

Corporate integrity: governance and ethics

Notes from a seminar

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Values and culture

The key to sustainable ethical performance

Developing and embedding values-based ethics



A virtuous circle

This is a summary of a joint presentation by Jane Mitchell and Ruth Steinholtz at a corporate integrity seminar run by Norton Rose LLP.

There is a virtuous circle of good leadership, ethical culture and financial success. Developing your virtuous circle may require you to be brave.

Sustainable ethical performance is driven by values – deeply held beliefs which inform our decision-making – and not by compliance.

Leadership is key

Leaders drive the culture of their organisations in ways even they are not aware of. They present a mirror to right or wrong behaviour, decide what to fund and what to starve, and influence everyone around them in a myriad of ways.

Think of Enron. They had all the right words in their Code of Conduct but, as Jeff Skilling said, they had an aggressive culture, and he wasn't joking!

Creating a healthy values-driven culture takes time and can only happen with the commitment of senior management. If there is a gap between what leaders say and how they behave, employees will sense this and become cynical and disaffected. This is about "walking the talk": creating alignment between words and behaviour. Employees who cannot "bring their values to work" will eventually be de-motivated.

There is another kind of alignment which links the values that an organisation needs to succeed and the values of the leadership team and the individual values of employees.

The business case is unassailable

If an organisation knows which values will fuel success, understands how to develop the culture and has employees who are on the same wavelength – then there is a shared sense of purpose and the business will flourish, financially and in every other way. The more employees feel that the company is going in the right direction and feel comfortable in that environment, the better the company will do, it's that simple.

This is not a task that you delegate to a compliance department – or to any single department; everyone is part of it. Having a few policies in place will not do it. Every single employee must be involved if you want to integrate a values-driven approach into your business.

Just stating your values is not enough

Values are operating at all levels in organisations, but some, "potentially limiting values", may be causing problems unbeknownst to management. These values can be positive or negative depending on the context (hierarchy, which in some organisations could be stifling creativity and in others be necessary for success, is one example). You have to look at these values and understand what they are doing in your organisation.

There may be incentives that work against the stated values. Enron was offering bonuses of \$5 million. You must ask, do your incentives relate to stable long-term performance or to short-term boom?

There can be other obstacles. A culture of retaliation is a case in point: compliance will take the view that "we have a whistle-blowing line (so we're okay)"; but a values-driven culture will go further: "we have a whistle-blowing line and people feel comfortable about raising concerns".

It all comes back to human behaviour.

Gaps in alignment create entropy

Entropy is the amount of wasted time, energy and expense created by dysfunctional elements in the culture of an organisation. Entropy can be quantified using certain tools. One can predict, for example, whether an organisation is on the path to self-destruction. This is an indication of the need to focus on values and culture.

Which of these two organisations is likely to be more successful? Which would you want to work in? Why?

Organisation 1: employees are motivated, focused and happy. They feel empowered and appreciated and are able to voice any concerns they may have to management and each other in a spirit of continuous improvement.

Organisation 2: lacks direction. The management is always looking for someone to blame when things go wrong. Employees are cynical, unhappy and wary. They keep their nose down and don't say anything even when they see something they know will hurt the company.

The answer is not about creating a department responsible for “ethics and compliance”: everyone is responsible for ethics. Rather, it is important to close the gaps between the values that are needed for success and those that are operating in the company. Most employees in a healthy environment will want to do the right thing: shared values means that they’ll know what the right thing is. The ones who don’t will not find it a congenial place to work. And that is a good thing.

Values-based cultures are demonstrably good for the business; they attract the right people; and they provide significant protection against misconduct. This has been shown to be the case in various studies.

“Companies with anti-corruption programmes and ethical guidelines were found to suffer up to 50 per cent fewer incidents of corruption and were less likely to lose business opportunities than companies without such programmes”
Global Corruption Report 2009
Transparency International

There is a virtuous circle of good leadership, ethical culture and financial success. Developing your virtuous circle may require you to be brave. Be encouraged by the success of others and take a hard-learned lesson from their mistakes.

Think strategy, then tactics

A Code of Conduct is not the place to start embedding values in your organisation. Knowing the culture you want to encourage is your first step. Finding out how big the gap is between your existing and desired state is the crucial groundwork that you need to do before you even set about writing a Code.

Embedding an organisation’s values begins with leadership. A Code of Conduct is a framework that supports the tone that is set at the top. It demonstrates an organisation’s commitment to act in a way that is legal, decent and honest. It applies to everyone. And although employees often fall back on the notion that what happens at a corporate level is not their concern, the fact is that a code should encourage people to understand the differences and the link that exist between corporate and individual responsibility.

Words, however, are simply not enough. Well-written ethics policies and codes can be meaningless unless they are brought to life, and they should be seen as just one element in a communications toolkit which aims to embed appropriate behaviours and reinforce cultural values.

A communications toolkit could consist of any number of methods and techniques but key to any of them being effective is your own

understanding of your audience: their attitudes, their priorities, their mood. Take the time to get under the skin of your different constituents and develop your messages accordingly.

Once you know your audience and the culture they are working in, you can assess how big the gaps are between the two. If you have a misalignment, communication can fill that gap. If there is good alignment, develop tools and techniques to keep it going.

Once you’ve identified the gaps to be filled, define the objectives of your communications very clearly. Ensure that you manage and align them with all other activities in the company to make sure that you don’t create unnecessary noise which creates complexity and confusion.

In embedding your values and Code, be very clear about what you are trying to achieve and by when – don’t try to do everything at once. Take different levels of engagement of the audience one step at a time. If you don’t, people won’t understand what is important. Think strategy first, then tactics.

In the initial stages of embedding ethics and creating values-driven organisations, opening up dialogue is critical. Your communications strategy and planning should include methods for enabling this to happen at all levels in the organisation. Key to this success will be ongoing and visible commitment from leadership. Developing and implementing an effective communications strategy will help to drive and support that success.

In sum

- 1 Sustainable ethical performance is driven by values.
 - 2 Values are expressed through behaviours that make up the organisational culture.
 - 3 Values-driven cultures are good for business and worth the effort to nurture.
 - 4 Supportive leadership is crucial.
 - 5 Embedding an ethical culture requires alignment between values, goals, and systems.
 - 6 Gaps create dysfunction (entropy) which creates the conditions for ethical failures to happen.
 - 7 A Code of Conduct is only a start; words are not enough.
 - 8 Communication must be clear, consistent and ongoing.
 - 9 Think strategy, then tactics.
 - 10 Listening is a two-way process; create dialogue.
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“A global company cannot meet its obligations on ethical business conduct and manage reputational risks without a corporate policy and culture of openness and transparency.”

Woolf Report

“Someone of a consistent culture offering compelling value (to shareholders) is a better solution than someone offering compelling value and an inconsistent culture.”

Todd Stitzer
CEO Cadbury plc
2003–2010

“Tell me and I’ll forget. Show me and I’ll remember. Involve me and I’ll understand.”

Confucious

Related links

The Heart of Change, John Kotter
Cultural transformation tools (CTT)
www.valuescentre.com
Global Corruption Report, Transparency International 2009
Global Economic Crime Survey, PWC 2007
The Woolf Report, 2008
US sentencing guidelines, 2008

Speakers

Jane Mitchell

Jane Mitchell has been an internal communications professional for over 15 years, working with her clients to turn words into actions, changed behaviour and better performance.

Ruth Steinholtz

Ruth Steinholtz draws upon her in-house legal and change management experience to assist multinational companies developing business ethics programmes.

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