ethical Business

Why effective ethical codes of practice are so important, the challenges leaders face when managing company culture and the basics of implementing business ethics systems day-to-day.

THE CHALLENGE

For business, reputations are no longer based simply on products and services delivered to the customer. Now, clients, employees and society at large takes an active and vigilant interest in every business's commitment to responsible and ethical operation. And that interest can have a direct and profound effect on a company's bottom line.

Regulators are increasingly reflecting this concern: The NZX has recently codified it's requirements around the relationship between ethics and listing. The FMA (Financial Markets Authority) has also renewed its ethical initiatives. Similarly, State Services has said the Government will review New Zealand's Protected Disclosures Act, updating the 17 year-old law to keep pace with international best practice.

And the onus is on directors to respond.

IT'S NOT JUST ABOUT LAW - IT'S ABOUT CULTURE

This idea - that business and their directors have a moral obligation to act in ethical ways - is of course firmly ingrained in the popular consciousness, here in New Zealand and worldwide. And of course (almost) every company supports ethical standard in principle.

Walking the talk of ethical conduct is not as easy as it may at first appear however. Companies need to demonstrate that they can sustain ethical relationships with stakeholders across the business - from procurement to recruitment to financial reporting and beyond - but it's not about ticking regulatory boxes or complying with the letter of the law. It's about creating a company grounded in the core values that support an ethical culture - a challenge, given the fact that a culture of ethics is not always naturally present in a business.

"Ethical business leaders encourage people to make their own decisions, taking into account organisational values," states a recent New Zealand-focused report from UK-based IBE (Institute of Business Ethics), *Setting the Tone a New Zealand perspective on ethical business leadership*.

"Creative problem solving, reasoning and discretionary judgement based on ethical values needs to replace blind obedience. This gives employees the confidence to deal with situations that are not specifically covered in the 'rulebook' and supports the belief that 'doing the right thing' is the right thing to do."

"This ensures that poor, unwise or non-compliant behaviour is reported and dealt with. Speaking up is seen positively and encouraged. It enables early intervention and prevention, thus helping to keep a company's reputation intact."

Simply put, it's about creating a company culture where staff are empowered to question behaviours and raise issues with employers, encouraging employees to think for themselves and speak up when necessary.

Put another way an ethical culture in an *open* culture. But don't underestimate how difficult it can be to ensure that speaking up is seen in a positive light. That's no small feat and one that requires a strategy.

So what's required to extract and communicate the ideals embedded in ethical policies in a way that makes them tangible, visible and acted upon day-to-day?

The responsibility falls to senior business leaders - and these leaders often require guidance themselves to know how to turn a corporate ethics policy into an implementable, pragmatic project.

Bespoke [ethics training solutions](#) that lay out explicitly what is expected of senior staff and encourages individual decision-making and offer insurances to employees of guidance and support if and when the time comes to speak up about fraudulent behaviour are a key factor in the creation of an open, honest business.

Furthermore, studies show that businesses with an [internal fraud reporting hotline](#) reduce internal theft and fraud by up to 50% through early detection. The "deterrence effect" created by the presence of an independent reporting system also has considerable benefits - including compliance with NZX rules.

LEADING BY EXAMPLE

Employees look to their leaders for guidance. From the interview process to training, dispute resolution to procurement, invoicing and beyond, employees look to their superiors for cues about what's expected, what's acceptable and how ethics plays out in day to day activities.

Note: There's a distinction between a company committed to high ethical standards and the morality of the individuals working *in* that business. Anyone, under certain circumstances, can sometimes be unsure of the correct course of action to take.

Having an established code of ethics - and leaders who 'walk-the-talk' of that code - is a way of providing guidance for just such scenarios and ensuring best ethical practice day-to-day.

With a good foundation, when the crucial moment arises, employees will feel empowered to speak up, take the correct actions and feel supported in doing so.

This is leadership.

CREATING AND MAINTAINING AN ETHICAL CULTURE

We recommend four key steps for businesses looking to develop, promote and support a culture of ethics in the workplace:

1. Train staff to understand what's expected. Third party training for new and existing employees, along with regular assessment and well-understood steps for reporting problematic behaviours is the crucial first step. Establish avenues for correcting bad behaviour (consistently, directly and without hesitation) as well as systems and processes that support good behaviour (making sure that incentives are aligned with your company's core values for example). Contact us for more information.
2. Be scrupulously honest, in good times and bad. This means making a commitment to doing the right thing even when it's not expedient and setting a good example, even when things are going wrong. Employees are looking to you to set expectations and in this case actions speak very much louder than words.
3. Open the lines of communication. This mean listening, communicating clearly and honestly, and being committed to fairness with everyone you deal with. It also means creating systems that allow employees to report problematic behaviour without fear of repercussion. A third party-managed ethics reporting hotline system is recommended.
4. Written policies set out unequivocal expectations around ethics. They're your opportunity to spell out exactly what employees responsibilities are. Define exactly the characteristics you want the company to represent - honesty, fairness, transparency and respect, and promote the document internally. Make sure you link the three steps above back to this document.

Once you've laid the groundwork you'll need to put in place a system to measure successes and reveal areas for improvement. It's usually worthwhile outsourcing reporting and assessment functions to objective and impartial third parties - they can

offer you balanced advice for dealing with problems as they arise.

Finally, remember: It's not a case of one size fits all. Take this quote from Professor Karin Lasthuizen, Brian Picot Chair in Ethical Leadership,Victoria University of Wellington:

"Latest insights suggest that ethical leadership is more dependent on the context; for instance, type of organisation, public vs. private sector, cultural background."

"Different ideas among business people and customers about what it means to be an ethical leader may well lead to varying expectations about doing good, ethical, business – and vice versa; which in turn influence the actual practices and have a major impact on the reputation of and stakeholder confidence in New Zealand's businesses."

Every company (and every leader) will have a different perspective on what needs to be achieved and the best way to go about it. It is therefore crucial that expectations are made explicit in written form and demonstrated in real time, every day.

It's this demonstrativeness that's the most important. That's how ethical companies are created, and that's the nature of leadership in an ethical business.

YOU NEED A CODE OF CONDUCT

Though culture and training are both important, it's also important - essential in fact - to actually document in an unambiguous way what your ethical policies actually are. A code of conduct sets out how employees are expected to conduct themselves with honestly and with integrity and clearly defines standards of behaviour as understood within a business.

A code of ethics won't cover every eventuality that an employee might be faced with. It is therefore the purpose of the document to enhance an individual's ability to make *autonomous decisions*, act according to their best judgement and speak up when necessary.

Aligned to the principles of the people inside the business and involving all areas of the company, a good code of conduct can serve as a tool for empowering staff to take responsibility for the ethical operation of a business.

WHAT TO INCLUDE

A code of ethics should contain broad categories and specific definitions, outlining the

core mission and values of the organization as well as key requirements for dealing with everyday situations. Again, the contents of an effective code of ethics is outlined in IBE's excellent report, *Setting the Tone,* and is worth quoting at length:

The code of ethics should outline internal reporting procedures for any breach of ethics, and describe the issuer's expectations about behaviour, namely that every director and employee:

- *Acts honestly and with personal integrity in all actions;*
- *Declares conflicts of interest and proactively advises of any potential conflicts;*
- *Undertakes proper receipt and use of corporate information, assets and property;*
- *In the case of directors, gives proper attention to the matters before them;*
- *Acts honestly and in the best interests of the issuer, shareholders and stakeholders and as required by law;*
- *Adheres to any procedures around giving and receiving gifts (for example, where gifts*
- *Are given that are of value in order to influence employees and directors, such gifts*
- *should not be accepted);*
- *Adheres to any procedures about whistleblowing (for example, where actions of a whistleblower have complied with the issuer's procedures, an issuer should protect and support them, whether or not action is taken); and*
- *Manages breaches of the code.*

Having the framework in place - a set of unambiguous guidelines that spell out what's expected - along with the procedures for making and investigating reports, sets employees and management up for success. Once established the code should be communicated to employees, preferably as part of basic training, as should the consequences for noncompliance.

CONCLUSION

Creating an ethical environment is an ambitious project and requires buy-in from every employee within the business. Written policies are, by themselves, limited, but with a culture that makes doing the right thing *feel* like the right thing - as well as a regularly revised and revisited code of conduct - your employees will be well equipped to make good decisions and you'll be doing your part towards creating a culture of honesty and integrity both inside and outside the business.

REFERENCES

1. *Setting the Tone a New Zealand perspective on ethical business leadership*
2. *IoD Director Sentiment Survey*
3. *Deloitte Bribery and Corruption Survey 2017*

Report It Now works with you and your business to create a workplace culture of honesty and integrity. We combine our reporting hotline with education, support and ongoing analysis to help you achieve an ethical environment for your employees, while at the same time, encouraging them to report any misconduct in an anonymous, secure and confidential manner.

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