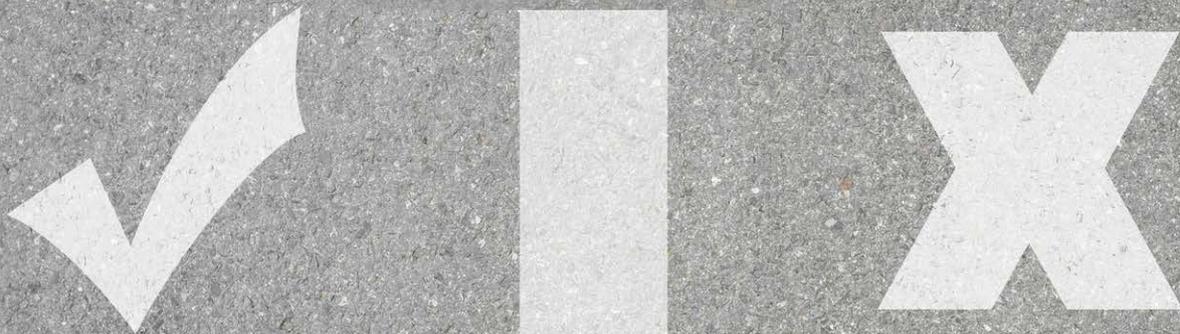# CREATING AN ETHICAL CULTURE IN YOUR ORGANISATION

– Cynthia Schoeman

In theory creating an ethical culture makes great sense and should be a high priority objective for all organisations. But in practice there are a couple of stumbling blocks to realising this goal. Firstly, organisations do not always have a clear, strong rationale as regards what organisational or business need the culture change would fulfil or what benefit it would deliver. Secondly, changing an organisation's culture - in this case to be more ethical - is widely recognised as a very difficult leadership task. Unpacking these issues is important to ensure that the pursuit of an ethical culture is not undermined.

At the outset, it is relevant to position culture within the organisational context. Since the concept of organisational culture surfaced in the late 1970s, it has been well accepted in organisations. The King IV™ Code on Corporate Governance, released in November last year, added significant further support to the importance of an ethical culture. King IV™ identifies only four good governance outcomes, of which the first is an ethical culture. This outcome is the focus of Chapter 1 of the Code, "Leadership, Ethics and Corporate Citizenship", which outlines principles and recommended practices in support of attaining an ethical culture. In particular Principle 2 states that "The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture".

What need does an ethical culture fulfil?

The primary organisational or business need that could be fulfilled by culture change derives from the definition of culture as "the way things are done around here" – because what this

definition illustrates is that culture shapes behaviour in organisations. The quest for more ethical workplace behaviour makes culture especially pertinent, to establish ethical conduct as the norm and to maintain ethical behaviour relative to internal and external stakeholders. This reason should be sufficient to position the creation and maintenance of an ethical culture as a primary goal.

But what of the situation when a company already considers the behaviour of its people to be basically ethical? The argument would typically follow that they have not experienced any major ethical scandals that gave rise to the need for action as regards the company's ethics. The absence of ethics being viewed as a problem therefore appears to invalidate the need for pursuing an ethical culture. But this attitude relies on the future being the same as the past, coupled to which, in the area of ethics a lack of attention can be seen as an opportunity for those who are not ethical.

What benefit does an ethical culture deliver?

But what of the benefit that an ethical culture can deliver? The rationale for creating an ethical culture is very persuasive.

A strong ethical culture can minimise the risk of ethical breaches and the negative costs and consequences that flow from ethical failure. The many high-profile ethical breaches reveal a wide range of costs. Companies have faced huge financial costs in the form of fines or legal settlements. Costs to reputation have ranged from eroded confidence in an organisation to a negative impact on its share price. In some instances, the cost has also led to the closure of the business.

On the positive side, an ethical culture brings the benefits of promoting ethical conduct and greater levels of compliance. Eclipsing this is the fact that a strong ethical culture creates a more trustworthy workplace. In situations of high trust organisations are likely to enjoy the advantages of better and faster decision making, greater consistency of responses and decisions, good confidence in top management action and more individual accountability with less need for policing. In an article fittingly entitled "The Most Valuable Business Commodity: Trust", David Williams, author of The 7 Non Negotiables of Winning, acknowledged that the trust we create matters most to our success. He sees trust as one of the primary "things in work, and in life, [that] are unmeasurable and without equal".

An ethical culture also lends itself to better stakeholder relationships. All stakeholders can easily recognise the benefits of dealing with an ethical organisation and they would place greater value on relationships that are characterised by, for example, honesty, fairness and respect than on less trustworthy associations.

The benefits of being recognised as an ethical organisation by external stakeholders include the ability to attract and retain top staff and board members, improved investor and market confidence, reduced cost of capital, easier access to capital, improved brand equity, and enhanced corporate reputation.

The ultimate benefit an ethical culture should deliver is to provide the organisation with a unique source of competitive advantage. Ironically, each fresh corporate scandal enhances the value of organisations seen to be ethical and makes them even more likely to be rewarded for their ethical stance.

The reasons and arguments in favour of an ethical approach are therefore both strong and sound. It therefore remains for the organisation to decide whether it leverages the need an ethical culture can deliver and values the benefits.

Is it really difficult to create an ethical culture?

The second obstacle centres on the difficulty associated with changing an organisation's culture. There are numerous reasons why it is viewed as a difficult undertaking, among them that, much like DNA, the culture of an organisation is embedded in the entire organisational system. That culture has probably also evolved over time entrenches it further.

To address this challenge necessitates a strong, integrated approach to change culture and truly embed an ethical culture. A sound ethics management system - what King IV™ refers to as "the governance of ethics" - is an optimal approach. Our model rests on the following six key pillars:
1. leadership commitment
2. ethics goal and strategy
3. ethical standards
4. ethics awareness and understanding
5. ethics recognition and reward
6. ethics assessment, monitoring and reporting.

Some of these elements are well recognised or already in place in organisations, and thus not especially difficult, while others are either addressed inadequately or not at all and consequently warrant particular attention.

1. Leadership commitment

Most, if not all, organisations would acknowledge that the commitment of the organisation's leaders is non-negotiable to realise an ethical culture, and that the success of realising this outcome depends on their active, on-going attention. This element should not be difficult – but, without this support, the culture change is likely to be limited to pockets within the organisation.

2. Ethical standards

A pillar of the ethics management system that most organisations have already addressed is codifying their ethical standards. This would typically take the form of a code of ethics or a code of conduct and supporting ethics-related policies.

The effectiveness of an organisation's ethical standards is a crucial foundation for an ethical culture that defines what is and is not acceptable. Its effectiveness rests on a number of factors, namely that the standards should be clear and well communicated, should be enforced with total equality, and (echoing point 1 above) should enjoy the unwavering commitment of leaders at all levels to the company's values and rules.

3. Ethics goals and strategy

Defining the organisation's ethics goal(s) and the supporting strategy is an important factor in pursuit of an ethical culture. Without the clarity of a stated, ideal ethical goal, the initiatives to change or improve the culture risk not being focused or aligned. As the cheshire cat so aptly said to Alice when she asked for directions in Wonderland without a destination in mind, "if you don't know where you're going, any road will do". The obvious ethics goal would be to build and maintain an ethical culture. But this is often not included in organisations' vision, mission or strategic objectives – and it needs to be.

4. Ethics awareness and understanding

Ethical awareness is generally an under-used feature of an ethics programme. But high levels of ethical awareness make a valuable contribution to building an ethical culture, not least because high levels of ethical awareness serve as an effective deterrent to misconduct. This can be achieved via innovative, interesting awareness campaigns and regular communication.

But awareness is not enough: Ethics understanding is also critical. A sound understanding of ethics is achieved in numerous ways of which training is key. Clearly the training needs to be relevant to the employees' roles, responsibilities and ethical challenges. It also needs to engage employees because the ideal outcome is not merely understanding, but a greater commitment to ethics – which is crucial for the creation of an ethical culture.

A challenge in this area is that the most effective training is face-to-face training, which incurs costs and takes time. Time should not be viewed a problem because training does not have to take the form a standard two day workshop. That's great if it's possible, but just as much can be accomplished via a series of regular short ethics conversations that can be scheduled for a few hours.

A reluctance to fund quality interventions to build and maintain a broad-based commitment to ethics among leaders and employees is a problem that undermines the pursuit of an ethical culture. While ethics training cannot claim to eliminate the risk of misconduct, it can reduce the risk. A positive perspective is to compare the cost of training with the potential cost of ethical failure.

5. Ethics recognition and reward

Given that ethical conduct is core to an ethical culture, it follows that its value should be recognised. This can easily be done using employee recognition programmes, such as employee of the month, that include ethical behaviours or ethical values among its nomination criteria.

Rewarding ethics directly is fraught with risks. It can contradict ethical practice to pay someone to be ethical. But ethics can be recognised and rewarded via the inclusion of ethical behaviours or ethical values as performance measures in a performance management system. This reinforces ethics as a facet of good performance, which in turn strengthens the company's ethical standards, maintains ethical awareness and works to shape behaviour, all of which adds support to building and maintaining an ethical culture.

6. Ethics assessment & reporting

A critical step - and a good starting point - in pursuit of an ethical culture is that ethics is regularly assessed to provide an accurate, representative picture of the organisation's ethical status. (An added bonus is that ethics assessments also meet the recommendations and requirements in King IV™ and the Companies Act Social and Ethics Committee.)

However, measuring ethics is often not done well enough, if at all. While companies measure and track other key indicators, such as sales, costs, safety or profitability, may fail to measure what matters most to overall success: ethical behaviour and the extent to which ethics is exercised to stakeholders. Like most of the factors above, this is not a difficult step.

The criteria that would determine the effectiveness of an assessment (which are met by the Ethics Monitor web-based survey) include the following:
• It should provide accurate, quantitative measures that identify the organisation's ethical strength and vulnerabilities. This allows management to focus attention on specific areas in the organisation or on the actions that are most necessary to improve ethics and address ethical risks.
• To ensure the credibility of the results, all employees should be given the opportunity to complete the assess-

ment. When the assessment includes only a small sample of employees, the validity of the results risks being queried - by management if the results are unexpectedly poor and by employees if the results are better than they experience it. Similarly, the opinion of just the board or executives does not constitute a representative view of the whole organisation.

- The tool or methodology that is used needs to assess the ethical behaviours experienced by employees in the workplace. This is likely to entrain employees' perceptions of ethics in the workplace as well which, based on the view that 'perceptions are reality', is perfectly relevant to the results. While ethics awareness is important, it is not a sufficient measurement of an organisation's ethical status since it is not necessarily an indicator of behaviour.

- The assessment tool must ensure the anonymity and confidentiality of the employees and their responses, which is vital to access their honest responses.
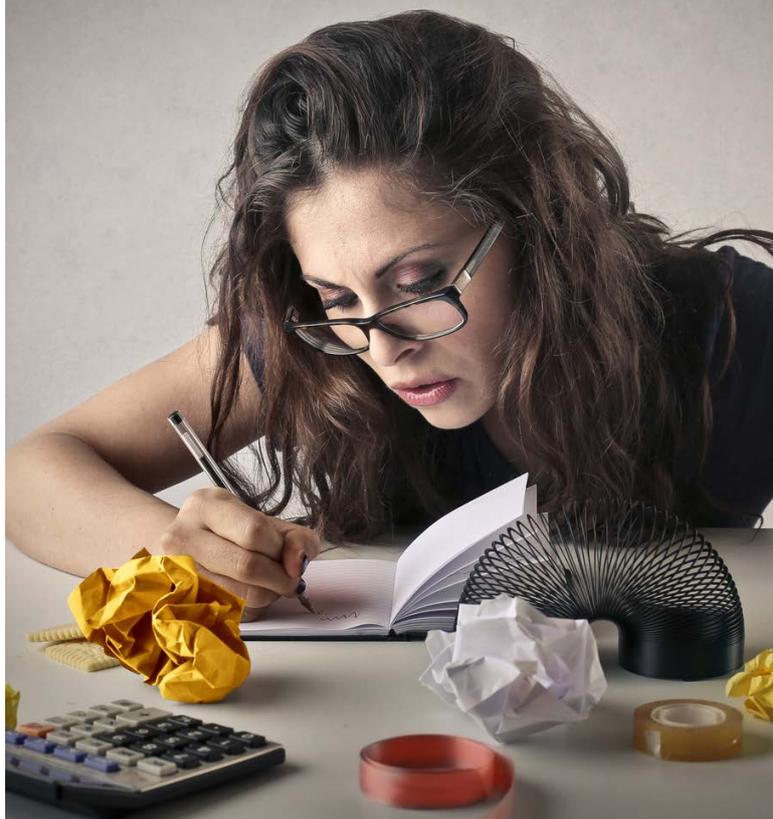
The assessment warrants being done by an independent party for the greater credibility they can provide. Adding to the detailed information the assessment should provide, the measurement of ethics also allows for accurate ethics reporting and serves as a crucial source of assurance for internal and external stakeholders.

In conclusion, the arguments against the pursuit of an ethical culture should not be viewed as obstacles. Instead organisations should focus on customizing an integrated approach based on the above six pillars of the ethics management system to realise the goal of an ethical culture.

Cynthia Schoeman is MD of Ethics Monitoring & Management Services, author of Ethics Can, Managing workplace ethics and Ethics: Giving a Damn, Making a Difference and a member of the SABPP's Ethics Committee.

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