

**Ethics & Compliance by Board of Directors
(*Gathered Articles*): A North America,
Europe, Africa, Oceania & Asia Perspective
1st Edition**

RUDOLPH.PATRICK.T.MUTESWA

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FIRST EDITION

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Articles*): A North America, Europe, Africa, Oceania
& Asia Perspective 1st Edition**

Rudolph. Patrick. T. Muteswa

BBA, BCom Honors & MCom (UKZN South Africa)

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sentence there are open and closed “...” *quotation marks* highlighting key words or words spoken by someone, the author would like to kindly inform you that the verbatim or direct word-for-word quote will only end after proper referencing of open and closed brackets has been done at the end of the verbatim sentence clearly acknowledging the name and year of the source document that has been used by the author as shown (Rudolph, 2019, www.rptmuteswa.ca.us). Furthermore, as the author of this textbook I have clearly highlighted the term ‘*Gathered Articles*’ on the book title meaning that the strategy I am using to write my book is using direct quotes I have gathered from various publications written by various authors and presenting them in a logical manner that creates a Book Chapter despite the fact that I will often at times present my own interpreted words in certain parts of the book. I was granted permission by the publishers of the information sources I obtained the information to use during my book writing process. In addition in certain instances there can be a full website link where the article or publication used in writing this textbook can be directly downloaded or viewed by the readers of this textbook for instance: during in-text referencing, the footnotes and or the bibliography section of the chapter as this enables the author of this textbook to clearly show the readers who the original owners of the published work are and also to fully acknowledge them. In addition readers please note that all the information sources used in this book are owned by the publishers/owners of the various websites, books, newspapers, magazines and journals used by the book author. Therefore readers of this textbook if you want to use any of the information from any of these referenced sources please may you directly contact the original owner(s)/publisher(s) of the information source for permission to use their information for whatever purpose you want to use it for. Readers of this textbook please be advised that all the organizations (*including the names of their executive board of directors, executive management, employees or brands*) that are cited as information sources or examples in this book are neither affiliated, sponsored nor authorized with this book and its author/publisher. **This textbook is a ‘free-of-charge’ book and it shall not be sold to any individual, entity or institution that wants to use or read it for educational, training, coaching and or library purposes.**

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PREFACE TO THE FIRST EDITION

In general morals and values in people help them to make critical decisions of determining what they think is right or wrong. The responsibility of ethics in the organization does not only lie with the ethics functional department but this duty also starts from the board of directors, CEO, COO, functional department managers, supervisors, employees and other stakeholders. When an organization is established by its founders it automatically inherits the responsibility of contributing towards societal development in one way or another and one simple way of doing so is through conducting ethical, transparent, accountable and honest business practices on a daily basis. Effective leadership drives and shapes ethical behavior in the boardroom and the entire organization. The purpose of this book is to educate readers that the adaptation of an ethics culture in the boardroom and how an ethics culture in the entire organization is now inevitable in this highly dynamic 21st century business environment in both profit-making and nonprofit making organizations. Another purpose of this book was to introduce readers to the principles of ethics, differences between ethics and business ethics and the importance of ethics guidelines such as codes of ethics. The other aim of this book was to highlight the impact of aligning ethics culture to both corporate strategy and business strategy. Lastly, another aim of this book was to contribute to the board of director and business management profession focusing on the development of ethical board of directors by publishing a free *eBook* and a *print hard copy* to empower all chairpersons, company secretaries, board of directors, CEOs, COOs, CFOs, managers, head of departments (*namely: human resources, marketing, operations & supply chain, finance, information technology, research & development, legal affairs and so on*), business executives and so on. This book specifically targeted people in the continent of Africa, North America, Europe, Oceania and Asia in order to provide them with basic knowledge about the fact that culture is the foundation of an ethics culture or mindset amongst business leaders in the boardroom or other departments of the organization via a book since a book is ‘*a source of wisdom*’ that can positively influence others to become better people in society. Furthermore, I wrote this book to help promote a culture of book writing amongst all the people of this 21st century in order to enhance knowledge sharing or academic wisdom through book publishing in both developed and developing countries to help promote ethical global economic development. I noticed that in this life we live today humanity can only progress through consistent learning or knowledge sharing and the desire for consistent learning can only be strengthened through book

writing and rigorously promoting a culture of book writing amongst all people located across the world in various career-fields.

Acknowledgement:

I would like to thank my 6 (*four brothers & two sisters*) siblings for tirelessly supporting me towards my education and personal life goals. I would also like to take this opportunity to greatly thank my late parents, aunties and uncles for the great role they played in my childhood. Furthermore, I shall forever be grateful to the great men and women in the continent of Africa, North America, Europe, Oceania and Asia who contributed in the writing of this book in particular all the named leading 'iconic' entrepreneurs, business leaders, organizations & the various information sources cited in this book.

Chapter 1: Introduction to ethics of the board

After reading this chapter you should be able to:

- Define the terms ‘ethics’, ‘business ethics’ and ‘compliance’.
- Identify the differences that exist between the terms ‘ethics’ and ‘business ethics’.
- Describe the three ethics philosophies.
- Discuss how a board can determine right & wrong. Describe the six advantages of business ethics.
- Explain the various ethical responsibilities of the board. Describe the various functions of an ethics department in an organization.

1.1 Introduction

“Part of what makes humans unique is our freedom to determine how we’ll act. Whenever we make a choice, it was possible for us to have made a different one. Ethics is only possible because we can act against our nature, based on our conscience. It stops us from simply describing what is likely to happen, and allows us to make judgements about what *should* happen. Of all the ways you might act, which is the best? Of all the possibilities, which one should you bring into reality? That’s the question ethics seeks to answer. Ethics asks us to take responsibility for our beliefs and our actions, and live a life that’s our own”¹ (The Ethics Centre, 2019, <https://ethics.org.au/why-were-here/what-is-ethics/>). The number one question most of the world’s largest corporations keep asking themselves is ‘*who will get there first?*’ in terms of being considered to be a 100% ethical & compliant organization in the global marketplace. This golden question has immensely put pressure on board of directors, CEOs and managers in organizations around the world to continuously shift their focus on re-inventing their core beliefs, principles and corporate culture to reduce their ethics and compliance risk. According to the Corporate Finance Institute (2019) by definition, *business ethics* are the moral principles that act as guidelines for the way a business conducts itself and its transactions. In many ways, the same guidelines that individuals use to conduct themselves in an acceptable way

¹ The Ethics Centre (2019) *What is Ethics?* Available from: <https://ethics.org.au/why-were-here/what-is-ethics/>

– in personal and professional settings – apply to businesses as well² (Corporate Finance Institute, 2019, <https://corporatefinanceinstitute.com>). “In general, ethics are a set of morals and principals that define what is good and bad. The implementation of business ethics begins at the top. Business leaders, directors, and CEO's have the responsibility to show good business morals. Employees will follow the lead of those in charge. If their bosses adhere to ethics, so will they. And the opposite is also true: if the leadership ranks don't use ethics as their driving force, the employees below them won't, either. You must motivate everyone in your company to have good ethics by setting a good example and defining the consequences of being unethical”³ (Upcounsel, 2019, <https://www.upcounsel.com/different-types-of-business-ethics>). The following section will deal with the definition of terms used in the field of business ethics in detail.

1.2 Definition of terms

In general the field of ethics is broad therefore numerous definitions have been developed by academics, experts and authors in the field over the past number of years. The term ‘*ethics*’ refers to a set of principles that help to shape an individual’s or an organization’s culture, thinking or mindset towards their behavior, morality, conscience and ethos on what they believe is right or wrong in general (Rudolph. Patrick. T. Muteswa, 2019). “*Ethics* defines the best option as the one which best achieves what is good, right and consistent with the nature of the things in question” (The Ethics Centre, 2019, <https://ethics.org.au/why-were-here/what-is-ethics/>). “In a business context, *ethics* involves the exercise of values – such as trust and integrity – which influence and determine the day-to-day behaviours and actions of a company. A *code of ethics* is a written set of guidelines issued by a company to its management and staff to help them conduct their behaviour and actions in accordance with its values and ethical standards” (Duffy, 2017, www.charteredaccountants.ie/). “*Code of Conduct* can refer to a listing of required behaviors, the violation of which would result in disciplinary action. In practice, used interchangeably with Code of Ethics. *Compliance* - conforming or adapting to one’s actions to

² Corporate Finance Institute (2019) *Business Ethics*. Available from:

<https://corporatefinanceinstitute.com/resources/knowledge/other/business-ethics/>

³ Upcounsel (2019) *Types of Business Ethics*. Available from: <https://www.upcounsel.com/different-types-of-business-ethics>

another’s wishes, to a rule or to necessity. A compliance code would be intended to meet all legal requirements. *Ethics culture* includes ethical leadership (tone at the top); supervisor reinforcement of ethical behavior; and peer commitment to support one another in doing right. **Credo** - fundamental beliefs (or a set of beliefs) or guiding principles”⁴ (Ethics & Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”. ‘Values’ these represent what we stand for and what we want to be associated with in terms of our core beliefs, culture and identity in general (Rudolph. Patrick. T. Muteswa, 2019). In the following section the differences that exist between ethics and business ethics will be outlined in detail.

1.3 Differences that exist between ‘ethics’ and ‘business ethics’

The words ‘ethics’ and ‘business ethics’ are often used interchangeably by many business executives around the world to mean one and the same thing. In real academic terms they are two different words and this will be clearly depicted by Table 1.1 below.

Table 1.1 Differences between ethics and business ethics

Ethics	Business ethics
Also known as general ethics	Also known as corporate ethics
“ <i>Ethics</i> are a set of morals and principals that define what is good and bad” (Upcounsel, 2019)	“ <i>Business ethics</i> - This form of ethics deals with the moral questions that arise in business settings” (Upcounsel, 2019)
Ethics is broader in scope	Business ethics is a sub-element of ethics
Ethics begins at home - family values and in general anyone can adopt ethical behavior in their day-to-day work/personal life activities	“The implementation of business ethics begins at the top. Business leaders, directors, and CEO's have the responsibility to show good

⁴ Ethics & Compliance Initiative (2019) *Ethics and Compliance Glossary: [Home/Resources/Free Ethics & Compliance Toolkit/Ethics and Compliance Glossary](https://www.ethics.org/resources/free-toolkit/toolkit-glossary/)*. Available from: <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

	business morals. Employees will follow the lead of those in charge. If their bosses adhere to ethics, so will they” (Upcounsel, 2019).
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Source: Modified: (Upcounsel, 2019, www.upcounsel.com)

Today there are many philosophies of ethics. In the following section the different ethics philosophies currently available in the business world will be briefly discussed.

1.4 Ethics philosophies/approaches

According to Acca Global (2019) ethical behaviour may be defined in terms of duties. Many philosophers have argued that certain core duties are imperatives, and as such will always apply, regardless of circumstances. *Absolutists (or dogmatists)* admit no exceptions, as these duties are believed to be sacrosanct. They often have their foundations in religion or deeply embedded values, universally accepted by society. The most common examples are the duties not to kill and to always tell the truth. This approach to ethics is sometimes called the *deontological approach* (from the Greek word ‘deon’, meaning ‘duty’). *Relativists (or pragmatists)* accept that duties are important but are prepared to admit exceptions. For example, they may argue that it is right to kill if the cause is just, or to tell a lie if the purpose is noble. So if a frail and terminally ill loved one asks ‘Am I dying?’, it may sometimes be right to lie. Ethical behaviour may also be defined in terms of *consequences*. This is sometimes referred to as the *teleological approach* (from the Greek word ‘telos’, meaning ‘the end’). Here, the right course of action is that which will result in the most acceptable outcome. Most acceptable to whom? This is dependent on the ethical stance of those who determine what is an acceptable outcome. *Utilitarians* regard the right course of action as that which will benefit the majority, or serve the ‘greater good’. In doing so, the ethical decision may disregard any impact on the minority, believing that they should defer to the greater needs and influence of the majority. On the other hand, pluralists pursue consensus in order to accommodate the needs of both the majority and the minority. Finally, egoists favour courses of action that are right for them⁵ (Acca Global, 2019,

⁵ Acca Global (2019) *A Question of Ethics*. Available from: <https://www.accaglobal.com/africa/en/student/exam-support-resources/fundamentals-exams-study-resources/f1/technical-articles/question-of-ethics.html>

<https://www.accaglobal.com/africa/en/student/exam-support-resources/fundamentals-exams-study-resources/f1/technical-articles/question-of-ethics.html>). The necessity of determining right and wrong will be clearly discussed in the following section.

1.5 Determining Right and Wrong

According to the Corporate Finance Institute (CFI) (2019) acting ethically ultimately means determining what is “right” and what is “wrong.” Basic standards exist around the world that dictate what is wrong or unethical in terms of business practices. For example, unsafe working conditions are generally considered unethical because they put workers in danger. It might look like a crowded work floor with only one means of exit. In the event of an emergency – such as a fire – workers could become trapped or might be trampled on as everyone heads for the only means of escape. While some unethical business practices are obvious or true for companies around the world, they do still occur. In other instances, determining what practices are ethical or not is more difficult to determine if they exist in a grey area where the lines between ethical and unethical can become blurred. *Understanding Business Ethics in Three Parts*. To truly break down business ethics, it’s important to understand the three basic components that the term can be dissected into.

#1 History

The first part is the history. While the idea of business ethics came into existence along with the creation of the first [companies](#) or organizations, what is most often referred to by the term is its recent history since the early 1970s. It was when the term became commonly used in the United States. The main principles of business ethics are based in academia and academic writings on proper business operations gleaned through research and practical study of how businesses function and how they operate independently and with one another.

#2 Scandals

The second major meaning behind the term is derived from its close relationship and usage when [scandals](#) occur.

#3 Integration

Perhaps, the most recent and continually developing aspect behind business ethics is the third piece – the idea that companies are building business ethics into the core of their companies,

making them the main standard and part of their [operational blueprint](#). As the world continues to grow more political – and more politically correct – the increased focus on proper business ethics and strong adherence to them becomes ever more the norm⁶ (Corporate Finance Institute, 2019, <https://corporatefinanceinstitute.com>). The next section will cover the importance of business ethics.

1.6 Importance of Business Ethics

According to Upcounsel (2019) it is important for businesses to have ethics, because of the wide-reaching impact they have on a globalized world. Businesses have a responsibility to workers, shareholders, and customers to influence their lives in a positive way. If a company takes an action that has a negative effect on others, then they also have the responsibility to fix that mistake. Adhering to business ethics isn't just a moral responsibility; it is a legal one. Many countries, including the United States, have civil and criminal laws that a business must follow in regards to operating in an ethical manner. Having no ethics can lead to moral bankruptcy, erode your customers' faith in you, and ultimately [kill your business](#)" (Upcounsel, 2019, <https://www.upcounsel.com>). "*Business Ethics Benefits*. There are obviously moral considerations for not only speaking about your ethics but also being 100% true to them – and there is a business case for having high ethics.

- attract and retain highly talented individuals
- build and maintain a positive reputation within the community
- build a stronger bond between individuals in the leadership team and this creates stability within the company
- attract investors interested in ethical organizations"⁷ (Neil Fogarty, 2017, <https://www.eskil.co/building-boardroom-ethics/>). According to the Corporate Finance Institute (2019) business ethics are important for every company. They keep workers safe, help trade and interactions between companies to remain honest and fair, and generally the making of better

⁶ Corporate Finance Institute (2019) *Business Ethics*. Available from:

<https://corporatefinanceinstitute.com/resources/knowledge/other/business-ethics/>

⁷ Neil. Fogarty. (2017) *Building Boardroom Ethics*. Available from: <https://www.eskil.co/building-boardroom-ethics/>

goods and services. Distinguishing what a company will and won't stand for is not always the same for each organization, but knowing what guidelines need to be followed helps to keep a company honest and productive⁸ (Corporate Finance Institute, 2019, <https://corporatefinanceinstitute.com>). “The benefits of business ethics go far beyond just being a moral business. There are great economic effects of being an ethical business. The relationships you create encourage people to invest both their time and resources into your company. You will spend less time managing relationships between your employees because there will be less conflict. And you will attract customers with your good reputation.

Understanding business ethics and having high ethical standards can also produce other benefits:

- Employees with high morale.
- Customer loyalty.
- Positive impacts on the community.
- Negate the risk of negative press” (Upcounsel, 2019, <https://www.upcounsel.com/>). The various ethical responsibilities of the board will be discussed in the following section.

1.7 Ethical responsibilities of the board

“Directors must understand the vital role of ethics in establishing the values and behavioural DNA of a board and its organisation. In a business context, ethics involves the exercise of values – such as trust and integrity – which influence and determine the day-to-day behaviours and actions of a company. Embedded values and ethical behaviours are hard-won company assets built up over time that can easily be destroyed by actions that are, or perceived to be, unethical. If you are considering a directorship, whether as a non-executive or an executive director, it is important that you have a good understanding of the ethics and values of a company. If you work in the company, these should be self-evident. If not, it needs to be part of your due diligence.

⁸ Corporate Finance Institute (2019) *Business Ethics*. Available from: <https://corporatefinanceinstitute.com/resources/knowledge/other/business-ethics/>

This process can include talking to current and former board members and senior executives. Once you have joined the board or are an existing board member, part of your role will be to ensure that ethics are embedded and exercised in the organisation. Company directors are responsible for setting the ethical standards and values for their organisation, and this is the most valuable asset directors can cultivate within an organisation. If these standards are embedded in the organisation, they will form the bedrock for the company's future sustainability. The process of embedding ethics and values is not an easy task, as ethics and values tend to be intangible. Yet, they must be made tangible to staff and customers for them to be real. Therefore, ethical standards and the associated behaviours must be led, developed and disseminated by the board. The board – both as a collective and as individuals – set the ethical tone from the top of the company and must ensure that it becomes part of the DNA of the company. Ethics, values and the appropriate behaviours should permeate every pore of an organisation and be reflected in its mission, vision and strategy. In this context the board's responsibilities include:

- Developing, agreeing and documenting the ethical and values framework of the company;
- Living these values as the leaders of the company;
- Supporting ethics programmes for staff at induction and on an ongoing basis; and
- Ensuring that the company lives up to its stated ethical values through appropriate monitoring mechanisms”⁹ (Duffy, 2017, <https://www.charteredaccountants.ie/Accountancy-Ireland/Articles2/Spotlight/Latest-News/ethics-and-the-role-of-the-board>). The various roles of an ethics department in an organization will be discussed in the following section.

⁹ Duffy, D. (2017) *Ethics and the Role of the Board*. Available from: <https://www.charteredaccountants.ie/Accountancy-Ireland/Articles2/Spotlight/Latest-News/ethics-and-the-role-of-the-board>

1.8 The Ethics Department and its functions in an organization

¹⁰According to the Institute of Business Ethics (2016:1) *Enhancing the Effectiveness of the Ethics Function*. Over the last 30 years, it has become the norm for organisations to encourage their staff to maintain high ethical standards of business practice. This stems from a growing consensus that firms must serve a social benefit if they are to earn a licence to operate. The challenge however, is how to best support employees in living up to the organisation's ethical values in their day-to-day business activity.

1.8.1 The role of an ethics function

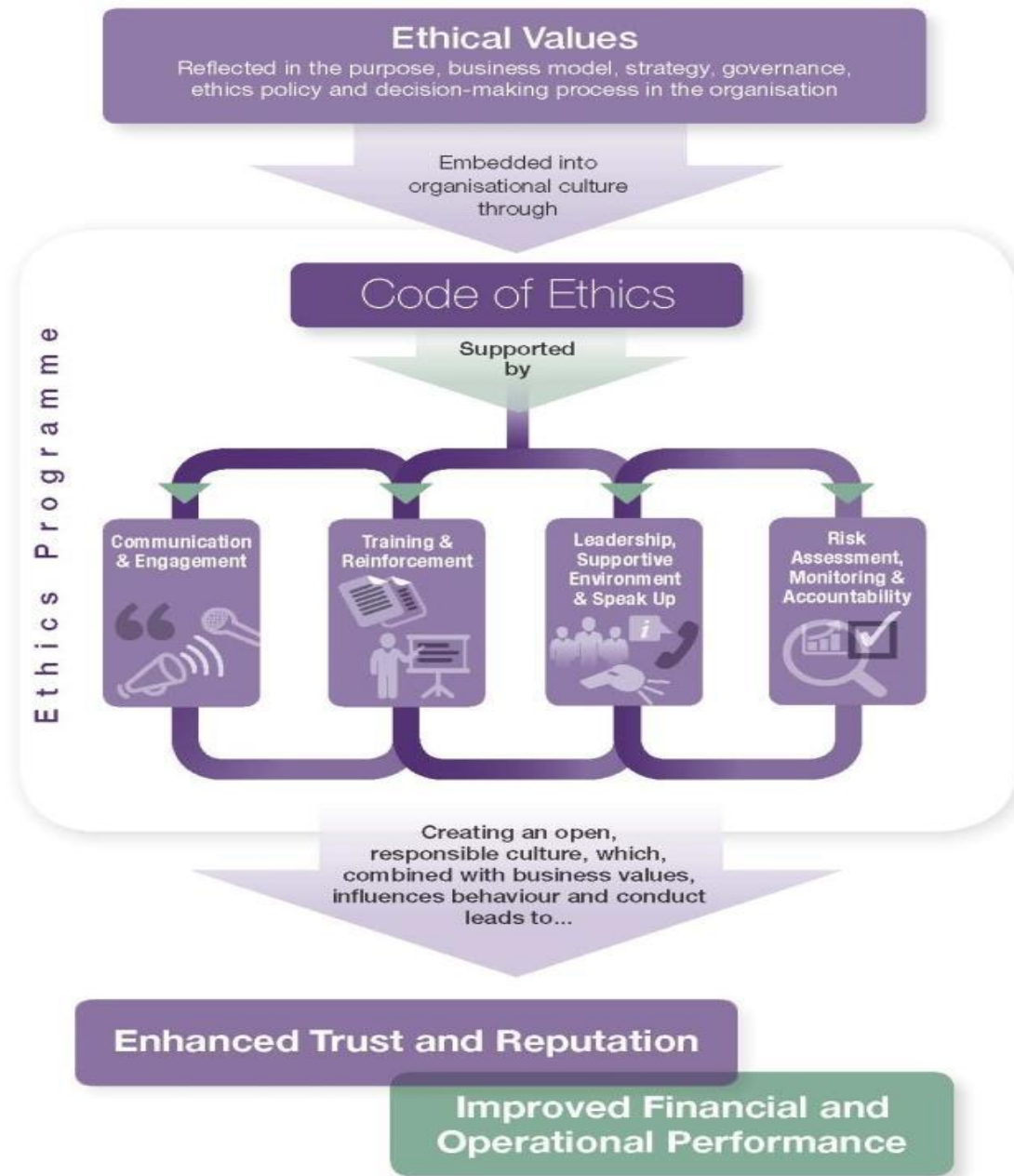
It is difficult to provide a general definition of the role and scope of the ethics function that would be applicable to all organisations. The operation of each organisation's ethics function differs according to its internal structure and the sector in which it operates. Therefore, when considering the effective management of an ethics function, the foremost priority is to define a clear mandate, spelling out the function's key responsibilities specific to a particular organisation. This is important as there is no one-size-fits-all approach to business ethics. It is imperative to set the mandate of this function to go beyond compliance. By definition, business ethics begins where the law ends. It involves discretionary decision making and relies mainly on individual responsibility and voluntary commitment. Establishing a dedicated function for dealing with ethics will reinforce the company's commitment. In particular, it communicates the idea that a compliance-based approach to rules and regulations is important but insufficient for empowering each employee and ensuring they feel responsible for promoting an ethical culture within their company. A question to ask: is compliance the ceiling you are aiming for, or the foundation which you are building on? Generally, it is recognised that the ethics function holds a vital role in ensuring that ethics is part of all business operations and that the core values are embedded and reflected in the organisation's culture. Its duty is to guide the implementation of the ethics programme which is often seen as a point of reference for employees wanting to raise concerns or ask questions when faced with an ethical dilemma. This oversight will frequently

¹⁰ Institute of Business Ethics (IBE) (2016) *Enhancing the Effectiveness of the Ethics Function*. *Business Ethics Briefing, Issue 54*. Available from: https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf [Accessed 2019, 04 August] p1-5

require the ethics function to translate the organisation's ethical values into expectations. There are a number of recurrent elements which provide organisations with an effective way to tackle corporate ethics. These are outlined in the IBE Business Ethics Framework which is based on its definition of business ethics: 'the application of ethical values to business behaviour' (see Figure 1.1)¹¹ (Institute of Business Ethics, 2016:1-5, https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf). According to the Institute of Business Ethics (2016:1-5):

¹¹ Institute of Business Ethics (IBE) (2016) Enhancing the Effectiveness of the Ethics Function. *Business Ethics Briefing, Issue 54*. Available from: https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf [Accessed 2019, 04 August] p1-5

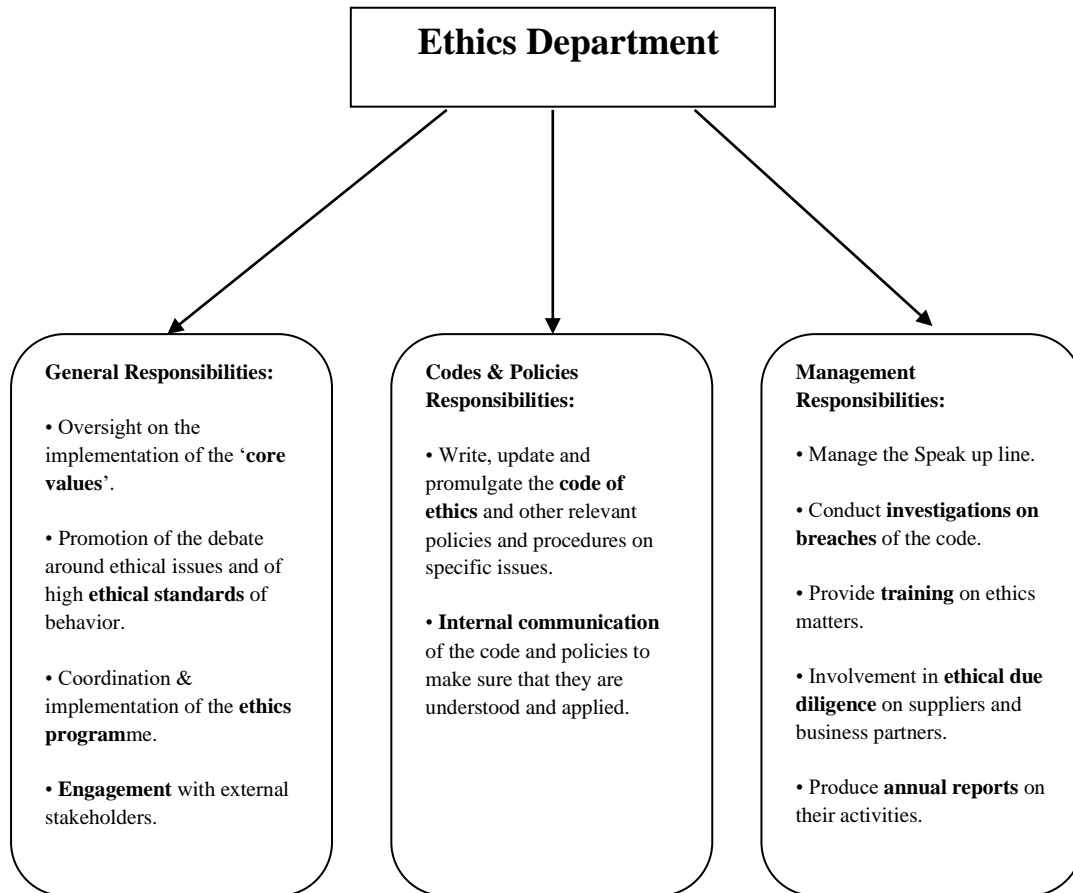
Figure 1.1: IBE Business Ethics Framework



Source: Modified: IBE, 2016:2, www.ibe.org.uk

The responsibilities of the ethics function are commonly grouped into three broad areas of responsibility: general responsibilities, code and policy responsibilities and management responsibilities (see Figure 1.2).

Figure 1.2: Responsibilities of the Ethics Function



Source: Modified: (Institute of Business Ethics, 2016:3, <https://www.ibe.org.uk/>)

1.8.2 Benefits of an ethics function

¹²According to the Institute of Business Ethics (2016:1) an effectively managed ethics function has an important role to play in helping to safeguard an organisation’s reputation, providing guidance to staff and creating a shared and consistent corporate culture. ¹³According to IBE research, these are the three most common purposes of a company’s ethics programme. Employees who indicated that their organisation provided all four common elements of an ethics programme (code, speak up line, advice line and ethics training) were more likely to agree with

¹² Institute of Business Ethics (IBE) (2016) Enhancing the Effectiveness of the Ethics Function. *Business Ethics Briefing, Issue 54*. Available from: https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf [Accessed 2019, 04 August] p1-5

¹³ IBE Survey (2013) Corporate Ethics Policies and Programmes

each of the measured indicators of an ethical culture; they further had a more positive perception of the behaviour observed in their organisation (see Figure 1.3).

Figure 1.3: Benefits of an Ethics Programme

Britain	Response rate:	
	Employer provides 'all' elements of an ethics programme	All British respondents
(Q3) Honesty practised ('always or frequently')	85%	81%
(Q4a) Awareness of misconduct ('no')	84%	79%
(Q7a) Pressure to compromise organisation's ethical standards ('no')	95%	92%
(Q6) Indicators of an ethical culture ('agree')		
<i>Management behaviour</i>		
Overall, my line manager sets a good example of ethical business behaviour	82%	71%
My line manager supports me in following my organisation's standards of ethical behaviour	83%	69%
<i>Communication of ethical standards</i>		
My line manager explains the importance of honesty and ethics in the work we do	81%	69%
Issues of right and wrong are discussed in staff meetings	76%	65%
<i>Responsible business conduct</i>		
My organisation acts responsibly in all its business dealings (with customers, clients, suppliers etc.)	86%	78%
My organisation lives up to its stated policy of social responsibility	87%	76%
<i>Enforcement of ethical standards</i>		
My organisation disciplines employees who violate my organisation's ethical standards	83%	72%

base (employer provides 'all', all British respondents) = 436, 674

Source: Modified: (Institute of Business Ethics, 2016:4, <https://www.ibe.org.uk/>)

1.8.3 Towards a more useful ethics function

An organisation's ethics function is often afforded limited resource both in terms of budget and the number of staff. Although some would describe their functions as lean, there are a number of ways in which the ethics function can make best use of its resources and maximise its impact

(Institute of Business Ethics, 2016:3, https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf). Furthermore, according to the Institute of Business Ethics (2016:3-5):

1.8.3.1 Direct access to the board of directors

Ensuring access to the very top of the organisation is vital for building traction of the ethics function. This works in two ways: first, by having the buy-in of senior leadership – at both executive and board level – the tone is set by those at the top, cascading down through the organisation and played out at different levels. This is widely cited as the greatest enabler of the ethics function¹⁴. Second, getting ethics messages heard in the boardroom is of utmost importance. Many organisations we have been in contact with suggest that being able to report directly to the board, in the absence of executive management, allows for an unfiltered upward flow of information capable of informing decision-making at the highest level.

1.8.3.2 Collaborating with other functions

Particularly in organisations where the number of employees dedicated to ethics is limited, many choose to approach the function's responsibilities in a collaborative manner, utilising the skills, experiences and resources of other departments. This may require close collaboration with subject matter experts or responsible individuals appointed from elsewhere in the business – across both business units and geographic locations. Helpful relationships can be forged with a number of different functions, depending on need. These include internal audit, corporate responsibility, legal, internal communications, compliance and human resources. This approach is best summarised by one ethics function head who described the relationship with other functions as '*independent but collaborative*'.¹⁵ Furthermore, according to the Institute of Business Ethics (2016:3-5):

¹⁴ IBE Core Series (2005) *Setting the Tone: ethical business leadership*

¹⁵ Institute of Business Ethics (IBE) (2016) Enhancing the Effectiveness of the Ethics Function. *Business Ethics Briefing, Issue 54*. Available from: https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf [Accessed 2019, 04 August] p1-5

1.8.3.3 Adopting an oversight role

Another way of managing the limited resources of an ethics function, whilst also successfully encouraging individual ethical decision making, can be to adopt an oversight role, delegating responsibility for the day-to-day management of ethical issues throughout the business. This can be achieved through empowering managers, supervisors and leaders – thereby delivering the tools to deal with issues locally. In such situations, the ethics function plays the role of resourcing management, providing the capabilities for ethical decision-making. Resources may include management toolkits, training guides and/or decision-making models. The ethics function may provide an advice line (or equivalent) where managers, and employees more broadly, can ask questions or raise concerns when faced with uncertainty. This could supplement the organisation's speak up arrangements¹⁶. Another approach found to be beneficial is the appointment of ethics ambassadors (or equivalent) throughout the business. This position may be full-time but is typically taken on in addition to an employee's existing day-to-day responsibilities. They can act as the 'eyes and ears' of the ethics function, serving as local point of contact for employees and providing a physical presence or 'face' for ethics throughout the organisation¹⁷¹⁸.

1.8.3.4 Communicate clearly

Many organisations are more used to informing rather than communicating which can pose a challenge for an ethics function. Communications from the ethics function should not be as simple as informing employees about facts, figures and procedures and checking that they are compliant. Instead, the use of true experience is found to be an effective way of getting messages across. Employees will communicate informal messages about ethics in the organisation

¹⁶ IBE Good Practice Guide (2007): *Speak Up Procedures*

¹⁷ IBE Good Practice Guide (2010): *Ethics Ambassadors*

¹⁸ Institute of Business Ethics (IBE) (2016) Enhancing the Effectiveness of the Ethics Function. *Business Ethics Briefing, Issue 54*. Available from: https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf [Accessed 2019, 04 August] p1-5

regardless of the internal communications strategy, whether they realise they are doing so or not. When defining the key messages to come from the ethics function, it is important to be clear, inclusive and accessible. Common messages from ethics functions will include a call to action, whether to speak up, read the code, or live the values. However, a common mistake is to communicate in one direction, in a way which is commanding or negative, rather than engaging employees in a constructive discussion. Poster campaigns, special events (such as ethics days), banners on the company intranet site, internal social media platforms and videos are all common ways in which positive, engaging messages can be shared¹⁹.

1.8.3.5 Monitor and measure performance

To maximise the function's effectiveness, a robust reporting framework should demonstrate how the ethics function contributes to the organisation's overarching objectives. Defining clear measures of success by making use of metrics will help to build support within the organisation. It will also help to identify the parts of the programme which require more attention. Such metrics can also provide assurances to the board. However, deciphering meaningful metrics remains a challenge. Reporting on contacts and cases raised through the organisation's speak up (whistleblowing) systems can provide valuable insights. This is particularly true of information relevant to investigations into misconduct²⁰ (Institute of Business Ethics, 2016:5, https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf).

“Other data sources which can be reported on include feedback from employee surveys or ethics-focused training courses; information gathered in due-diligence of potential suppliers or by the internal audit function as part of its assurance programme; numbers of breaches of the code; employee turnover figures; exit interview data; main achievements and improvements

¹⁹ IBE Good Practice Guide (2015): *Communicating Ethical Values Internally*

²⁰ Institute of Business Ethics (IBE) (2016) Enhancing the Effectiveness of the Ethics Function. *Business Ethics Briefing, Issue 54*. Available from: https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf [Accessed 2019, 04 August] p1-5

introduced, as well as steps taken to mitigate the most prominent ethical risks – even cases where suggested action has been absent²¹. As discussed above, there are numerous internal communication channels through which these can be disseminated to different internal stakeholder groups. The ethics function may also wish to share some of this information externally. The scope of narrative reporting is continuously increasing. It presents an opportunity for the annual report and/or the corporate responsibility report to raise awareness throughout the organisation of how seriously the board takes ethical issues and the effectiveness of the ethics function²². This notion is supported by Section 172 of the Companies Act which sets out a duty to promote the success of the company, enjoining directors to report on stakeholder interests with a long-term outlook” (Institute of Business Ethics, 2016:5, https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf). The following section will cover the conclusion of this chapter in detail.

1.9 Conclusion

In general human beings enjoy the freedom to make decisions on determining what is right or wrong and how to act. Ethics is what drives board of directors in organizations to make responsible decisions in their day-to-day activities and on all matters related to the organization since it is part of their fiduciary duty. The need to practice ethics has immensely put pressure on board of directors, CEOs and managers in organizations around the world to continuously shift their focus on re-inventing their core beliefs, principles and corporate culture to reduce their ethics and compliance risk. Different philosophers have introduced numerous approaches to ethics and some of these approaches still apply in the boardroom today. It can be concluded that organizations that have boards that uphold high ethical practices have powerful employer and corporate brand statuses in the labour market which enable them to attract and retain highly skilled knowledge workers.

1.10 Review questions

1) Define the terms ‘ethics’, ‘business ethics’ and ‘compliance’?

²¹ IBE Core Series (2006) *Living Up To Our Values: developing ethical assurance*

²² IBE Briefing (2014) *Business Ethics in Corporate Reporting*

2) Identify the differences that exist between 'ethics' and 'business ethics'?

3) Describe three ethics philosophies?

4) Discuss how a board can determine right & wrong? Discuss at least six advantages of business ethics?

5) List and explain the various ethical responsibilities of the board? Identify the various functions of an ethics department in an organization?

Chapter 2: Key components of business ethics

After reading this chapter you should be able to:

- Explain the definition of the terms ‘values’, ‘principles’ and ‘purpose’.
- Identify the key components of business ethics.
- Describe the different types of values and principles that can be found in an organizational setting.
- Discuss the different advantages of values and principles to an organization and its board.
- Outline the importance of a purpose to an organization.

2.1 Introduction

“Organizations are measured, primarily on balance sheets and perceptions: the strength of recent-past revenues, cash-in-bank, assets, revenue pipelines as well as leadership & management strength, protection against competitors, height of barriers to entry. Add to this, we have organizational culture, management philosophy and ethics. No matter the size or industry of an organization, boardroom ethics is a key determinant of long-term success. Add to this, we have organizational culture, management philosophy and ethics. No matter the size or industry of an organization, ethics is a key determinant of long-term success. Your ethics help to shape the behavior of employees: ethics guide how people conduct themselves in every aspect of their lives, including the workplace. *Values* are the things people determine to be the most important in their lives i.e. ‘I value making money’. *Morals* would tell you that robbing a bank would be an inappropriate way to pursue your value”²³ (Neil Fogarty, 2017, <https://www.eskil.co/building-boardroom-ethics/>). “Ethics is the process of questioning, discovering and defending our values, principles and purpose. It’s about finding out who we are and staying true to that in the face of temptations, challenges and uncertainty. It’s not always fun and it’s hardly ever easy, but if we commit to it, we set ourselves up to make decisions we can stand by, building a life that’s truly our own and a future we want to be a part of. At The Ethics Centre, we refer to these as ‘values’, ‘principles’ and ‘purpose’.

²³ Neil. Fogarty. (2017) *Building Boardroom Ethics*. Available from: <https://www.eskil.co/building-boardroom-ethics/>

- *Values tell us what's good* – they're the things we strive for, desire and seek to protect.
- *Principles tell us what's right* – outlining how we may or may not achieve our values.
- *Purpose is your reason for being* – it gives life to your values and principles”²⁴ (The Ethics Centre, 2019, <https://ethics.org.au/why-were-here/what-is-ethics/>). The definition of values and principles will be covered in the following section.

2.2 Definition of terms

The three terms that will be defined in this chapter include: values, principles and purpose. “*Values* are basic and fundamental beliefs that guide or motivate attitudes or actions”²⁵ (Mintz, 2018, www.ethicssage.com/). ²⁶Davis (2019) states that ‘our values inform our thoughts, words and action’ (Davis, 2019, www.valuescentre.com). A *principle* refers to a rule, norm, a habitual belief that shapes behavior in a manner that upholds what an individual, society or organization strongly values (Rudolph. Patrick. T. Muteswa, 2019). Several academics and leading industry experts in various career-fields have defined the term ‘purpose’ over the past number of years. In general a *purpose* refers to the desired outcome that clearly identifies why individuals, organizations or society does something and or why something exists (Rudolph. Patrick. T. Muteswa, 2019). In the next section the key components of business ethics will be covered.

2.3 Key components of business ethics

“There are many different types of business ethics that professionals should be familiar with. Also known as corporate ethics, business ethics regulate the way that businesses conduct themselves and provide guidelines for behaving in positive, moral ways. Business ethics have [various components](#) that govern how businesses and companies should operate. Some of those components include the following:

- Trustworthiness and solidarity.
- Respect and responsibility.
- Fairness and equality.

²⁴ The Ethics Centre (2019) *What is Ethics?* Available from: <https://ethics.org.au/why-were-here/what-is-ethics/>

²⁵ Mintz, S. (2018) *What are Values*. Available from: <https://www.ethicssage.com/2018/08/what-are-values.html>

²⁶ Davis, J. (2019) *Why Values Are Important*. Available from: <https://www.valuescentre.com/values-are-important/>

- Caring and dialogue.

These [key components](#) should be taken into consideration when developing a business ethics plan. They will create a strong foundation for your business so that you can operate in a moral way. Bringing trustworthiness and honesty to all of your communications and actions will encourage your customers to continue giving you their business. Your customers will feel appreciated when you take responsibility for your actions and operate in a fair and caring manner. Keeping your word also proves your trustworthiness. All the members of a business should know that they are important and have the opportunity to succeed. But employees should also prove they have integrity through their words and actions. Character matters in business. When interacting with customers and employees, it's imperative to be fair and just. Never take advantage of other people's mistakes, and treat all people equally”²⁷ (Leonard, 2019; Upcounsel, 2019, <https://www.upcounsel.com/different-types-of-business-ethics>). The following section will cover the different types of values and principles.

2.4 Types of values and principles

In an organizational setting such as a boardroom there are different types of values and principles. These will be depicted in Table 2.1 below.

Table 2.1 Types of values and principles in an organizational setting

Values	Principles
<p>²⁸According to Davis (2019) there are <i>four types</i> of values that we find in an organizational setting: individual values, relationship values, organizational values and societal values.</p> <p><i>Individual values</i></p> <p>Individual values reflect how you show up in your life</p>	<p><i>“No Strain, No Gain.</i> That’s probably the most valuable lesson I’ve learned. Don’t shy away from hard things. Instead, train yourself to become a person that can endure difficulties. Physically <i>and</i> mentally. The cliché is 100% true: No strain, no gain. If you don’t strain your muscles, they get weak. If you don’t strain your brain, your</p>

²⁷ Upcounsel (2019) *Different Types of Business Ethics*. Available from: <https://www.upcounsel.com/different-types-of-business-ethics>

²⁸ Davis, J. (2019) *Why Values Are Important*. Available from: <https://www.valuescentre.com/values-are-important/>

<p>and your specific needs-the principles you live by and what you consider important for your self-interest.</p> <p>Individual values include: <i>enthusiasm, creativity, humility and personal fulfilment.</i></p> <p><i>Relationship values</i></p> <p>Relationship values reflect how you relate to other people in your life, be they friends, family or colleagues in your organization. Relationship values include: openness, trust, generosity and caring.</p> <p><i>Organizational values</i></p> <p>Organizational values reflect how your organization shows up and operates in the world. Organizational values include: <i>financial growth, teamwork, productivity and strategic alliances.</i></p> <p><i>Societal values</i></p> <p>Societal values reflect how you or your organization relates to society. Societal values include: <i>future generations, environmental awareness, ecology and sustainability</i> (Davis, 2019, https://www.valuescentre.com/values-are-important/).</p>	<p>cognitive ability will decline. If you don't test your character, you become spineless"²⁹ (Darius Foroux, 2016, https://dariusforoux.com/).</p> <p><i>“Avoid Negativity At All Cost.</i> It's best to avoid negativity. At all cost” (Darius Foroux, 2016, https://dariusforoux.com/).</p> <p><i>“Give More Than You Take.</i> Instead of always focusing on what you want from the world, start thinking about what you have to offer. Life is not about taking. Please, do yourself a favor, and start giving more. But don't be surprised if you also receive more. Helping others is the most important thing you will ever do in your life” (Darius Foroux, 2016, https://dariusforoux.com/).</p> <p><i>“Time Is More Valuable Than Money.</i> Out of all the resources in the world, time is the most valuable resource you have. Be more selective with your time. Don't squander it like you can always get it back. Once you spend time, it's lost forever” (Darius Foroux, 2016, https://dariusforoux.com/).</p> <p><i>“Create Your Own Path.</i> We look at others and view them as examples. Fathers, mothers, brothers, sisters, friends, bosses, mentors, authors, entrepreneurs, artists. But here's the catch: You're not all those people. You are you. That means one simple thing: Get off the beaten path, and create your own. Of course, traveling the road that has been paved by others is much easier. But it's not fulfilling. And accomplishment weighs more than money, status, and even comfort. Don't be afraid to go into an unknown direction. Go places where</p>
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²⁹ Darius Foroux (2016) *The Principles Of Life That Everyone Knows, But Only A Few Follow*. Available from: <https://dariusforoux.com/principles-of-life/>

	<p>people have never been before” (Darius Foroux, 2016, https://dariusforoux.com/).</p> <p><i>“Do Whatever Life Expects Of You.</i> Look, life is random. Things are what they are. Look at it this way: Regardless of where you are in life, you are there for <i>some</i> reason. It doesn’t matter what it is. But when life expects something from you, show up and play your part” (Darius Foroux, 2016, https://dariusforoux.com/).</p> <p><i>“Life Moves In One Direction.</i> You can live in three different time dimensions in your head.</p> <ul style="list-style-type: none"> • The past • The future • The present <p>If you live in the past, you’re stuck in ‘why’ mode. That means you always think about why things happened. That’s a recipe for unhappiness. If you live in the future, you live in ‘what if’ mode. That state of mind causes anxiety about everything that MIGHT happen in the future. Again, that’s a recipe for living a timid life. You also know that there’s only one ACTUAL time dimension; <i>the present</i>. One thing that has helped me let go of the past and future is to understand this: Life keeps moving forward — it doesn’t care what I think or do, so I might as well not waste my time on stuff I can’t control. If you look at it from a practical point of view, it doesn’t make sense to question the things that happen in our life — we just have to keep moving forward” (Darius Foroux, 2016, https://dariusforoux.com/).</p>
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Sources: Modified: (Davis, 2019, www.valuescentre.com) & Darius Foroux, 2016, <https://dariusforoux.com/>).

In the next section the advantages of values and principles to an organization will be discussed in-depth.

2.5 Advantages of values and principles to an organization and its board

There are numerous advantages that are enjoyed by an organization and its board as a result of having strong ethical values and principles. These will be depicted in Table 2.2 below.

Table 2.2 Advantages of values & principles to an organization & its board

Values	Principles
<p><i>They help the organization grow & develop</i> – “our values are important because they help us to grow and develop. They help us to create the future we want to experience. Every individual and every organization is involved in making hundreds of decisions every day. The decisions we make are a reflection of our values and beliefs, and they are always directed towards a specific purpose. That purpose is the satisfaction of our individual or collective (organizational) needs. <i>When we use our values to make decisions, we make a deliberate choice to focus on what is important to us. When values are shared, they build internal cohesion in a group</i>”³⁰ (Davis, 2019, https://www.valuescentre.com/values-are-important/).</p> <p><i>They help guide or motivate attitude or actions</i> – “values are basic and fundamental beliefs that guide or motivate attitudes or actions. They help us to determine what is important to us. Values describe the personal qualities we choose to embody to guide our actions; the sort of person we want to be; the manner in which we treat ourselves and others, and our interaction with the world around us. They provide the general guidelines for conduct. Values in a narrow sense is that which is good, desirable, or worthwhile. Values are the motive behind purposeful action. They are the ends to which we act and come in many forms” (Mintz, 2018,</p>	<p><i>They protect the organization from breaking the law</i> – in general principles are related to rules and it is an obvious fact that ‘world order’ is created when society follows rules. Organizations must adhere to various legal legislation in the countries they operate and when board members and employees adhere to rules in all their decisions, actions and responsibilities they help protect the organization from breaking the law. Thus, when an organization incurs low legal costs it improves its financial performance therefore principles are the backbone of success in an organization.</p> <p><i>They promote ethical behavior</i> – when board members and senior management follow rules in an organization they subconsciously program their minds to consistently do the right thing in each and every action, decision and task they conduct at the workplace on a daily basis. Principles help to reinforce a character of good ethical practices in the organization.</p> <p><i>They help to reinforce honesty</i> – principles help to create a culture of honesty amongst board members and senior management. When people follow rules in an organization they naturally open up to adopting a culture of honesty and building integrity in the way they carryout their daily activities at the workplace.</p>

³⁰ Davis, J. (2019) *Values are Important*. Available from: <https://www.valuescentre.com/values-are-important/>

<https://www.ethicssage.com/2018/08/what-are-values.html>).

They are essential to ethics – “values are essential to ethics. Ethics is concerned with human actions, and the choice of those actions. Ethics evaluates those actions, and the values that underlie them. It determines which values should be pursued, and which shouldn't. Some values stand up well over the test of time; they are always good or rightful behavior. Honesty and kindness are two such examples”³¹ (Mintz, 2018, <https://www.ethicssage.com/2018/08/what-are-values.html>).

Sources: Modified: (Davis, 2019, www.valuescentre.com)

In the following section the importance of a purpose to an organization will be covered.

2.6 Importance of a purpose to an organization

³²Generally a mission statement equals the purpose of the organization's formation by its founders when it started its day-to-day operational activities.³³According to Shirley (2016) **5 Benefits of the Purpose Driven Workplace:**

- *Knowing the Mission Defines the Path.* When a business clearly establishes their purpose, or mission, everyone knows what is important. Employees at all levels will have an easier time making decisions and setting priorities, because they have an unmistakably defined purpose. Purpose ‘makes employees feel like they belong’. By identifying and aligning with a purpose, a business gives their employees a clear message about the company's culture and principles.
- *When employees understand their company's purpose, they are more likely to support the organization and experience a sense of fitting in.* This loyalty will ensure longevity. Employees

³¹ Mintz, S. (2018) *What are Values*. Available from: <https://www.ethicssage.com/2018/08/what-are-values.html>

³² Wolfe, L. (2019) *The Importance of Having a Mission Statement*. Available from: <https://www.thebalancecareers.com/the-importance-of-having-a-mission-statement-3515710>

³³ Shirley, S. (2016) *5 Benefits of The Purpose Driven Workplace*. Available from: <https://www.factorydirectpromos.com/blog/5-benefits-of-the-purpose-driven-workplace/>

of companies that dedicate resources to purpose, experience less turnover. This statement is especially true for millennials. Retaining key employees allows a company to build strong working relationships.

- *Improved Customer Engagement.* When a company is up front about their purpose it helps them stand apart from their competitors. Having a clear purpose makes it easy to start a conversation with customers and potential customers alike. Many people also like to support companies that care about doing good.
- *Give Your Strategic Alignment Purpose.* The first step to establishing alignment is to have a clear purpose. Once you know what you want your business to stand for, you and your staff can align everything else around that purpose. You can optimize processes and employee's contributions and set performance goals to alignment around your purpose.
- *Get Metrics Around Your Purpose.* You want to put your employees in a position where they can do their best work and align their strengths with your company's purpose. Survey employees to assess how they feel about the company's stated purpose, and use this data to match employees to the tasks and responsibilities that best fit their strengths and help to achieve the company's purpose (Shirley, 2016, <https://www.factorydirectpromos.com/blog/5-benefits-of-the-purpose-driven-workplace/>). In the following section an example of an organization with a remarkable 'Purpose, Values & Principles Statement'.

2.7 An example of a leading global organization with a remarkable 'Purpose, Values & Principles Statement'

A typical good example of the world's most well known corporate and employer brand that has a remarkable '*Purpose, Values & Principles Statement*' is multinational consumer goods manufacturer Procter & Gamble, headquartered in Cincinnati, Ohio, USA producers of personal care, grooming, hair care, baby diapers and feminine hygiene brands that include, Pampers, Always, Head & Shoulders, Pantene, Ariel, Gillette (razors, shaving cream, after-shave, shampoo, deodorants and so on), Vicks (cough & cold medicines) and many others³⁴ (Procter & Gamble, 2015). The Procter & Gamble remarkable '*Purpose, Values & Principles Statement*' is depicted in Table 2.3 below.

³⁴ Procter & Gamble (2019) *Purpose, Values and Principles*. Available from: <https://us.pg.com/policies-and-practices/purpose-values-and-principles/>

Table 2.3 Purpose, Values and Principles of Procter & Gamble

<p>Taken together, our Purpose, Values and Principles are the foundation for P&G’s unique culture. Throughout our history of over 181 years, our business has grown and changed while these elements have endured, and will continue to be passed down to generations of P&G people to come. Our Purpose unifies us in a common cause and growth strategy of improving more consumers’ lives in small but meaningful ways each day. It inspires P&G people to make a positive contribution every day. Our Values reflect the behaviors that shape the tone of how we work with each other and with our partners. And Our Principles articulate our unique approach to conducting work every day.</p> <p>OUR PURPOSE</p> <p>We will provide branded products and services of superior quality and value that improve the lives of the world’s consumers, now and for generations to come. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper.</p> <p>OUR VALUES</p> <p>Integrity</p> <p>We always try to do the right thing.</p> <p>We are honest and straightforward with each other.</p> <p>We operate within the letter and spirit of the law.</p> <p>We uphold the values and principles of P&G in every action and decision.</p> <p>We are data-based and intellectually honest in</p>	<p>OUR PRINCIPLES</p> <p>We show Respect for All Individuals</p> <p>We believe that all individuals can and want to contribute to their fullest potential.</p> <p>We value differences.</p> <p>We inspire and enable people to achieve high expectations, standards and challenging goals.</p> <p>We are honest with people about their performance.</p> <p>The Interests of the Company and the Individual Are Inseparable</p> <p>We believe that doing what is right for the business with integrity will lead to mutual success for both the Company and the individual.</p> <p>Our quest for mutual success ties us together.</p> <p>We encourage stock ownership and ownership behavior.</p> <p>We Are Strategically Focused in Our Work</p> <p>We only do work and only ask for work that adds value to the business.</p> <p>We simplify, standardize and streamline our current work whenever possible.</p> <p>Innovation is the Cornerstone of Our Success</p> <p>We place great value on big, new consumer innovations.</p> <p>We challenge convention and reinvent the way we do business to better win in the marketplace.</p> <p>We Value mastery</p> <p>We believe it is the responsibility of all individuals to continually develop themselves and others.</p> <p>We encourage and expect outstanding technical mastery and executional excellence.</p>
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<p>advocating proposals, including recognizing risks</p> <p>Leadership</p> <p>We are all leaders in our area of responsibility, with a deep commitment to delivering leadership results.</p> <p>We have a clear vision of where we are going.</p> <p>We focus our resources to achieve leadership objectives and strategies.</p> <p>We develop the capability to deliver our strategies and eliminate organizational barriers.</p> <p>Ownership</p> <p>We accept personal accountability to meet our business needs, improve our systems and help others improve their effectiveness.</p> <p>We all act like owners, treating the Company’s assets as our own and behaving with the Company’s long-term success in mind.</p> <p>Passion for Winning</p> <p>We are determined to be the best at doing what matters most.</p> <p>We have a healthy dissatisfaction with the status quo.</p> <p>We have a compelling desire to improve and to win in the marketplace.</p> <p>Trust</p> <p>We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.</p> <p>We have confidence in each other’s capabilities and intentions.</p> <p>We believe that people work best when there is a foundation of trust.</p>	<p>We Seek to Be the Best</p> <p>We strive to be the best in all areas of strategic importance to the Company.</p> <p>We benchmark our performance rigorously versus the very best internally and externally.</p> <p>We learn from both our successes and failures.</p> <p>We Are Externally Focused</p> <p>We develop superior understanding of consumers and their needs.</p> <p>We create and deliver products, packaging and concepts that build winning brand equities.</p> <p>We develop close, mutually productive relationships with our customers and our suppliers.</p> <p>We are good corporate citizens.</p> <p>We incorporate sustainability into our products, packaging and operations.</p> <p>Mutual Interdependency is a Way of Life</p> <p>We work together with confidence and trust across business units, functions, categories and geographies.</p> <p>We take pride in results from reapplying others’ ideas.</p> <p>We build superior relationships with all the parties who contribute to fulfilling our Corporate Purpose, including our customers and suppliers, universities and governments.</p>
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Sources: Modified: (Procter & Gamble, 2019, <https://us.pg.com/>).

The conclusion of this chapter will be covered in the following section.

2.8 Conclusion

Business ethics is comprised of various elements and the key elements include: values, principles, purpose, trustworthiness and honesty. Values help an organization to determine its desirable future. Principles empower an organization to abide to national laws in the country it conducts its business operations since they are more concerned about following rules. It can be concluded that board of directors and senior management's ethics is shaped and driven by values, principles, purpose, trustworthiness and honesty. On the other hand ethics helps board of directors and senior management to consistently redefine and uphold their values, principles and purpose at the workplace.

2.9 Review questions

- 1) What is the meaning of the terms 'values', 'principles' and 'purpose'?
- 2) Explain the key components of business ethics? Describe the different types of values and principles that can be found in an organizational setting?
- 3) Discuss three advantages of values and principles to an organization and its board?
- 4) Explain in-depth the importance of a purpose to an organization?
- 5) Describe a 'Purpose, Values and Principles Statement' and please give an example of a leading global organization with a remarkable 'Purpose, Values & Principles Statement'?

Chapter 3: Purpose of a Code of Ethics

After reading this chapter you should be able to:

- Explain the meaning of the terms ‘code of ethics’ and a ‘code of conduct’.
- Discuss the brief history of a ‘code of ethics’.
- Outline the differences between a code of ethics & a code of conduct.
- Describe the advantages of a code of ethics and a code of conduct.
- Identify the steps a board can use to write a good code of ethics.

3.1 Introduction

Generally a guideline of principles that enable an organization to shape the behavior of its employees, board of directors and senior management at the workplace is of utmost importance for its long term success. A desirable boardroom is whereby the board of directors are fully knowledgeable of the professional conduct that is considered to be highly acceptable and effective towards assisting the organization in achieving its set goals and objectives. Boards that set a guideline of principles they must abide by are more likely to easily introduce an ethics and innovation culture in the boardroom and the organization as a whole. Most of the organizations around the world operating in this modern day business environment have well crafted code of ethics and codes of conduct they have adopted and provided to their board of directors, business executives, managers and employees in the form of handbooks or downloadable emailed attachment files. The ability to know what is right or wrong in the form a handbook is the greatest gift an organization can provide its board of directors, business executives, managers and employees since it enables them to avoid engaging in activities such as indiscipline, corruption, fraud and so on at the workplace. When board of directors, managers and employees spend a lot of time upholding good ethical practices in the organization this helps to enhance the organization’s corporate image in the market with customers, performance and growth objectives. The following section will cover the definition of the terms ‘code of ethics’ and ‘code of conduct’.

3.2 Definition of terms

In the business dictionaries there are many definitions of the terms ‘code of ethics’ and ‘code of conduct’ therefore at the end of the day an organization’s board of directors have to ensure that they choose to adopt definitions they believe are in direct alignment with their mission statement, vision statement, corporate culture and ethics culture. “A *code of ethics* is a written set of guidelines issued by a company to its management and staff to help them conduct their behaviour and actions in accordance with its values and ethical standards”³⁵ (Duffy, 2017, www.charteredaccountants.ie/). “*Code of Conduct* can refer to a listing of required behaviors, the violation of which would result in disciplinary action. In practice, used interchangeably with Code of Ethics” (Ethics & Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”. In the following section the brief history of code of ethics will be covered in detail.

3.3 History of ‘code of ethics’

“*A (Brief) History of Codes of Ethics*. Formalized codes to dictate ethical behavior began to rise to prominence in corporations and government in the 1980s as a response to increasing instances of corruption and wrongdoing on the part of such institutions. Wide-ranging in content, these early codes promised fair business practices and responsible treatment of employees. Although designed primarily to address or head off public concerns about government and corporate misdeeds, they also had the effect of standardizing corporate and government behavior in an ethical direction. A 1989 analysis of the content of 150 corporate codes of ethics found that many contained elements detailed in the list below:

- Provisions about corporate treatment of employees
- Guidance for inter-employee relationships
- Treatment of “whistle-blowers”
- Definition and prevention of bribery and conflicts of interest

³⁵ Duffy, D. (2017) *Ethics and the Role of the Board*. Available from: <https://www.charteredaccountants.ie/Accountancy-Ireland/Articles2/Spotlight/Latest-News/ethics-and-the-role-of-the-board>

- Regulations for employees' political action and contributions

This analysis found, however, that these codes rarely regulated elements such as a corporation's impact on the environment or compliance with anti-trust laws. However, a more recent (2004) analysis that expanded its scope to include multinational business corporations found that more than half of these codes included some verbiage about the corporation's ethical obligation to the environment. This change demonstrates an evolution in codes of ethics that parallels contemporary issues in society. Other common elements of codes of ethics examined in 2004 included product quality, following applicable laws/regulations, and transparency. Highly situational, corporate codes of ethics often depend on the company or institution for which they are created"³⁶ (Page Centre Training.psu.edu, Pennsylvania State University, 2019, <https://pagecentertraining.psu.edu/>). The following section will cover the differences that exist between a code of ethics and a code of conduct.

3.4 Differences between a code of ethics & a code of conduct

Most of the organizations and boards often fall under the impression that a code of ethics and a code of conduct/professional are similar whilst in real academic terms they mean two different things. Accurate decisions and behavior by board of directors are consistently made via the provision of accurate and detailed facts thus it is critical for all board of directors to be fully knowledgeable of the differences that exist between a code of ethics and a code of conduct. The various differences that exist between a code of ethics statement and a code of conduct/professionalism in an organization will be depicted in Table 3.1 below.

³⁶ Page Centre Training.psu.edu, Pennsylvania State University (2019) *A Brief History of Code of Ethics*. Available from: <https://pagecentertraining.psu.edu/public-relations-ethics/professional-codes-of-ethics/lesson-1-some-title-goes-here/a-brief-history-of-codes-of-ethics/>

Table 3.1 The Differences Between a Code of Ethics & a Code of Conduct

Code of Ethics	Code of Conduct
<ul style="list-style-type: none"> • “A code of ethics is broad, giving employees or members a general idea of what types of behavior and decisions are acceptable and encouraged at a business or organization”³⁷ (Betterteam, 2019, www.betterteam.com). 	<ul style="list-style-type: none"> • “A code of conduct is more focused. It defines how employees or members should act in specific situations” (Betterteam, 2019, www.betterteam.com).
<ul style="list-style-type: none"> • A code of ethics, or professional code of ethics, is usually a set of general guidelines or values (Betterteam, 2019, www.betterteam.com). 	<ul style="list-style-type: none"> • A code of conduct policy is typically more specific, giving guidelines for how to respond in certain situations (Betterteam, 2019, www.betterteam.com). A code of conduct example would be a rule expressly prohibiting accepting or offering bribes (Betterteam, 2019, www.betterteam.com).

Sources: Modified: (Betterteam, 2019, www.betterteam.com)

The various advantages of crafting a code of ethics and a code of conduct in an organization and its board will be discussed in-depth in the following section.

3.5 Advantages of a code of ethics and code of conduct

Nowadays most of the organizations are enjoying several advantages associated with good corporate governance and strong ethics culture as a result of drafting effective codes of ethics and codes of conduct statements or documents.^{38 39}“Regardless of whether your organization is

³⁷ Betterteam (2019) *Code of Ethics and Professional Conduct*. Available from: <https://www.betterteam.com/code-of-ethics-and-professional-conduct>

³⁸ Ethics & Compliance Initiative (2019) *Code of Conduct*. Available from: <https://www.ethics.org/resources/free-toolkit/code-of-conduct/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

³⁹ Ethics Resource Center (2003) *Creating a Workable Company Code of Ethics: A Practical Guide to Identifying and Developing Organizational Standards Paperback – June*. Ethics Resource Center, pp. 3-4 and 6-9.

legally mandated to have a code of conduct (as public companies are), every organization *should* have one. A code has value as both an internal guideline and an external statement of corporate values and commitments. A well-written code of conduct **clarifies an organization’s mission, values and principles**, linking them with standards of professional conduct. The code articulates the values the organization wishes to foster in leaders and employees and, in doing so, defines desired behavior. As a result, written codes of conduct or ethics can become **benchmarks** against which individual and organizational performance can be measured. Additionally, a code is a **central guide and reference for employees** to support day-to-day decision making. A code encourages discussions of ethics and compliance, empowering employees to handle ethical dilemmas they encounter in everyday work. It can also serve as a valuable reference, helping employees locate relevant documents, services and other resources related to ethics within the organization. Externally, a code serves several important purposes:

- *Compliance*: Legislation (i.e., the Sarbanes-Oxley Act of 2002) requires individuals serving on boards and organizational leaders of public companies to implement codes or clearly explain why they have not⁴⁰.
- *Marketing*: A code serves as a public statement of what the company stands for and its commitment to high standards and right conduct.
- *Risk Mitigation*: Organizations with codes of ethics, and who follow other defined steps in the U.S. Sentencing Commission’s Federal Sentencing Guidelines, can reduce the financial risks associated with government fines for ethical misconduct by demonstrating they have made a “good faith effort” to prevent illegal acts”⁴¹ (Ethics & Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/code-of-conduct/>). “© 2019 Ethics & Compliance

⁴⁰ United States of America.gov, *Sarbanes-Oxley Act of 2002* cited in the US Library of Congress (2019) 07/30/2002 *Became Public Law No: 107-204*. Main website link: <https://www.congress.gov/bill/107th-congress/house-bill/3763>
The PDF Download website link Available from: <https://www.congress.gov/bill/107th-congress/house-bill/3763>
[Accessed 2019, 10 October]

⁴¹ Ethics Resource Center (2003) *Creating a Workable Company Code of Ethics: A Practical Guide to Identifying and Developing Organizational Standards Paperback* – June. Ethics Resource Center, pp. 3-4 and 6-9.

Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org". ⁴²“*What a Code Can Help to Accomplish*. A quality code of conduct can go a long way in improving a company’s success. Companies that view a code merely as a way to communicate legal rules miss much of the value that a code can provide. A well-developed code can help a company to:

- Prevent legal and regulatory violations. This is the first objective that most companies attach to a code of conduct. When violations do occur, a code can help to detect them and mitigate their effects.
- Foster greater employee loyalty and retention. When employees feel included and engaged in the company’s culture and success, they feel more committed.
- Encourage greater customer loyalty and retention. When customers learn about and then experience in practice a company’s high standards of conduct, customers are more likely to show their appreciation.
- Build stronger relationships with suppliers and other business partners. As with employees, the more that they understand what the company expects of them – and what they can expect from the company – the stronger the alliance.
- Strengthen trust and respect of other stakeholders, such as local communities, regulators, NGOs, even from competitors. As codes become publicly available publications, more outside stakeholders are reviewing them and setting their expectations of the company partly based on its code. The more that a company lives up to the expectations that it has established, the greater goodwill it engenders.
- Build a stronger reputation for integrity by helping the company to do what it says it will do”⁴³ (Lunday, 2018, www.corporatecomplianceinsights.com). The steps to follow in writing a good code of ethics will be covered in the following section.

⁴² Lunday, J. (2018) *Creating An Effective Code of Conduct and Code Program*. Available from: <https://www.corporatecomplianceinsights.com/creating-an-effective-code-of-conduct-and-code-program/>

⁴³ Lunday, J. (2018) *Creating An Effective Code of Conduct and Code Program*. Available from: <https://www.corporatecomplianceinsights.com/creating-an-effective-code-of-conduct-and-code-program/>

3.6 Writing a good code of ethics

Today most of the organizations have a tendency of writing their code of ethics and code of conduct as one document since they both disseminate the same message of acceptable behavior and practices at the workplace. According to Betterteam (2019) *How to Write a Code of Ethics and Code of Conduct*:

3.6.1.1 Review your mission statement and core values.

The goal of a code of ethics is to help employees make decisions that are in line with what the company or organization values. This should be distilled into your mission statement and core values, so it's a good place to start.

3.6.1.2 Talk to stakeholders.

What do management, employees, and clients think are the most important values of the company to uphold? Get input from everyone involved to be sure your code reflects what the company stands for. You can have them all look at a code of conduct template to get ideas for how their own might look like.

3.6.1.3 Review past ethical issues.

Where has your company faltered with ethics in the past? Where has it shined? Call attention to problem areas and reinforce the strengths you already have.

3.6.1.4 See where other companies have faltered.

Have other companies in your industry had recent ethical failures? Avoid the same pitfalls by covering these issues in your code.

3.6.1.5 Create a draft code for input and discussion.

Give everyone a chance to help decide on the contents of the code of ethics by inviting them to discuss and give input on a draft.

3.6.1.6 Create a final draft and share it.

Once you've got a final draft approved, share it throughout the organization. Also, make sure that a copy of it is added to your [employee handbook](#)⁴⁴ (Betterteam, 2019, www.betterteam.com).

3.6.2 Additional 10 styles to use in writing an effective 'code of ethics/conduct'

⁴⁵According to the Ethics Compliance Initiative (ECI) (2019) you have been given the task of writing an effective code of conduct for your organization. A blank page sits on your screen and the cursor blinks in anticipation. Ten minutes pass. Twenty minutes slip away. You are simply faced with the reality of writing about abstract concepts rather than the physical world.

Tip 1: Think in terms of values, beliefs and expectations rather than facts.

People within an organization are inclined to feel that their situation in life is unique and that no other organization is faced with the same challenges, constraints and operational realities that they have to deal with on a daily basis. The sense of individual uniqueness is countered somewhat by a sense of group unity. The group is unified behind a core of shared beliefs that may be informally recognized within the organization or may be codified in the form of an organizational values statement. The organization's values are the foundation upon which the code of conduct will grow. Once you recognize that you are not writing a report and that you may be called on to use language you usually avoid in formal reports because it may imply that you are judgmental or are assigning values to actions, you'll be able to start writing.

Tip 2: 'Eschew pomposity and verbosity assiduously.'

Your code will benefit from common language usually employed in your organization and understood readily by employees at all levels. This doesn't mean you should become immersed in jargon. 'Keep it simple,' is the best advice for codes.

⁴⁴ Betterteam (2019) *Code of Ethics and Professional Conduct*. Available from: <https://www.betterteam.com/code-of-ethics-and-professional-conduct>

⁴⁵ Ethics and Compliance Initiative (2019) *Style Tips*. Available from: <https://www.ethics.org/resources/free-toolkit/style-tips/> "© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".

Tip 3: Choose to be concise... within reason.

Conciseness can be a virtue. It can also be boring and choppy. To find a happy medium, avoid long sentences with linked phrases. Instead write sentences that express one thought and vary in length. A mix of short and medium-length sentences tend to hold your readers' attention better than long, complex sentences.

Tip 4: Use active voice rather than passive.

Active voice tends to convey ideas more clearly and with fewer words than passive voice requires. In sentences written in active voice, the subject performs the action expressed in the verb. In passive voice, the subject is acted upon by the verb. Overuse of passive voice tends to make prose flat and uninteresting and passive voice sentences tend to be awkward. For example, 'The code is required annual reading.' [PASSIVE] 'You are required to read the code annually.' [ACTIVE]⁴⁶ (Ethics Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/style-tips/>). Furthermore, according to the Ethics Compliance Initiative (ECI) (2019):

Tip 5: Give examples when it is appropriate to do so.

If there is any doubt about the meaning of a code provision, use an example to provide clarity. Relevant, generic examples of what constitutes acceptable and unacceptable conduct make codes easier to be understood; connections to actual workplace experiences make the code easier to apply.

Tip 6: Remember to write for your reader.

By this point in the process, you have become your organization's expert on the code of conduct. Don't lose sight of your readers. Something obvious to you may not be obvious to them. Think about what you are writing in terms of readers who have NOT had your experience with the code.

⁴⁶ Ethics and Compliance Initiative (2019) *Style Tips*. Available from: <https://www.ethics.org/resources/free-toolkit/style-tips/> "© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".

Tip 7: Don't attempt to write polished prose when drafting.

Draft, review, edit and polish (DREP). Draft the entire code without being overly concerned about grammatical errors, punctuation and word choice. Once you have a draft on paper, review it carefully for clarity, content, conciseness, grammar, spelling and punctuation and clean it up. Edit the cleaned copy paying special attention to word choices and meaning. Finally, polish your final draft with the understanding that the next tip may just bring you back to this tip one more time.

Tip 8: Read your work aloud to yourself.

When you read your written work aloud, you will find errors and points of confusion because you have involved another of your senses. After all, you have thought about the code, written at least two drafts, edited a draft, and polished the text. Hearing the words may detect problems that your eyes, which are used to seeing the copy, have missed. If you find errors, repeat tips 7 and 8 until it sounds right as well as looks right.

Tip 9: Make your writing look easy to read.

Take a look at your final draft and ask the critical question, 'How does this look to me?' You want this final draft to look professional because the reviewers you will pass it to next will judge what you have done based on its appearance as well as what you have written. Avoid using words and phrases written all in capital letters unless they are acronyms or unless they are specialized terms that are always written in fully capitalized form. Avoid presenting material in lengthy stretches of italics. They are hard to read. Avoid odd type fonts, especially those that mimic handwriting⁴⁷.

⁴⁷ Ethics and Compliance Initiative (2019) *Style Tips*. Available from: <https://www.ethics.org/resources/free-toolkit/style-tips/> "© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".

Tip 10: Ask others, especially your harshest critics, to read what you have written.

Once you are satisfied that what you have written makes sense and looks good, obtain the opinion of others. Sure, you can have some of your friends read what you have written. They may give you good feedback or they may sugarcoat their comments to you. But, if you choose the critics who are the harshest judges of your work, you will know that they are being candid. If you secure their approval, you have succeeded (Ethics Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/style-tips/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”. The conclusion of this chapter will be covered in the following section.

3.7 Conclusions

Board of directors are often well respected people in the organization and society in general therefore when they have an opportunity to work in a boardroom that upholds professional conduct and ethics a natural ‘person-organization fit’ occurs. A code of ethics is a tool that helps to propel board of directors in an organization to make strategic and sound decisions on a regular basis since it helps to ensure that when board of directors make decisions they first consider the right and wrongs of society or the code of conduct and ethics handbook. It can therefore be concluded that a code of ethics document is much more detailed in scope than a code of conduct document. In addition code of ethics tend to place more emphasis on decision-making while code of conducts focus on the actions that are carried-out by board of directors, managers and employees on a day-to-day basis at the workplace.

3.9 Review questions

- 1) What is the meaning of the terms ‘code of ethics’ and a ‘code of conduct’?
- 2) Describe the brief history of ‘code of ethics’?
- 3) Outline the differences between a code of ethics & a code of conduct?
- 4) Discuss in-depth the advantages of a code of ethics and a code of conduct?
- 5) Explain the steps a board can use to write a good code of ethics?

Chapter 4: Aligning ethics into business & corporate strategy

After reading this chapter you should be able to:

- Define the terms ‘goal’, ‘objective’, ‘corporate strategy’ and ‘business strategy’.
- List the four steps used to establish a successful business strategy.
- Explain the benefits of effective strategic management to a board.
- Describe the role played by boards in developing a corporate and an ethics strategy.
- Explain the importance of an ethics strategy in creating an ethical organization & board.

4.1 Introduction

In general every board in any type of organization conducts strategic planning to determine the long term goals of the organization and how to incorporate ethics as a strategy. Strategic plans are devised by a board in an organization and the board also determines the approach that will be used in setting ethics as a strategic priority. A board also has the responsibility of ensuring that its preferred ethics strategy is appropriately aligned to both the business and corporate strategy. One of the guaranteed ways an organization can attain strategy is via its ethics and compliance practices it adopts as a whole. Today most of the board of directors and senior management in organizations now place high value on being ethically compliant to their shareholders and other stakeholders in order to achieve long-term success. Interestingly, over the past years some of the organizations have left the burden of developing ethical compliance strategies to the CEO and senior management only. Generally people who lead organizations must have the required knowledge and skills needed to do their job appropriately for example the CEO role. It is often assumed that the formulation of strategy in an organization is the role of a CEO. Notably, top executive job incumbents in organizations such as CEOs, CFOs or COOs are hired by the board of directors in collaboration with the human resources department thus board of directors have the power to challenge any form of strategic decision they make in the organization. The culture

of a board is a key determining factor in shaping its roles and duties⁴⁸ (Source: Cossin and Métayer, 2019, “Board & Strategy: Does Your Board Really Add Value to Strategy?”, IMD - International Institute for Management Development, www.imd.org). Ethical compliance by organizations and the involvement of board of directors in the development of sound ethical practices is now inevitable. The following section will cover the definition of terms.

4.2 Definitions of terms

There are many definitions that have been developed by academics and industry experts in the field of business management about terms such as corporate strategy, business strategy, objectives, goals and so on. ““A *Goal* is generally described as an effort directed towards an end. The application of the term in project management is related to three different target values such as performance, time and resources. An *Objective* defines the tangible and measurable results of a project that support the agreed goal and must meet the planned end time, budget and quality restrictions. It commonly answers to “How” something is to be done and the most effective way to set them is by using the S.M.A.R.T. method. So, make sure to design *SMART performance objectives*: **S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**ime bound”⁴⁹ (Clarizen, 2018, www.clarizen.com). “*Corporate Strategy* takes a portfolio approach to strategic decision making by looking across all of a firm’s businesses to determine how to create the most value. In order to develop a corporate strategy, firms must look at how the various businesses they own fit together, how they impact each other, and how the parent company is structured in order to optimize human capital, processes, and governance. Corporate Strategy builds on top of business strategy, which is concerned with the strategic decision making for an individual business”⁵⁰ (Corporate Finance Institute, 2019, <https://corporatefinanceinstitute.com>). *Business level strategy* is utilized by organizations that want to gain a new customer segment and generate profit income from the sales of a particular product. Furthermore, *corporate-level strategy* is implemented by an organization during the decision-making stage of selecting which particular business units

⁴⁸ Source: Cossin and Métayer, 2019, “Board & Strategy: Does Your Board Really Add Value to Strategy?”, IMD - International Institute for Management Development, www.imd.org

⁴⁹ Clarizen (2018) *Goal vs Objective*. Available from: <https://www.clarizen.com/goal-vs-objective-difference/>

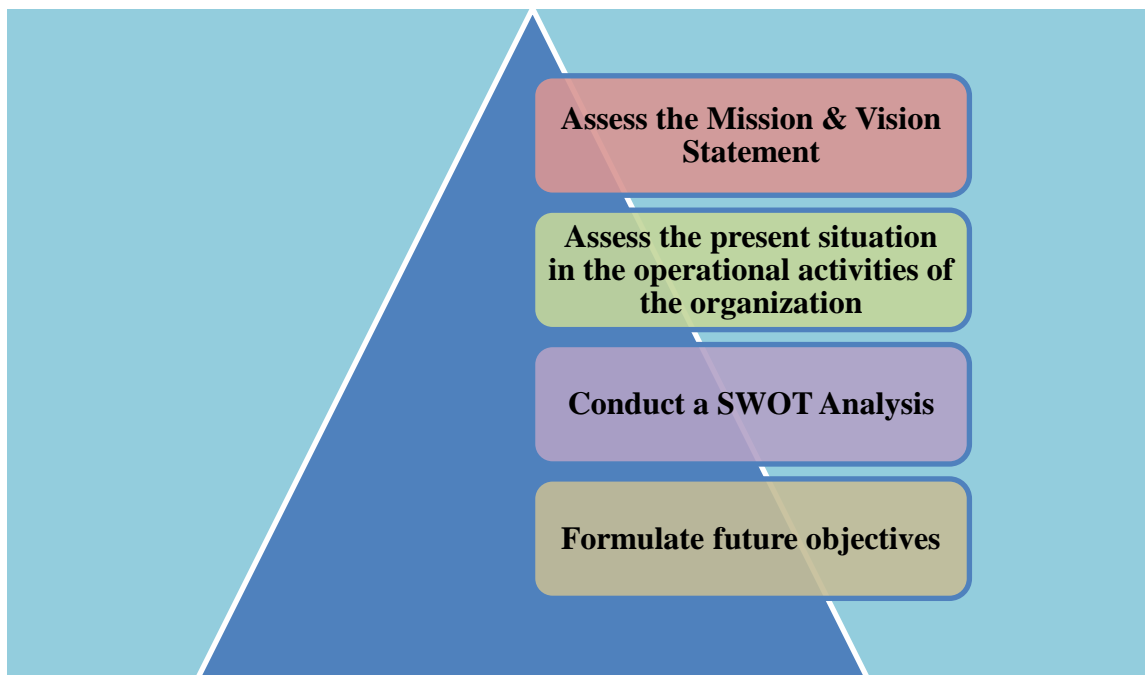
⁵⁰ Corporate Finance Institute (2019) *Corporate Strategy*. Available from: <https://corporatefinanceinstitute.com/resources/knowledge/strategy/corporate-strategy/>

to dispose-off and acquire including identifying the different ways to use to combine its operations and be able to successfully or clearly highlight the interconnections that exist amongst them (Garcia, 2018, <https://bizfluent.com/>). Business strategy focuses on determining the ways an organization can use to compete whilst corporate strategy places more emphasis on choosing from the organization's business portfolio (*such as agribusiness, mining, banking, logistics and so on*) which businesses and or industry sector the organization must compete. The various steps that are used to establish a successful business strategy will be covered in the following section.

4.3 Steps used to establish a successful business strategy

The various steps that can be used by an organization to establish a successful business strategy are depicted in Figure 4.1 below.

Figure 4.1 Four steps used to establish a successful business strategy



Source: Modified: (DeBenedetti, 2017, <https://bizfluent.com/>)

⁵¹An organization's success or failure can be determined by the business strategy it adapts therefore this places more value on the importance of strategy development in an organization.

4.3.1 Assess the Mission & Vision Statement. When creating a completely new strategy for your organization it is important to choose a direction that is in direct alignment with the organization's purpose and vision statements. One of the key reasons why organizations must create mission statements is that they help to outline the reasons for the existence of your organization including clearly pointing-out how it will satisfy the needs and wants of its customers. An organization's vision statement clearly outlines the organization's intended short-and-long term objectives and generally it properly points-out the organization's desired future position in the market. The carrying-out of a review process of both the vision and mission statements enables the organization to maintain the alignment of strategy in the right context (DeBenedetti, 2017, <https://bizfluent.com/>).

4.3.2 Assess the present situation in the operational activities of the organization. A general outlook or update on the current situation in the operational activities of the organization (*in particular the analysis of: the net profit margin, staff turnover rates, absenteeism rates, the total amount of returned goods/services after being sold and so on*) is of utmost importance since it helps the organization to move in the right direction which is clearly highlighted in the mission and vision statements. Investigate if the organization is achieving all of its set goals in a manner that is in line with the business plan and the ethics statement. Thus if a gap is identified in the sense that the organization is not achieving its set goals in a manner that is in direct alignment with the organization's business plan this can be seen as a good indicator that the organization must now divert its business focus towards a new path or direction and the organization can fully utilize its present situation of operational activities as a foundational performance factor (DeBenedetti, 2017, <https://bizfluent.com/>).

4.3.3 Conduct a SWOT Analysis. The carrying-out of a strengths, weaknesses, opportunities and threats analysis (*SWOT*) helps the organization to devise its business strategy in a way that enables it to maximize on its strengths, take corrective measures towards its areas of

⁵¹ DeBenedetti, J. (2017) *How to Develop a Business Strategy*. Available from: <https://bizfluent.com/how-2305829-develop-business-strategy.html> Leaf Group © 2019 Leaf Group, Ltd. U.S.A. All rights reserved.

weaknesses, maximize on the opportunities currently available in the marketplace and be able to identify or outmaneuver all the threats to its operational activities. When carrying-out such in-depth analytical processes such as SWOT, critical thinking is inevitable and necessary since everything that enables the organization to prosper must be identified and clearly defined. Heads of departments or functional managers including line managers must also be involved in the SWOT analysis process as they help to generate or come up with new insights and or ideas into the strategy development process (DeBenedetti, 2017, <https://bizfluent.com/>).

4.3.4 Formulate future objectives. Soon after determining the current situation of the organization's operational activities it becomes important for the organization to highlight its future short-and-long term goals since it is one of the most crucial elements in the strategy development process due to the fact that a perspective and a vision are considered to be critical ingredients of the strategy development process. It is important that the organization searches for a new direction to follow if it is not achieving its goals while on the other hand it must carry-on moving in the same direction it was moving towards in the past if it is achieving its set goals and prospering. When the objective setting process is completed the next step is to create a well crafted action plan that moves the organization from its current position to its desired position⁵² (DeBenedetti, 2017, <https://bizfluent.com/>). The benefits of effective strategic management to a board will be covered in the following section.

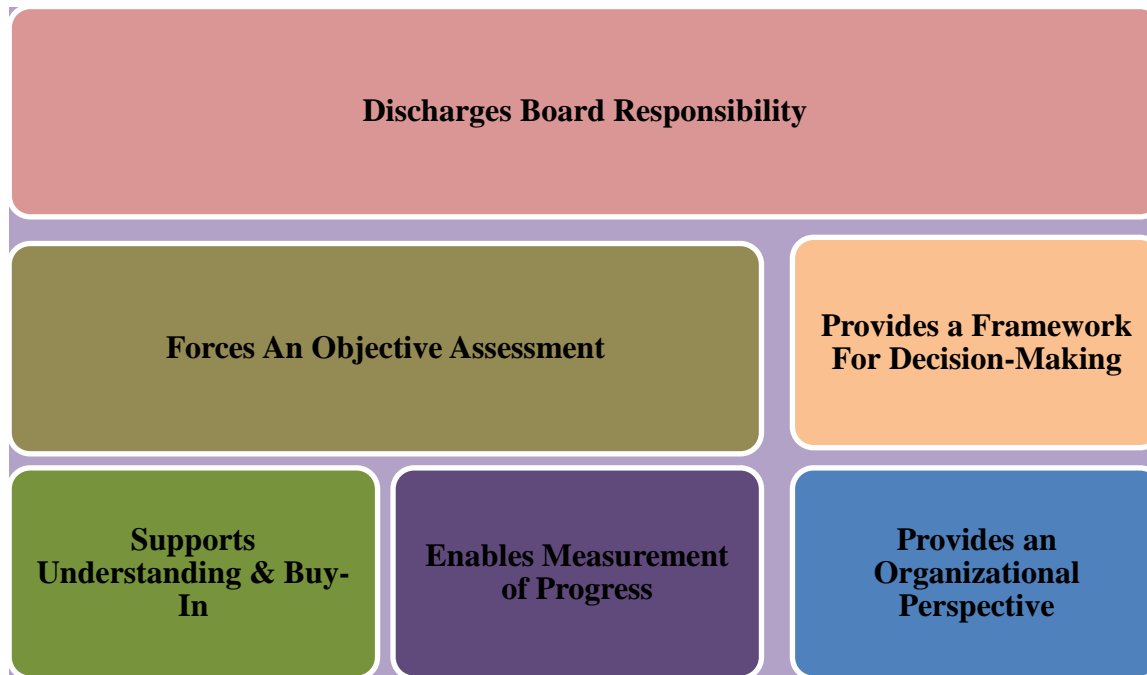
4.4 Benefits of effective strategic management (*business & corporate strategy*) to a board

The actions of creating both business and corporate strategy of an organization by a board and senior management falls under strategic management. ⁵³The advantages of effective strategic management to the board were clearly identified by Robinson, R. (2005) *The Advantages and Disadvantages of Strategic Management* via <https://charityvillage.com> and these advantages are depicted by Figure 4.2 below.

⁵² DeBenedetti, J. (2017) *How to Develop a Business Strategy*. Available from: <https://bizfluent.com/how-2305829-develop-business-strategy.html> Leaf Group © 2019 Leaf Group, Ltd. U.S.A. All rights reserved.

⁵³ Robinson, R. (2005) *The Advantages and Disadvantages of Strategic Management*. Available from: https://charityvillage.com/cms/content/topic/the_advantages_and_disadvantages_of_strategic_management#.XT65x_IKjIV

Figure 4.2 Advantages of an effective strategic management to an organization



Source: Modified: (Robinson, 2005, <https://charityvillage.com>)

“Strategic planning still has the connotation of a process that is discrete, separate, and independent from the business of an organization. While strategic management connotes the planning, implementation, evaluation, on-going maintenance, and adjustment of the organization's strategy. **The Advantages of Strategic Management:**

4.4.1 Discharges Board Responsibility

⁵⁴The first reason that most organizations state for having a strategic management process is that it discharges the responsibility of the Board of Directors.

4.4.2 Forces An Objective Assessment

⁵⁴ Robinson, R. (2005) *The Advantages and Disadvantages of Strategic Management*. Available from: https://charityvillage.com/cms/content/topic/the_advantages_and_disadvantages_of_strategic_management#.XT65x1KjIV

Strategic management provides a discipline that enables the board and senior management to actually take a step back from the day-to-day business to think about the future of the organization. Without this discipline, the organization can become solely consumed with working through the next issue or problem without consideration of the larger picture.

4.4.3 Provides a Framework For Decision-Making

Strategy provides a framework within which all staff can make day-to-day operational decisions and understand that those decisions are all moving the organization in a single direction. It is not possible (nor realistic or appropriate) for the board to know all the decisions the executive director will have to make, nor is it possible (nor realistic or practical) for the executive director to know all the decisions the staff will make. Strategy provides a vision of the future, confirms the purpose and values of an organization, sets objectives, clarifies threats and opportunities, determines methods to leverage strengths, and mitigate weaknesses (at a minimum). As such, it sets a framework and clear boundaries within which decisions can be made. The cumulative effect of these decisions (which can add up to thousands over the year) can have a significant impact on the success of the organization. Providing a framework within which the executive director and staff can make these decisions helps them to better focus their efforts on those things that will best support the organization's success.

4.4.4 Supports Understanding & Buy-In

Allowing the board and staff participation in the strategic discussion enables them to better understand the direction, why that direction was chosen, and the associated benefits. For some people simply knowing is enough; for many people, to gain their full support requires them to understand.

4.4.5 Enables Measurement of Progress

A strategic management process forces an organization to set objectives and measures of success. The setting of measures of success requires that the organization first determine what is critical to its ongoing success and then forces the establishment of objectives and keeps these critical measures in front of the board and senior management.

4.4.6 Provides an Organizational Perspective

Addressing operational issues rarely looks at the whole organization and the interrelatedness of its varying components. Strategic management takes an organizational perspective and looks at all the components and the interrelationship between those components in order to develop a strategy that is optimal for the whole organization and not a single component” (Robinson, 2005, https://charityvillage.com/cms/content/topic/the_advantages_and_disadvantages_of_strategic_management#.XT65x_IKjIV). The next section will discuss the role played by boards in developing a corporate and an ethics strategy.

4.5 Role played by boards in developing a corporate and an ethics strategy

A well crafted and implemented ethics strategy that is properly aligned to corporate strategy enhances the organization’s performance in general. An organization’s effectiveness lies in the hands of its board thus strategy plays a vital role in ensuring that the board successfully keeps the organization financially healthy and focused on achieving its set goals. A board has the fiduciary duty of establishing an effective strategy the organization must use to achieve its mission and vision. The first task a board must accomplish in order to establish and implement strategy is to clearly highlight the meaning of strategy to it and what the board intends to contribute towards strategy. One of the key roles of a board is supervision which encompasses the management and or monitoring of business performance of the top management’s work ethics, actions, strategic planning and integrity. It is quite common for boards to play a critical role in formulating the strategy of the organization in collaboration with the CEO. Board of directors are usually industry experts with top notch knowledge, an advanced business network or contacts across the world thus enabling them to have an added advantage in terms of interpreting or predicting business trends in this modern-day highly dynamic business environment than senior management of the organization who often have slightly lower skills, knowledge, experience and extensive business networks or contacts. In general a board in an organization has the fiduciary duty to provide adequate support for management thereby making it the superior and authentic authority⁵⁵ (Source: Cossin and Métayer, 2019, “Board & Strategy: Does Your Board Really

⁵⁵ Source: Cossin and Métayer, 2019, “Board & Strategy: Does Your Board Really Add Value to Strategy?”,

IMD - International Institute for Management Development, www.imd.org

Add Value to Strategy?”, IMD - International Institute for Management Development, www.imd.org).

⁵⁶According to the Chartered Institute of Management Accountants *Incorporating Ethics into Strategy*, CIMA (2010:1) developing sustainable business models. Ethics are pivotal in determining the success or failure of an organisation. They affect a company’s reputation and help to define a business model that will thrive even in adversity. Businesses can be tempted to make short-term gains by turning a blind eye to ethics. Despite codes of practice, regulatory oversight and ever-increasing public pressure, many firms routinely ignore ethical considerations. Some even claim that a business simply needs to abide by the law without concerning itself with broader ethical issues. Yet such disregard can undermine the wider economy and, in time, cause irreparable damage. Lessons must be learned from the corporate collapses of the past decade: myopic strategies can create massively profitable entities, yet impressive initial results may turn out to be unsustainable. There is a strong business case for running companies in an ethically responsible way and for finance professionals to facilitate this. A socially and environmentally ethical approach ensures a company’s ability to thrive in the long-term by protecting its reputation, its license to operate, its supply chain, its relationships with partners and its ability to recruit talent. It’s about avoiding corporate collapse as a result of litigation or fraud. While some firms consistently fail to consider ethical factors, others have given themselves a competitive edge by establishing strong credentials in this area. The round table discussions highlighted that the link between ethics and business success has become far clearer in recent years, as companies realise that corporate interests must be aligned with the broader concerns of society if they are to survive. In a successful company, ethics are embedded in decision making and long-term strategy. ‘Doing the right thing’ is not an afterthought that’s bolted on to the mainstream activities that generate its profits. Successful, sustainable firms aspire to integrate ethics into all aspects of strategy. Ethical businesses are not a new phenomenon, of course. During the industrial revolution many companies in the US and Europe

⁵⁶ *Incorporating Ethics into Strategy*, CIMA (2010). Available from:

<https://www.cimaglobal.com/Documents/Professional%20ethics%20docs/Incorporatingethicsintostrategyweb1.pdf>

[Accessed 2019, 28 July] p1-7

thrived on a strong philanthropic tradition. What is new is the way in which ethics now needs to be seen as a core part of companies' strategies and how it is being embedded into management culture at all levels. There are numerous explanations for this new prominence. One suggestion from the round table discussion was that, thanks to modern communications technology and an increase in living standards, 'the circle of concern' has grown among the public. Young people in particular seem to be much more aware of the social and environmental effects that businesses can have around the world – and more critical of those that they see as part of the problem. The global growth in population and per capita consumption as a result of industrialisation is another factor. Once abundant resources are growing scarcer and can no longer be considered a free gift from nature. And, in the jargon of economics, the 'externalities' – i.e., the negative effects of economic activity – are increasing steeply. Indeed, they may actually outweigh the economic benefits of the goods rolling off the production line, which is something not captured by traditional reports and accounts. A more managerial factor is the increasing value placed on corporate reputations⁵⁷ (Source: *Incorporating Ethics into Strategy*, CIMA 2010; Chartered Institute of Management Accountants, 2010:3, <https://www.cimaglobal.com/>). Furthermore, according to the Chartered Institute of Management Accountants *Incorporating Ethics into Strategy*, CIMA (2010:4) a multinational supplier of consumer goods, for example, can replace a burnt out factory more easily than it can restore a tarnished brand. Dealing swiftly and openly with a problem can serve to establish a firm's credibility as trustworthy brands. Companies that don't deal directly with consumers can still be tempted to risk a good reputation for quick profits. Leadership is the key factor that establishes whether a company is long-sighted and able to integrate ethics successfully into strategy – the tone comes from the top (Source: *Incorporating Ethics into Strategy*, CIMA 2010; Chartered Institute of Management Accountants, 2010:7, <https://www.cimaglobal.com/>).

⁵⁷ *Incorporating Ethics into Strategy*, CIMA (2010). Available from: <https://www.cimaglobal.com/Documents/Professional%20ethics%20docs/Incorporatingethicsintostrategyweb1.pdf> [Accessed 2019, 28 July] p1-7

4.5.1 Questions board of directors must ask themselves when developing an ethics strategy that will be aligned to the corporate strategy

⁵⁸According to the Chartered Institute of Management Accountants *Incorporating Ethics into Strategy*, CIMA 2010 (2010:5): *Questions boards must ask themselves:*

Do we understand our model for delivering projects and all the risks we are taking? What are the circumstances under which we would fail? Are we happy with the risk mitigation?

- Do we spend enough time discussing strategic issues?
- Do we have a workable process for overseeing strategy? Do we get the right information?
- Do we focus on long-term sustainability?
- Do we have a healthy, ethical and thoughtful culture that encourages constructive challenge?
- Do we have effective collaboration between the board and the management team, with the latter guaranteeing the most relevant management information on which to base decisions?

As illustrated, there is a strong correlation between short-termism and the cutting of ethical corners. By its nature, a long-term approach is more concerned with various aspects of sustainability. Many companies take the long view. But it is usually huge multinationals, that can see they have a greater stake in the future. They also have more resources available to undertake scenario planning for 50 or even 80 years ahead. They are more likely to feel that factors such as food security, water scarcity or climate change will have a material effect on their commercial prospects. These issues will ultimately affect all businesses and creating the right corporate culture is critical (Source: *Incorporating Ethics into Strategy*, CIMA 2010;

Chartered Institute of Management Accountants, 2010:7, <https://www.cimaglobal.com/>). The conclusion of this chapter will be covered in the following section.

⁵⁸ *Incorporating Ethics into Strategy*, CIMA (2010). Available from: <https://www.cimaglobal.com/Documents/Professional%20ethics%20docs/Incorporatingethicsintostrategyweb1.pdf> [Accessed 2019, 28 July] p1-7

4.6 Conclusion

Generally the board of directors' conduct strategic planning to determine the long term goals of the organization and how to incorporate ethics as a strategy. Strategic plans are devised by a board in an organization and the board also determines the approach it will use in setting ethics as a strategic priority. A board also has the responsibility of ensuring that its preferred ethics strategy is appropriately aligned to both the business and corporate strategy. Boards that make it a high priority to be ethically compliant in the eyes and minds of their shareholders and stakeholders are more likely to be successful in the long term. Ethical compliance by organizations has become a necessity for survival in the current modern day highly competitive business environment. An ethics strategy that is well crafted and executed and with the appropriate alignment to both business and corporate strategy enhances the organization's performance in general. It can therefore be concluded that the organization's effectiveness lies in the hands of its board since the organization's leaders are responsible of successfully transforming ethics into strategy.

4.7 Review Questions

- 1) Define the terms 'goal', 'objective', 'corporate strategy' and 'business strategy'?
- 2) Identify the four steps used to establish a successful business strategy?
- 3) Describe the benefits of effective strategic management to a board?
- 4) Discuss the role played by boards in developing a corporate and an ethics strategy?
- 5) Describe the importance of an ethics strategy in creating an ethical organization & board?

Chapter 5: Culture drives ethics in the boardroom

After reading this chapter you should be able to:

- Define the meaning of the term ‘culture’.
- List the reasons why organizations and boards must embed ethics into their culture.
- Explain how an organization can develop an ethics culture in the boardroom.
- Describe the benefits of an ethics culture in an organization and its board.
- Explain how an organization and its board can measure the effectiveness of corporate culture on its ethical practices.

5.1 Introduction

Generally almost all organizations whether profit-making or nonprofit-making have a form of culture they follow on a day-to-day basis. The key ingredient to a successful culture in an organization is ethics. An organization’s culture is what makes it unique from its competitors and it is a tradition that is passed on from one generation of employees to another and it helps to define what the organization believes in or values. Board of directors are the key drivers of organizational culture in an organization and they also possess the power of creating new ethical ways of doing things in an organization which the people they lead must adopt on a day-to-day basis. “There have been a number of recent business scandals and corporate collapses that were the direct result of poor ethics. These recent issues have led to a call for a higher standard of business ethics, further regulations and training in ethics. It is important to understand that to effectively impact the ethics of a company, it must begin in the boardroom. Ethics are intrinsically a vital aspect of every business decision; it is inextricably bound to the very culture of a company. The culture and ethics seen in the boardroom reveal the ultimate aggregate culture and ethics of the company as a whole”⁵⁹ (NEDonBoard, 2019, www.nedonboard.com/). The

⁵⁹ NEDonBoard (2019) *Culture and Ethics in the Boardroom the Ethical Compass of the Company*. Available from: <https://www.nedonboard.com/culture-and-ethics-in-the-board-room-the-ethical-compass-of-the-company/> [Accessed 2019, 29 July] *NEDonBoard is the UK professional body for non-executive directors and board members.*

starting point of creating a successful culture is through embedding ethical values and practices in the culture itself right at the beginning. The first step of embedding ethical values in a culture is in the boardroom and then followed by the lower levels of the organizational structures. “Ethics are intrinsically a vital aspect of every business decision; it is inextricably bound to the very culture of a company” (NEDonBoard, 2019, www.nedonboard.com/). The gateway to good corporate governance is strong ethical values and practices on a continuous basis. The definition of terms will be covered in the following section.

5.2 Definition of the term ‘culture’

In general the term ‘culture’ is broad. ‘*Culture*’ refers to either an individual’s, society’s or organization’s tradition, values, norms, preferences, custom and identity whilst simultaneously making them unique from others when carrying-out various tasks or responsibilities on a day-to-day basis (Rudolph. Patrick. T. Muteswa, 2019). In the following section the reasons why organizations and boards must embed ethics into their culture will be covered in the following section.

5.3 Reasons why organizations and boards must embed ethics into their culture

There are numerous reasons why an organization and its board must embed ethics into its corporate culture. Generally there are a few certain questions both independent and non-independent directors of the organization must first ask themselves in-depth in order to have adequate reasons for embedding ethics into the organization’s corporate culture and these include the following:

- Does the organization have any possible areas that make it highly vulnerable to risk?
- Do we have a clear idea or a well drafted list of the different types of risks that may affect the organization both in the short-and-long term of its operational life?
- Do we have a clear idea of the exact financial figures of all the lost income revenue or cashflow as a result of being vulnerable to all the different forms of risk?

- Do we have the required brainpower and an ethics-driven skills base that can be fully utilized to boost value creation, intellectual honesty, employee wellness, high productivity levels, efficiency and gain a sustainable competitive advantage?

- Do we have a good corporate governance statement and an ‘ethical values’ statement that helps to guide employees, management, executive directors and the board directors in their day-to-day fiduciary duties and roles so that they put the interests of the organization, shareholders and stakeholders first instead of their own personal interests?⁶⁰ (Valls, 2019, <https://ethicalboardroom.com/why-boards-should-care-about-creating-an-ethical-work-culture/>).

The three reasons why organizations and boards must embed ethics into their culture will be depicted by Figure 5.1 below.

⁶⁰ Valls, J. (2019) *Why Boards Should Care About Creating An Ethical Work Culture*. Available from: <https://ethicalboardroom.com/why-boards-should-care-about-creating-an-ethical-work-culture/>

Figure 5.1 Three reasons why organizations and boards must embed ethics into their culture identified by NEDonBoard



Source: Modified: (NEDonBoard, 2019, www.nedonboard.com/)

⁶¹According to NEDonBoard (2019):

5.3.1 The Inability to Legislate Morals and Ethics

There are a significant number of people who believe that more regulations are needed to help improve business ethics; however, history has proven that ethics cannot be regulated, it must be adopted as a part of a company's primary culture. The trust that has been lost in business, must be rebuilt through the directors who create business cultures that are capable and willing to recognize and engage ethical risk.

⁶¹ NEDonBoard (2019) *Culture and Ethics in the Boardroom the Ethical Compass of the Company*. Available from: <https://www.nedonboard.com/culture-and-ethics-in-the-board-room-the-ethical-compass-of-the-company/> [Accessed 2019, 29 July] NEDonBoard is the UK professional body for non-executive directors and board members.

5.3.2 The Cost of Scandal and Crisis

In recent years, there has been no shortage of business scandals and corporate collapses associated with poor ethics. The actions of many of the key executives, and the mute attitudes of their directors, have come under public scrutiny. There have been allegations of fraudulent management, corruption and bribery, just to name a few. These cases, and many others like them, have created cause for concern in relation to business ethics. These are all issues that the non-executive directors of any corporation must grapple with. While the director is expected to be a team player, they are faced with the challenge of being able to effectively engage the enigmatic issues that are facing the company. Ethics should be high on the priority list, because without a culture that is built on ethical superiority, it will be impossible to maintain the trust of the public. Losing the support and trust of the public is the precursor to corporate collapse.

5.3.3 Business Ethics is Greater than Corporate Citizenship

Despite the fact that a significant number of regulators, business school professors, and business commentators advocate a higher standard of corporate citizenship, business ethics cannot be viewed as an optional exercise in corporate citizenship, meaning that they must be viewed as being fundamental to the governance and efficacious management of every company. Decisions at every level of a company have ethical implications, whether in the boardroom or at managerial levels. This is why the culture has to flow freely from the top. If you wish to change a culture of a company, you must begin in the boardroom (NEDonBoard, 2019, <https://www.nedonboard.com/culture-and-ethics-in-the-board-room-the-ethical-compass-of-the-company/>). In the following section how an organization can develop an ethics culture in the boardroom will be covered in-depth.

5.4 How to develop an ethics culture in the boardroom

Good corporate governance in an organization is achieved through upholding ethical practices. Therefore this puts pressure on boards to place more emphasis towards adopting an ethical corporate culture through making this a top priority in board meetings. Various corporate scandals have been exposed over the past number of years in the various forms of media around the world and this is a clear indicator that there is a huge appetite for ethics and corporate governance guidance by modern day managers, executive directors and board of directors when dealing with controversial ethics-related issues in organizations. It is quite obvious that all the

people who are tasked with decision-making duties in organizations tend to make them based on their corporate culture, values and knowledge. All change initiatives in organizations often succeed when they receive adequate top leadership support and this also applies to the adoption of an ethics' culture in an organization where top leadership support is viewed as the 'key ingredient to success'. It is important to point-out the fact that a code of ethics is a step towards attaining victory of successfully creating an ethics culture in the organization. Notably, it should be clearly highlighted that an outright victory towards creating an ethics culture in the organization can only be achieved if board of directors lead the way by simply doing the following: (1) creating a conducive environment at the workplace that promotes an ethical corporate culture, (2) crafting well designed ethics policies that promote ethical practices across the organization, (3) carefully creating effective strategies that help to design innovation and result-oriented ethical behavior, (4) creating formal ethics and governance frameworks and so on⁶²(Valls, 2019, <https://ethicalboardroom.com/why-boards-should-care-about-creating-an-ethical-work-culture/>). "But boards often either ignore this responsibility or simply don't know how to embed corporate culture. It is hugely important, especially in today's world of instant videos and social media where corporate reputation and brands, so carefully built, can be in shreds very quickly. And along with it, your share price. So, it is clear that ethics will not manage themselves and directors and managers need clear guidance when dealing with ethical dilemmas. Decisions taken within an organisation may be made by individuals or groups, but whoever makes them will be influenced by the corporate culture. *The company vision*. So, what can or should the board do to instil a positive ethical culture? The board needs to focus first on corporate values: the core values support the company's vision, they shape the culture and are the essence of the company's identity. They should be a set of commonly held beliefs and commitments, not just a marketing gimmick. These statements become the deeply ingrained principles that guide employee behaviour and company decisions and actions – the behaviours that the company, the board, the management and the employees expect of themselves"⁶³ (Valls,

⁶² Valls, J. (2019) *Why Boards Should Care About Creating An Ethical Work Culture*. Available from: <https://ethicalboardroom.com/why-boards-should-care-about-creating-an-ethical-work-culture/>

⁶³ Valls, J. (2019) *Why Boards Should Care About Creating An Ethical Work Culture*. Available from: <https://ethicalboardroom.com/why-boards-should-care-about-creating-an-ethical-work-culture/>

2019, <https://ethicalboardroom.com/creating-an-ethical-work-culture/>). The different ways an organization can use to create an ethical culture is depicted in Figure 5.2 below.

Figure 5.2 Five ways an organization can use to create an ethical culture



Source: Modified: (Mintz, 2015, <https://www.workplaceethicsadvice.com>)

⁶⁴According to Professor Steven Mintz in an article titled: ‘*Creating An Ethical Culture in Business*’ (2015) every company should create a culture of ethics. If the senior leadership ignores or downplays a culture of ethics, they have created barriers to ethical behavior and opened the door to ethical dissonance, a situation where an individual’s ethics is at a higher level than that of the company. A culture of ethics does not guarantee financial success, but it can add to the bottom line financial performance of a company. There are a number of necessary ingredients that have to occur for a culture of ethics to survive. There are probably more ingredients, but these are the most important five that have been identified by many in the [compliance](#) field:

5.4.1 Leadership Commitment – A culture of ethics starts with corporate leaders. Top management must “walk the talk” of ethics and model ethical behavior in all that they do. Their actions must match their words to reduce or eliminate any dissonance.

⁶⁴ Mintz, S. (2015) *Creating An Ethical Culture*. Available from:

<https://www.workplaceethicsadvice.com/2015/10/creating-an-ethical-culture.html>

5.4.2 Internal Communications – The company’s ethical culture depends on internal communications, such as training, messaging, meetings and other events. A strong set of internal controls are essential to building up the control environment from an ethical perspective.

5.4.3 Measurement and Reporting – Assuming that a company has embraced an ethical culture as one of its primary objectives, the company has to dedicate sufficient resources and priorities to attend to its ethical culture. Two key aspects of this process: measurement of the company’s culture and reporting of the company’s culture to senior management and the board as an important ethics and compliance driver. Ethical behavior should be an integral part of the performance evaluation system. Ethical performance should be rewarded while unethical actions should lead to sanctions or harsher treatment of the offenders.

5.4.4 Accountability – A corporate culture without accountability is doomed to crash on the rocks of cynicism. Managers and employees are skeptical when it comes to trusting their leaders and their commitment to ethics. There are certain times that a leader’s commitment to ethics can be tested – if the leader is not held accountable for failing that test, managers and employees will retreat into cynicism. Similarly, if managers and employees are not held accountable on equal terms to senior leaders, the company’s culture will derail into poor morale and lack of credibility. Equal accountability is a necessary principle for an ethical culture. Successful CEOs who have created or maintained a culture of ethics recognize the importance of equal treatment of all corporate actors⁶⁵ (Mintz, 2015, <https://www.workplaceethicsadvice.com/2015/10/creating-an-ethical-culture.html>). The advantages of an ethics culture in an organization and its board will be discussed in the following section.

5.5 Benefits of an ethics culture in an organization and its board

“A corporate governance culture of trust, integrity, and intellectual honesty ensures the common law duties of good faith, diligence, care and skill are paramount. This culture will only be created in the boardroom if it reflects the wider aspirations of society and the standards of the business community generally. The law sets standards about personal and corporate liability. How, then, do we ensure that we continue at all times to be an agent to those we represent and to those who

⁶⁵ Mintz, S. (2015) *Creating An Ethical Culture*. Available from:

<https://www.workplaceethicsadvice.com/2015/10/creating-an-ethical-culture.html>

have committed their wealth to us, with the expectation that we will act wisely and honestly in the best interests of growing the business?”⁶⁶ (Management.co.nz, 2004, <https://management.co.nz>). “Unethical behaviour presents a clear risk to the image and reputation of the organisation, as well as its sustainability. Equally, there are clear benefits to adopting an ethical culture, which include:

- Enhanced brand reputation and company image
- Reduced risk of scandal
- Greater trust from shareholders and investors that their investments are being managed with integrity
- Greater customer trust and satisfaction
- Reduced fraud and corruption
- Less chance of fines, trade restrictions and prosecution
- Less management time handling ethics issues

At the same time, companies with an ethical culture will be able to attract and retain ethical employees and top human talent who wish to be associated with an ethical organisation, thus resulting in improved productivity. Other benefits include improved risk management and reduced supply chain issues. Ultimately the company benefits from improved performance and bottom- line results” (Valls, 2019, <https://ethicalboardroom.com/why-boards-should-care-about-creating-an-ethical-work-culture/>). There are other additional benefits of an ethics culture in an organization and its board. “Regulators around the globe are increasingly calling on organizations to examine their cultures. The advantages of a strong ethical culture are manifold. Studies repeatedly show that businesses with strong ethical cultures outperform those without; there are a variety of reasons underlying that performance data. Companies with stronger cultures tend to have employees who are more engaged and committed. Turnover tends to be

⁶⁶ Management.co.nz (2004) *Ethics Boardroom Ethics Developing Culture*. Available from: <https://management.co.nz/article/ethics-boardroom-ethics-developing-culture>

lower and productivity higher. Customers and investors increasingly seek companies whom they believe behave ethically, as the 2015 Survey showed. Employees at organizations with strong cultures feel less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it, allowing an organization to address issues early, saving the organization time (from the distraction of a substantial issue) and money (in the form of legal fees, fines and penalties). The bottom line: a company is better protected from the risks of misconduct when its culture is ethically strong”⁶⁷(Byrne, 2019, <https://insights.ethisphere.com/culture-matters/>). The next section will cover how an organization and its board can measure the effectiveness of corporate culture on its ethical practices.

5.6 How an organization and its board can measure the effectiveness of corporate culture on its ethical practices

According to an article by Byrne, E.S. titled: ‘*Culture Matters: The Advantages of a Strong Ethical Culture are Manifold*’ published by the <https://insights.ethisphere.com> (2019) ***Why Measure?*** Measures work for several reasons. First, they focus attention on what is being measured. Provide employees with metrics that tell them whether they are succeeding, and they will try to move those metrics, especially when those metrics are included in performance evaluations and compensation setting. Second, they signal the firm’s priorities. What matters to the organization? Most companies do not lack for objectives, but not every objective gets a metric. ***What to Measure.*** Many organizations regularly survey employees to get a sense of their engagement. While engagement surveys are a good tool, including a handful of questions on ethics and compliance issues does not provide a complete picture. **A good culture survey focuses on eight ‘pillars’ of culture:**

5.6.1 Awareness of Program and Resources:

Measures employees’ reported level of familiarity with the assets and efforts of the compliance and ethics function. Do your employees understand all of the resources available to them? Can

⁶⁷ Byrne, E.S. (2019) *Culture Matters: The Advantages of a Strong Ethical Culture are Manifold*. Available from: <https://insights.ethisphere.com/culture-matters/>

they identify multiple avenues to raise a concern? Do they know where to find the code and applicable policies?

5.6.2 Perceptions of the Function:

Measures how employees perceive the quality and effectiveness of the ethics function's efforts in providing communications, training and support. In other words, are your efforts reaching the intended audience?

5.6.3 Observing and Reporting Misconduct:

Evaluate employees' level of comfort in reporting perceived misconduct, the reasons for doing so, potential reporting barriers and the preferred method for reporting. This pillar is critical, particularly the last point. Without a good understanding of the channels being utilized by employees, how does an organization know whether issues are surfacing? In other words, don't assume that 30 calls a year on your hotline mean all is well; over 80 percent of employees usually say their manager is their preferred reporting channel. Does your case management system allow for easy intake of those questions? If not, you likely have no idea what is really happening inside your organization. This category also measures employee fear of retaliation, which is the number one reason traditionally provided for not raising a concern (along with, *'I didn't think the company would do anything about it.'*) (Byrne, 2019, <https://insights.ethisphere.com/culture-matters/>). Furthermore, according to Byrne, E.S. (2019):

5.6.4 Pressure:

Measures the extent and source of pressure employees may be experiencing to compromise standards in order to achieve business goals. This is that 'misalignment' mentioned above between stated values and company goals. Measuring this metric by business unit and region is the best way to fully understand how your goals are being communicated to the field, and where to focus your audit team to check for early signs of wrongdoing.

5.6.5 Organizational Justice:

Assesses employees' perceptions of whether the company holds wrongdoers accountable and the awareness of disciplinary actions taken. It is critically important to assess what your employees

believe happens when people violate ethical standards. Is there one standard for the average employee and a different one for the ‘golden child’? You can readily measure your ethical culture by asking people questions such as what they believe it takes to get ahead in your company.

5.6.6 Manager Perceptions:

Gauges employees’ perceptions of their supervisor’s conduct, communication effectiveness and comfort in approaching with concerns. As noted, upwards of 80 percent of employees, on average, say their manager’s behavior is what matters most in terms of ethical leadership. How are your managers making employees comfortable with ‘near misses’ or outright failures?

5.6.7 Perceptions of Leadership:

Also known as ‘Tone at the Top,’ this category evaluates employees’ perceptions of the conduct, values and communications of senior leaders. Do employees see a gap between what is in the code of conduct and the conduct of the CFO?

5.6.8 Perceptions of Peers and Environment:

This measures how employees perceive the ethical priorities of their coworkers, the values of their organization and willingness to share opinions. The data gathered through a good culture survey is an excellent first step towards understanding your issues and ‘hot spots.’ An effective culture assessment affords the opportunity to dive deeper. Organizations can effectively identify specific locations, business units, job levels and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions. Triangulate this information with your sister control functions in audit, EH&S/quality, finance and HR, and a strong picture of your organization will emerge. Now you’re off to fix it! After all, what gets measured gets done (Byrne, 2019, <https://insights.ethisphere.com/culture-matters/>). The conclusion section of this chapter will be covered in the following section.

5.7 Conclusion

In general all types of organizations are accustomed to a form of culture they adhere to when doing things. The most important ingredient to a successful culture in an organization is ethics.

Culture is one aspect that makes an organization unique from its competition and generally board of directors are the key drivers of organizational culture in an organization. Today the gateway to good corporate governance by the board is having an effective ethics culture and this makes it highly critical for organizations to make ethical culture a number one board agenda. It can be concluded that the willingness of the board of directors and senior management to embrace an ethics culture in the organization helps to promote ethical behavior in the organization.

5.8 Review questions

- 1) What is the meaning of ‘culture’?
- 2) Explain the reasons why organizations and boards must embed ethics into their culture?
- 3) Describe how an organization can develop an ethics culture in the boardroom?
- 4) Outline the benefits of an ethics culture in an organization and its board?
- 5) Discuss how an organization and its board can measure the effectiveness of corporate culture on its ethical practices?

Chapter 6: Transparency upholds ethical practices

After reading this chapter you should be able to:

- Explain the meaning of the terms ‘honesty’, ‘transparency’ and ‘accountability’.
- Briefly discuss the link between ethics and transparency in an organization and its board.
- Explain the importance of transparency to an organization & its board.
- Describe how an organization can practice transparency.
- Discuss how an organization can build trust. Explain the various ways an organization can create a successful honesty culture.

6.1 Introduction

Ethics in an organization can easily be achieved by adopting a transparency and accountability mindset and policy in the boardroom and the rest of the organization. Transparency is strongly interrelated to accountability and in general transparency is reinforced by accountability which ultimately results in a more effective ethics and compliance culture being adopted by the board of directors and senior management. Board of directors have a fiduciary duty of serving the organization with honesty and integrity in a manner that upholds transparency and accountability on their day-to-day activities. A culture of consistently speaking the truth, being open and accountable has become inevitable in the modern day boardroom if the goals of the organization include: (1) to enhance performance, (2) to enhance the corporate image and (3) remain highly competitive in the market. In each and every boardroom the foundation to developing a culture of honesty, accountability and ethics is ‘trust’. ⁶⁸“Trust is a central part of all human relationships, including romantic partnerships, family life, business operations, [politics](#), and medical practices. Behaviors and verbal expressions are certainly evidence for trust, for example when someone treats you well and says nice things to you, but these behaviors are merely evidence for the internal mental state of trust that causes them, not the trust itself. Trusting

⁶⁸ Thagard, P. (2018) *What is Trust*. Available from: <https://www.psychologytoday.com/us/blog/hot-thought/201810/what-is-trust> “Copyright Sussex Publishers, LLC. Except as otherwise expressly permitted under copyright law, no copying, redistribution, retransmission, publication or commercial exploitation of downloaded material will be permitted without the express written permission of Sussex Publishers, LLC.”

people may involve estimations of probabilities of how they will behave, but people usually trust others without any understanding of probability or any precise predictions about their behaviors”⁶⁹ (Thagard, 2018, www.psychologytoday.com). The definition of terms such as transparency and honesty will be covered in the following section.

6.2 Definition of the terms ‘transparency’, ‘honesty’ and ‘trust’

Today numerous academic textbooks have a glossary of terms to help readers with the meanings of terms. “*Honesty* can be defined as an inner motivation that drives an individual to be truthful, sincere and act with honor” (Rudolph. Patrick.T. Muteswa, 2019). “*What is transparency?* As a principle, public officials, civil servants, managers and directors of companies and organisations and board trustees have a duty to act visibly, predictably and understandably to promote participation and accountability”⁷⁰ (Transparency-Initiative.org, 2019, www.transparency-initiative.org). “*Accountability* means ensuring that officials in public, private and voluntary sector organisations are answerable for their actions and that there is redress when duties and commitments are not met” (Transparency-Initiative.org, 2019, www.transparency-initiative.org). “*Trust* is an emotional brain state, not just an expectation of behavior. But *what is trust?* Here are some possibilities:

- *Trust* is a set of behaviors such as acting in ways that depend on another.
- *Trust* is a [belief](#) in a probability that a person will behave in certain ways.
- *Trust* is an abstract mental attitude toward a proposition that someone is dependable”⁷¹ (Thagard, 2018, www.psychologytoday.com). In the following section issues related to ethics and transparency in the boardroom will be covered in-depth.

⁶⁹ Thagard, P. (2018) *What is Trust*. Available from: <https://www.psychologytoday.com/us/blog/hot-thought/201810/what-is-trust> “Copyright Sussex Publishers, LLC. Except as otherwise expressly permitted under copyright law, no copying, redistribution, retransmission, publication or commercial exploitation of downloaded material will be permitted without the express written permission of Sussex Publishers, LLC.”

⁷⁰ Transparency-Initiative.org (2019) *How Do We Define Key Terms? Transparency and Accountability Glossary*. Available from: <https://www.transparency-initiative.org/blog/1179/tai-definitions/>

6.3 Ethics and transparency in the boardroom

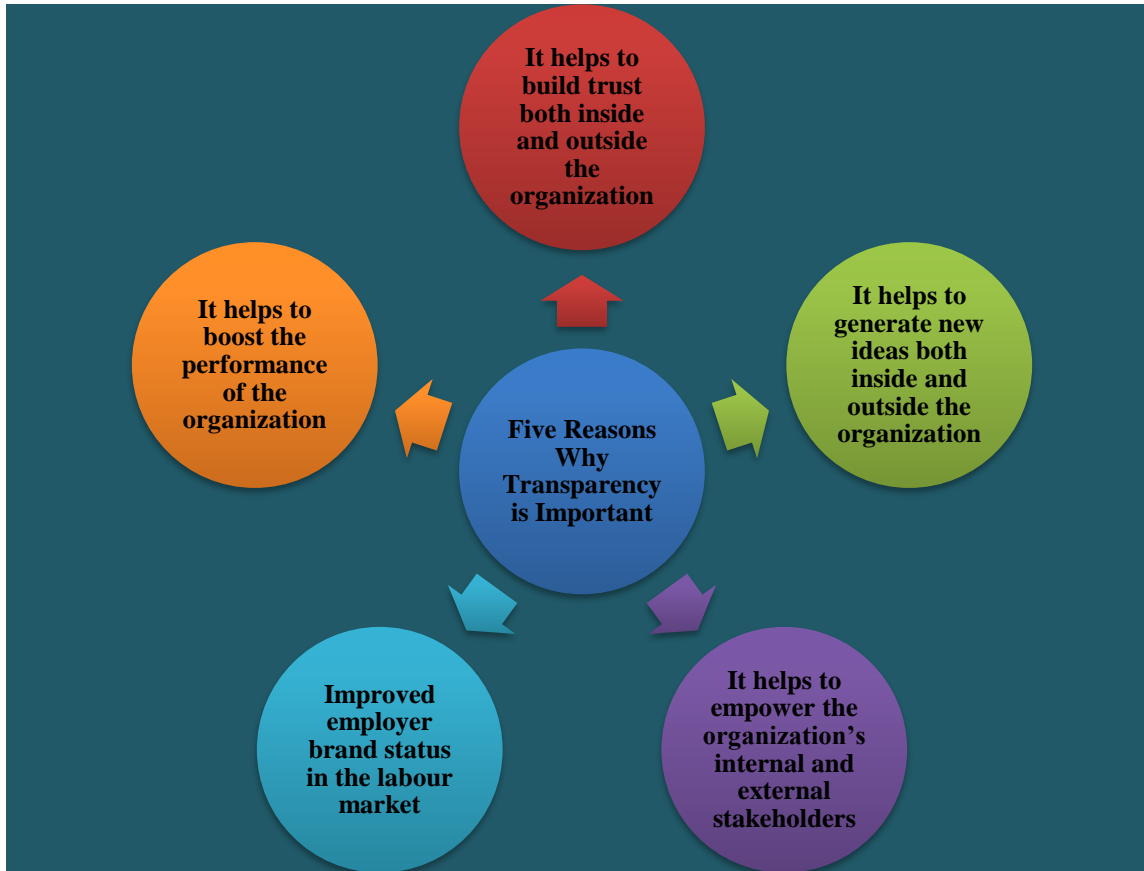
“In our increasingly complex world, trust and transparency are critical elements of corporate reputation. In the past, business success was about performance, customer service, price and quality. Now there is a new dimension: social responsibility built on ethical practices. Successful companies today will implement socially-responsible, transparent, values-led engagement with each of their audiences – employees, regulators, customers, investors and all others. Those that prioritize these ethical practices and true public engagement will not only succeed, but win”⁷² (Boyd, 2013, <https://insights.ethisphere.com>). Furthermore, according to Boyd (2013) now the most successful and trusted organizations are those focused on societal factors – not just business competence. Those most successful enterprises are those who listen to customer needs, treat employees well and place customers ahead of profits. And these types of ethical business practices are more important than ever. Business operates in complex times and must embrace this complexity by not solely acting in self-interest. Instead, they must execute on both operational and societal fundamentals. Enterprise must act ethically while ensuring stakeholders know they are doing it and why they are doing it. And thirdly, reputation is built on quality. Good financials are no longer enough. In this environment – where complexity is abundant and transparency is a mandate – trust is paramount and ethical business practices are a must (Boyd, 2013, <https://insights.ethisphere.com>). The following section will discuss the importance of transparency in an organization and its board.

6.4 Importance of transparency to an organization & its board

Organizations exist for a specific purpose and one of them is to operate in an ethical and transparent manner. Therefore when boards adopt and implement policies or strategies that enable the organization to be transparent, ethical and compliant they will be aiming to align their operational activities to the mission statement. There are several benefits that are enjoyed by an organization by adopting and implementing transparent programs or policies. Some of the reasons why transparency is important to an organization and its boards are depicted in Figure 6.1 below.

⁷² Boyd, B. (2013) *Value of Ethics Communication in Business Relationships*. Available from: <https://insights.ethisphere.com/value-of-ethics-communication-in-business-relationships/>

Figure 6.1 Five reasons why transparency is important in an organization



Source: Modified: (International City/County Management Association, 2013, <https://icma.org/>)

As previously highlighted by Figure 6.1 the five reasons why transparency is important in an organization include the following:

6.4.1 It helps to build trust both inside and outside the organization. Generally transparency involves practically making all forms of information in an organization publicly available to everyone in a manner that consistently upholds: honesty, integrity and good corporate governance standards⁷³. When the organization makes information publicly available this automatically enables the organization and its board to establish or re-cement trust with both its internal stakeholders (*such as employees, management, shareholders, executive management and board*) and external stakeholders (*such as customers, suppliers, government, the community and*

⁷³ International City/County Management Association (ICMA) (2013) *Top 10 Benefits of Transparency*. Available from: <https://icma.org/articles/article/top-10-benefits-transparency>

so on) (International City/County Management Association, 2013, <https://icma.org/articles/article/top-10-benefits-transparency>).

6.4.2 *It helps to generate new ideas both inside and outside the organization.* Transparency is whereby an open and honest communication is established by the organization where information is consistently made publicly available in order to boost the generation of new ideas. One of the most effective ways of gaining new ideas is through offering both internal and external stakeholders of the organization communication platforms where they can openly suggest new ideas and interact with the organization⁷⁴ (International City/County Management Association, 2013, <https://icma.org/articles/article/top-10-benefits-transparency>).

6.4.3 *It helps to empower the organization's internal and external stakeholders.* In general trust thrives when transparency prevails in an organization and its board. When all the organization's everyday operational activities are carried-out in an honest, accountable and ethical manner the organization's stakeholders naturally become confident and empowered to take responsibility (International City/County Management Association, 2013, <https://icma.org/articles/article/top-10-benefits-transparency>).

6.4.4 *Improved employer brand status in the labour market.* One of the key advantages of transparency in an organization is that it helps to boost the employer brand status of the organization in the labour market since nowadays knowledge workers highly value employers who have the following traits: (1) make information publicly available and (2) communicate truthful facts on a regular basis. When information and business activities are managed in an honest and accountable manner a highly conducive working environment is established and this helps to strengthen the employer brand of the organization.

6.4.5 *It helps to boost the performance of the organization.* It has since been discovered over the past number of years that organizations that embrace a transparency culture in their everyday activities often perform better due to the following: (1) increased employee morale which ultimately leads to increased productivity levels as a result of the employees feeling highly valued due to the fact that they are involved in decision making and information sharing with

⁷⁴ International City/County Management Association (ICMA) (2013) *Top 10 Benefits of Transparency*. Available from: <https://icma.org/articles/article/top-10-benefits-transparency>

management, (2) increased innovation rates by the organization through new product developments, new patents registrations, new organizational systems or processes and so on, (3) increased market and brand value of the organization as a result of attracting a good corporate reputation in the market which ultimately results in increased brand power. The various ways an organization can practice transparency will be covered in the following section.

6.5 How to practice transparency in the organization & boardroom

Nowadays most of the large corporations are now implementing transparency as part of their ethics and compliance programs that encompass: establishing communication channels with everyone in the organization, transparency, anti-bribery compliance, anti-corruption compliance, whistleblowing, Speak Up programs and many other programs. The first step towards achieving transparency is creating effective communication channels in the organization. “Simply making information available is not sufficient to achieve transparency. Large amounts of raw information in the public domain may breed opacity rather than transparency. Information should be managed and published so that it is:

- *Relevant and accessible*: Information should be presented in plain and readily comprehensible language and formats appropriate for different stakeholders. It should retain the detail and disaggregation necessary for analysis, evaluation and participation. Information should be made available in ways appropriate to different audiences.
- *Timely and accurate*: Information should be made available in sufficient time to permit analysis, evaluation and engagement by relevant stakeholders. This means that information needs to be provided while planning as well as during and after the implementation of policies and programmes. Information should be managed so that it is up-to-date, accurate, and complete”⁷⁵ (Transparency-Initiative.org, 2019, www.transparency-initiative.org).

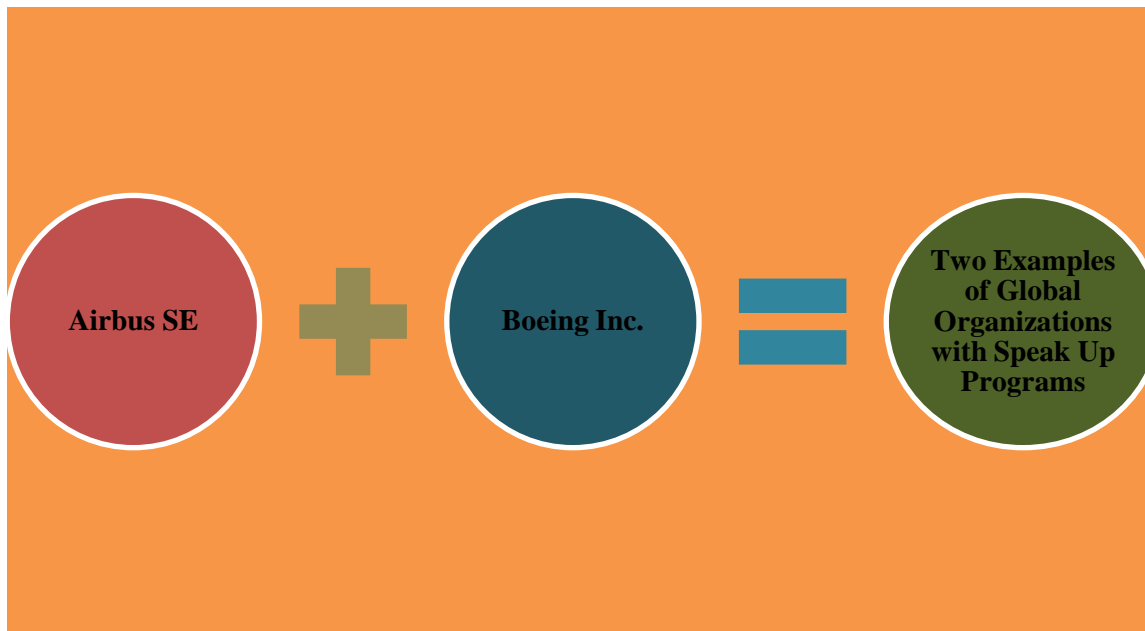
Speak Up programs are now common in most of the organizations today. It is important to point-out that some of the organizations that are dedicated towards creating an honest and transparent culture now have dedicated Speak Up call centres that have full time employees who attend to

⁷⁵ Transparency-Initiative.org (2019) *How Do We Define Key Terms? Transparency and Accountability Glossary*.

Available from: <https://www.transparency-initiative.org/blog/1179/tai-definitions/>

various unethical practices tip offs from their employees, management and other stakeholders. In Figure 6.2 below two typical good examples of organizations that have successfully made use of Speak Up programs to reduce their ethics and compliance risk will be depicted.

Figure 6.2 Two examples of organizations with successful Speak Up programs



Source: Modified (Airbus SE, 2019, www.airbus.com & Boeing Inc., 2019, www.boeing.com/).

6.5.1 Airbus SE

Airbus SE is a leading commercial aircraft manufacturer ‘Airbus SE’ which is headquartered in Leiden in the Netherlands.⁷⁶ “*Speak Up*. Airbus is committed to maintaining a Speak Up culture by promoting an open and trusting dialogue with employees at all levels. All employees are encouraged to express their views, defend their opinions, and point out unacceptable behaviour—especially behaviour that violates our Code of Conduct. Employees can raise concerns to their line manager, their Human Resources Business Partner, to a Legal & Compliance representative, or through the Airbus “Openline” (www.airbusopenline.com). The OpenLine is a channel through which employees and other stakeholders may submit an alert securely and confidentially or anonymously. Alerts could relate to our Code of Conduct, policies and standards, or to compliance with applicable laws or regulations. The use of the

⁷⁶ Airbus SE (2019) *Ethics Compliance*. Available from: <https://www.airbus.com/company/ethics-compliance.html>

OpenLine is entirely optional and voluntary, and there will be no consequences for employees who do not use the system. Airbus protects those who Speak Up and raise concerns appropriately and in good faith; we do not retaliate against anyone who raises a concern, or against those who assist in investigations of suspected violations. Retaliation can take many forms, both direct and indirect, including: harassment, exclusion from meetings, sanction, dismissal, or other discriminatory measures, in particular related to compensation, profit-sharing, free share awards, job classification, performance reviews, promotion, training, transfers, contract renewal, etc.”⁷⁷ (Airbus SE, 2019, www.airbus.com).

6.5.2 Boeing Inc.

Another good example of an organization that has successfully implemented a Speak Up ethics and compliance service is the Illinois, Chicago, United States of America headquartered Boeing Corporation founded on July 15, 1916 by Bill Boeing who had an inspirational philosophy that stated; ‘*build something better*’⁷⁸ (Boeing Inc., 2019, <https://www.boeing.com/history/>). “*Boeing Overview*. Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners, defense, space and security systems, and service provider of aftermarket support. As America’s biggest manufacturing exporter, the company supports airlines and U.S. and allied government customers in more than 150 countries. Boeing products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training. Boeing has a long tradition of aerospace leadership and innovation”⁷⁹ (Boeing Corporation, 2019, <https://www.boeing.com/company/general-info/index.page#/overview>). “*Speaking up* is a cornerstone for building an open and accountable workplace culture. At Boeing, we believe that creating an environment where employees are comfortable raising issues and concerns without fear of retaliation enables openness which can lead to improved business performance and inspire greater innovation. Boeing maintains policies

⁷⁷ Airbus SE (2019) *Ethics Compliance*. Available from: <https://www.airbus.com/company/ethics-compliance.html>

⁷⁸ Boeing Inc., *Our History*, [Website], 2019, <https://www.boeing.com/history/>, (accessed 05 October 2019).

⁷⁹ Boeing Corporation, *Overview*, [Website], 2019, <https://www.boeing.com/company/general-info/index.page#/overview>, (accessed 12 October 2019).

and procedures to encourage employees to report concerns and seek guidance, using confidential and, when preferred, anonymous methods, including contacting local ethics advisors, using toll-free phone numbers and accessing web-based portals. Retaliation against reporting parties is strictly prohibited by the *Code of Conduct*, and action is taken against violators of anti-retaliation policies, up to and including dismissal. Boeing promotes awareness of the company’s reporting system and non-retaliation policies in recurrent employee communication, command media and posters that are displayed in high-traffic work areas across the enterprise. Managers also are asked to encourage speaking up within their own teams by using materials and resources developed by the Ethics and Business Conduct team to foster dialogue and increase openness. As part of the company’s Speaking Up initiative, managers and employees have access to a series of modules with supplemental team activities that emphasize the importance of speaking up, listening, and taking action. Electronic cards, or e-cards, can be used by all employees to recognize colleagues for speaking up and demonstrating leadership”⁸⁰ (Boeing Inc., 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>). The following section will cover aspects on how to build trust in the organization and boardroom.

6.6 How to build trust in the organization and boardroom

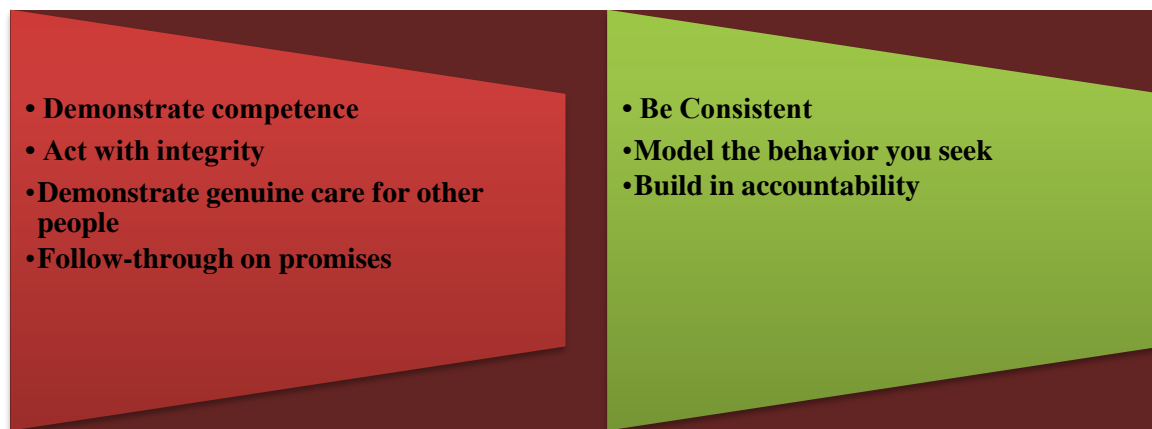
⁸¹“The important thing to remember is that trust does not come instantly with the badge of ‘company director’. ⁸²It takes time to build and takes work to maintain. Much of the literature available on building trust covers four main areas: demonstrating competence, acting with integrity, demonstrating genuine care for other people, and following through on promises” (Get On Board Australia, 2019, <https://getonboardaustralia.com.au/>). The various ways an organization can use to build trust will be depicted in Figure 6.3 below.

⁸⁰ Boeing Inc., *Ethics and Compliance*, [Website], 2019, <https://www.boeing.com/principles/ethics-and-compliance.page>, (accessed 05 October 2019).

⁸¹ Get On Australia (2019) *Building Trust On a Board*. Available from: <https://getonboardaustralia.com.au/building-trust-on-a-board/>

⁸² Ken Blanchard Companies Inc. (2019) *Blanchard Building Trust*. Available from: <https://www.kenblanchard.com/img/pub/blanchard-building-trust.pdf>

Figure 6.3 Seven ways an organization can use to build trust amongst employees and the boardroom



Source: Modifies (Get On Board Australia, 2019, <https://getonboardaustralia.com.au/>; Grossman, 2019, www.yourthoughtpartner.com).

⁸³“*What can you do as a board member to build trust?* From my experience, the most important things you can do is work to incorporate the four main trust-building practices into your regular routine:

6.6.1 Demonstrate competence: stay fresh and up-to-date in your area of expertise and in your role as a company director.

6.6.2 Act with integrity: as it said above, always do what is right over what is easy. In a board environment, this means being sure to state any conflicts of interest you may have (or that could be perceived), not using your position for personal gain (it’s also a breach of your legal duties if you do that), asking the difficult or confrontational question, holding people – and yourself – accountable for doing/not doing something, being prepared to lose your position as director if needed, and acting in the best long-term interest of the organisation as a whole (legally you need to do this). Note: it needs to be cross-checked with each country’s legislation.

6.6.3 Demonstrate genuine care for other people: come from a place of concern and understanding; be firm but flexible when holding people to account, not throwing people under

⁸³ Get On Board Australia (2019) *Building Trust On a Board*. Available from: <https://getonboardaustralia.com.au/building-trust-on-a-board/>

the bus if they have confided in you (unless it's absolutely life-or-death vital to do so), and talking to your fellow board members about things other than board matters.

6.6.4 *Follow-through on promises*: simply do what you say you're going to do. You're going to draft a board paper? Draft it. You promised to follow-up with someone? Follow up. You commit to a board committee? Show up to the meetings. I think you get my drift"⁸⁴ (Get On Board Australia, 2019, <https://getonboardaustralia.com.au/>).

6.6.5 "*Be consistent*. Consistently doing what you say you'll do builds trust over time – it can't be something you do only occasionally. Keeping commitments must be the essence of your behavior, in all relationships, day after day and year after year" (Grossman, 2019, www.yourthoughtpartner.com).

6.6.6 "*Model the behavior you seek*. Nothing speaks more loudly about the [culture of an organization](#) than the leader's behavior, which influences employee action and has the potential to drive their results. If you say teamwork is important, reinforce the point by collaborating across teams and functions. Give credit when people do great work and you'll set the stage for an appreciative culture"⁸⁵ (Grossman, 2019, www.yourthoughtpartner.com).

6.6.7 "*Build in accountability*. When you and other leaders acknowledge your mistakes as well as successes, employees see you as credible and will follow your lead. You can encourage honest [dialogue](#) and foster accountability by building in processes that become part of the culture, such as an evaluation of every project (positives, negatives, things to change) or a status report and next steps in each meeting agenda (tracking deadlines and milestones)" (Grossman, 2019, www.yourthoughtpartner.com). The next section will cover how an organization can create an honesty culture.

⁸⁴ Get On Board Australia (2019) *Building Trust On a Board*. Available from: <https://getonboardaustralia.com.au/building-trust-on-a-board/>

⁸⁵ Grossman, D. (2019) *Trust in the Workplace: 6 Steps to Building Trust with Employees*. Available from: <https://www.yourthoughtpartner.com/blog/bid/59619/leaders-follow-these-6-steps-to-build-trust-with-employees-improve-how-you-re-perceived>

6.7 Creating a successful honesty culture in the organization

In an organization there are numerous processes that a board and senior management can use to establish an effective culture of honesty depending on the type or size of the organization. Honesty is the first step towards achieving transparency.⁸⁶ Some of the steps an organization can implement in order to achieve a culture of honesty in a startup organization were identified by Newman, K.M. (2013) *Create An Honest Company Culture* published by <https://tech.co/>. These include:

6.7.1 “*Screen for honesty*. If you hire dishonest people, your company culture will be dishonest by default. So place a high value on honesty in your job candidates. To figure out if someone is honest, use your observation skills. Do any of their resume items seem exaggerated? Ask about them, and watch their response” (Newman, 2013, <https://tech.co/>).

6.7.2 ““*Explain the “why”*. Instead of issuing an ultimatum for honesty, try to explain why it’s valuable and make employees *want* to be honest. Explain that keeping secrets makes problems and mistakes stick around longer. To show you’re serious, put honesty in your mission statement or handbook”” (Newman, 2013, <https://tech.co/>).

6.7.3 “*Encourage open feedback*. A culture where everyone is sharing feedback, improving, and moving quickly past mistakes is a more productive one. To create it, lead by example and ask for ideas and critiques. Set up individual meetings with your team leaders specifically to hear their updates and thoughts” (Newman, 2013, <https://tech.co/>).

6.7.4 “*Share updates*. If you don’t share updates about your company’s progress, employees can easily suspect that you’re hiding something – especially at a startup, where the long-term survival of the company is sometimes in question” (Newman, 2013, <https://tech.co/>).

6.7.5 “*Set incentives*. If you’re more of a behavioral economics type, make sure to put the right incentives in place. Most importantly, don’t punish employees for their honesty about a problem or mistake. On the other hand, make sure to check employee reports and don’t tolerate any

⁸⁶ Newman, K.M. (2013) *Create An Honest Company Culture*. Available from: <https://tech.co/news/create-honest-company-culture-2013-02>

number-fudging or dishonesty. Little things like this convey that the company doesn't value honesty and can lead to more serious indiscretions. Finally, giving equity to employees can be a good way to align their incentives with the company's" (Newman, 2013, <https://tech.co/>). The conclusion of this chapter will be covered in the following section.

6.8 Conclusion

In this 21st century business environment ethics in an organization can easily be achieved by adopting a transparency and accountability mindset in the boardroom and the rest of the organization. Whenever business executives mention anything related to transparency the term accountability comes into the picture as they both cannot succeed with the input of the other. One of the key responsibilities of board of directors in an organization is to serve the organization with honesty and integrity in a manner that upholds transparency and accountability. A board that is founded on principles of speaking the truth on a regular basis is more likely to achieve the transparency, ethics and accountability agenda. Generally trust is the building block that cements transparency, ethics and accountability together. It can therefore be concluded that most of the organizations that are totally committed to implementing transparency as part of their ethics and compliance programs ensure that they establish effective communication channels with everyone in the organization and ethics programs such as anti-bribery & compliance, anti-corruption compliance, whistleblowing, Speak Up and many other programs.

6.9 Review questions

- 1). Define the terms 'honesty', 'transparency' and 'accountability'?
- 2). Briefly describe how ethics and transparency in the boardroom are interrelated?
- 3) Discuss six ways in which transparency is important to an organization?
- 4) Explain in-depth how an organization can practice transparency in the organization?
- 5) Describe how an organization can build trust at its workplace? Outline four ways an organization that is newly formed can use to create a successful honesty culture?

Chapter 7: Ethical leadership

After reading this chapter you should be able to:

- Explain the meaning of the terms ‘leadership’ and ‘ethical leadership’.
- Highlight the reasons why ethics and leadership are linked. List the benefits of effective business leadership.
- Describe the characteristics of an ethical leader. Discuss the three key elements of ethical leadership.
- Explain the impacts of ethical leadership in an organization. Describe in detail how a board of director can become an ethical leader.
- Describe what it means to be an ethical leader. Identify the seven steps used in making ethical decisions. Outline the six benefits of ethics training of board of directors.

7.1 Introduction

When we talk about ethics in the boardroom we automatically talk about leadership since directors are the leaders of an organization who have a fiduciary duty to be at the frontline of upholding ethical practices in the organization in order to lead by example to the people they lead. The new buzz word in the modern day business world is ‘ethical leadership’. Notably the need to transform through ethical leadership has put enormous pressure on the recruitment and selection processes of board nomination committees and human resources departments in organizations to hire ethical business leaders in the organization and its board. In addition the consistent exposure of major business scandals across the world on issues related to fraud, bribery and many other unethical practices in organizations has resulted in business owners/shareholders, directors and management to immensely invest in ethical leadership in their organizations in order to win their customers/investors confidence and boost their corporate image. One of the qualities of the true business leader is that they continuously guide the actions of their followers towards attaining the organization’s vision, mission and strategy. Effective leaders help to ensure that they properly inform and educate all the organization’s stakeholders in particular its employees about what the organization intends to accomplish (*purpose*) and the

strategies it will implement to attain its purpose. The definition of terms will be discussed in the following section.

7.2 Definition of terms

Several research studies, textbooks and online magazines have been published focusing on the subject of leadership and ethical leadership thus this has led to numerous definitions of these two terms being created. The term ‘*leadership*’ is whereby someone in a position of influence or authority is able to motivate, encourage, instruct and nurture the people they lead to act in a certain way in order to accomplish specific objectives or goals in a manner that achieves a win-win final outcome (Rudolph. Patrick. T. Muteswa, 2019). “*Ethical leadership* is a form of leadership in which individuals demonstrate conduct for the common good that is acceptable and appropriate in every area of their life”⁸⁷ (Villanova University, 2019, www.villanovau.com). The following section will cover the link between ethics and leadership.

7.3 Why ethics and leadership are related

“One characteristic of ethical leadership is to influence others. The ethical leader understands that positive relationships built on respect, openness, and trust are critical to creating an ethical organization environment. The underlying principles of ethical leadership are: integrity, honesty, fairness, justice, responsibility, accountability, and empathy. Ethical leaders strive to honor and respect others in the organization and seek to empower others to achieve success by focusing on right action”⁸⁸ (Mintz, 2018, www.ethicssage.com). “When it comes to ethics, we look to leaders to lead on ethics and take responsibility for both good and bad results. Philosophers have been discussing ethical leadership (as in what leaders should do) for quite some time but the topic is relatively new as an area of social scientific study. Leaders who lead ethically are role models, communicating the importance of ethical standards, holding their employees accountable to those standards, and- crucially- designing environments in which others work and live. Ethical leadership has been shown to cause a host of positive outcomes, and to reduce the risk of many

⁸⁷ Villanova University (2019) *What is Ethical Leadership?* Available from:

<https://www.villanovau.com/resources/leadership/what-is-ethical-leadership/>

⁸⁸ Mintz, S. (2018) *Leadership and Ethics Go Hand In Hand*. Available from:

<https://www.ethicssage.com/2018/03/leadership-ethics-go-hand-in-hand.html>

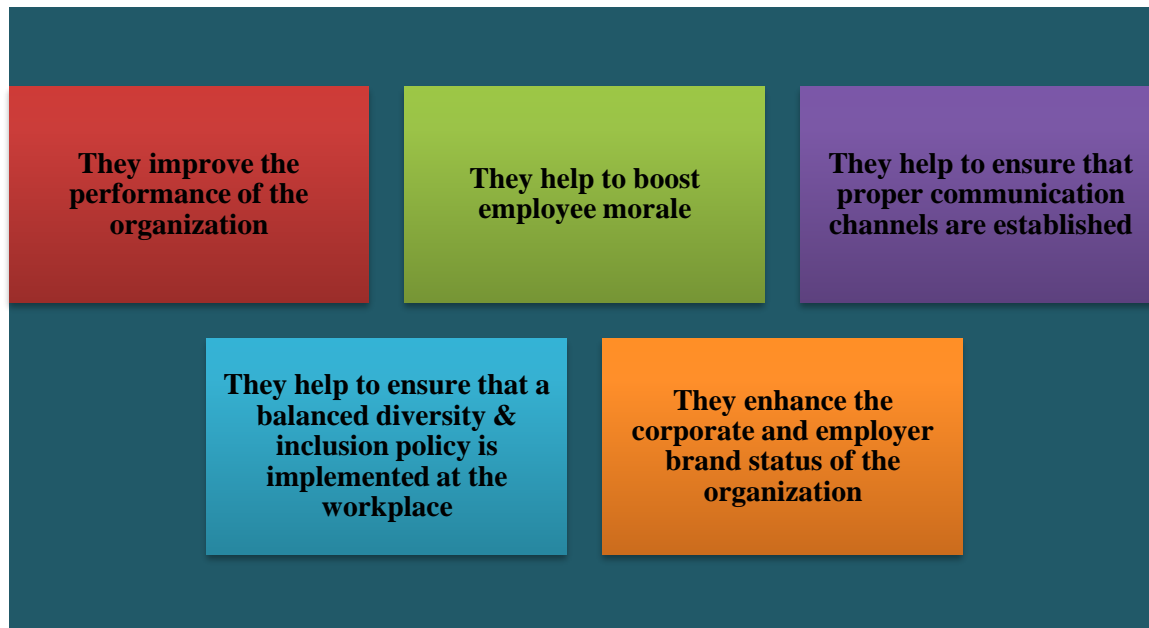
negative outcomes. *Leadership may therefore be the most important lever in an ethical system designed to support ethical conduct*⁸⁹ (Ethical Systems.org, 2019, <https://www.ethicalsystems.org/content/Ethical-Systems-Services>). ““An ethical organization is a community of people working together in an environment of mutual respect, where they grow personally, feel fulfilled, contribute to a common good, and share in the internal rewards, such as the achievement of a level of excellence common to a practice as well as the rewards of a job well done. By emphasizing community and internal rewards, ethical leaders commit to following a virtue-oriented approach to decision making based on a foundation of values-based leadership. Leaders lead by example. They set an ethical tone at the top. They lead with an attitude of “Do what I say as well as what I do.” Ethical leadership can be evaluated through a leader’s vision: Visions are not simple goals, but rather ways of seeing the future that implicitly or explicitly entail some notion of the good. Organizations suffer when leadership does not set an ethical tone at the top. The employees may be ethical but acting ethically requires an ethical leader who supports such behavior, not a leader blinded by ambition or greed as occurred in so many of the financial failures of the early 2000s”” (Mintz, 2018, www.ethicssage.com). In following section the benefits of effective business leadership will be discussed.

7.4 Benefits of effective business leadership

Business leaders are the drivers of success in an organization thereby making leadership the most influential element of success. Effective leaders are highly attentive to their immediate and future environment and they consistently look for new opportunities. Organizations that employ effective leaders enjoy numerous benefits and these are depicted in Figure 7.1 below.

⁸⁹ Ethical Systems.org (2019) *Leadership*. Available from: <https://www.ethicalsystems.org/content/Ethical-Systems-Services>

Figure 7.1 Benefits of effective leadership in an organization



As previously depicted by Figure 7.1 the benefits of ethical leadership are many and these include the following:

7.4.1 They improve the performance of the organization

An effective business leader ensures that the organization’s operational activities are in direct alignment with its mission statement and all the functional departments are working together to achieve a common goal. When all departments in an organization are working together it becomes easy to implement change that helps the organization to innovate its products, services, systems and processes. In general innovation helps the organization to perform better and gain or maintain a competitive advantage in the marketplace. Effective leaders focus on performance improvement in the organization and this is one advantage enjoyed by organizations that employ them.

7.4.2 They help to boost employee morale

An effective leader is an individual who is well respected, admired, transparent and with an unquestionable strong work ethic. The fact that employees are being led by effective leaders means that everything about the organization is done in a transparent and honest manner while

on the other hand everyone in the organization is consistently kept up-to-date with the latest information about the various topics happening in the organization. The morale of employees is often boosted by transparency and honest communications from their business leaders. An effective leader is naturally followed by the people they lead and their followers generally want to identify with them as a result of their charisma, strong work ethics, results-orientated approach and transparency at the workplace.

7.4.3 They help to ensure that proper communication channels are established

The most critical ingredient to effective leadership in any type or size of organization is communication. Organizations with good-to-great leaders have well established communication channels that they use to receive suggestions and grievances of employees on a daily basis and they also use these channels to provide timely feedback to employees or management on suggested ideas. An effective leader often ensures that an organization adopts the latest forms of technology to boost the free flow of communication from the top to the bottom structures of the organizational hierarchy structures. Some of the most successful organizations in the world with good-to-great leaders have adopted communication channels that include: social media platforms, emails, intranets, notice boards, podcasts, video recording, mobile phone texting (*short-message-services also known as SMS*), an official company website, fax, magazines, journals, newsletters or internal organizational news bulletins papers and so on. Effective leaders strongly believe that the people they lead have the right to know about everything taking place in the organization and they ensure that they provide them with all the available information on a regular basis to maintain transparency and accountability standards.

7.4.4 They help to ensure that a balanced diversity & inclusion policy is implemented at the workplace

The new kid on the block is the term ‘diversity’ and in the past decades this was not a popular topic. Today diversity at workplace or boardroom is inevitable due to the consistently changing demographic patterns of consumers in the global marketplace. In addition diversity has also become inevitable as a result of the high migration patterns of people across the world for various reasons. "*Diversity* means all the ways we differ. Some of these differences we are born

with and cannot change. Anything that makes us unique is part of this definition of diversity. *Inclusion* involves bringing together and harnessing these diverse forces and resources, in a way that is beneficial. Inclusion puts the concept and practice of diversity into action by creating an environment of involvement, respect and connection - where the richness of ideas, backgrounds, and perspectives are harnessed to create business value. Organizations need both diversity and inclusion to be successful"⁹⁰ (Jordan, 2011, www.diversityjournal.com/). An effective leader helps to ensure that the organization and its boardroom develops policies that help to avoid the discrimination of employees and job candidates based on gender, race, disability and to provide equal opportunity of employment⁹¹ (Laubscher, 2001:18). A typical good example of an organization that has enjoyed a balanced diversity management policy and program as a result of its highly effective good-to-great leaders is multinational consumer goods manufacturer Procter & Gamble, headquartered in Cincinnati, Ohio, USA producers of personal care, grooming, hair care, baby diapers and feminine hygiene brands that include, Pampers, Always, Head & Shoulders, Pantene, Ariel, Gillette (razors, shaving cream, after-shave, shampoo, deodorants and so on), Vicks (cough & cold medicines) and many others⁹² (Procter & Gamble, 2015). Procter & Gamble's human resources management acknowledges the following: that every employee is talented in their own way that helps to differentiate them from the rest of the other employees; amidst the highly exposed differences at each and every workplace at the end of the day people come from different cultures, have diverse opinions and unique personal experiences in life (Procter & Gamble, 2015). Diversity management at Procter & Gamble is not a sole responsibility of the human resources management but an organizational effort that requires commitment from the board of directors, top management, middle management, lower level management and the employees. Therefore the mission of Diversity and Inclusion is: "*Everyone valued. Everyone included. Everyone performing at their peak*" (Procter & Gamble, 2015).

⁹⁰ Jordan, T. H. (2011) Moving from Diversity to Inclusion. *Profiles in Diversity Journal*. Available from: www.diversityjournal.com/1471-moving-from-diversity-to-inclusion/

⁹¹ Laubscher, C (2001) Managing Diversity. *People Dynamics*, p16-18.

⁹² Procter & Gamble (2015) *Diversity & Inclusion Annual Report: Enabling a Culture of Innovation & Productivity*. Available from: https://za.pg.com/-/media/PGCOMUS/Documents/PDF/Who_We_Are/DiversityandInclusion/PD_DiversityInclusion_AR_2012%20pdf.pdf?la=en-ZA&v=1&hash=4FFCAD808ADD64852EFE61FCE388C996DEC99D05

7.4.5 They enhance the corporate and employer brand status of the organization

Nowadays global markets or stock exchange indexes are strongly influenced by the activities of business leaders in organizations including the positioning of products/services in the marketplace. High quality leadership helps the organization to perform better in the global markets or stock exchange ratings which ultimately boost the share value of the organization. Thus effective leadership is a key determinant of success in an organization. Notably organizations that employ effective business leaders often adapt modern day talent management approaches of creating a conducive workplace where everyone wants to work and this helps the organization to attain the employer of choice status amongst the highly skilled or talented job seekers in the labor market. Organizations that offer workplaces where everyone wants to work gain powerful employer brand statuses and an improved corporate image in the market. Therefore, an effective leader automatically becomes the brand ambassador of the organization in the marketplace as he/she naturally helps to boost the corporate image of the organization. In the next section the characteristics of an ethical leader will be covered.

7.5 Characteristics of an ethical leader

“Good leaders display certain personality traits that are common across cultures and history; those of intelligence and imagination to create a compelling vision of the future, and bring those who can deliver it with them. A good leader must also be trustworthy and display unshakeable integrity, be action-oriented, resilient in the face of setbacks while treating people with respect, not as mere units of production. They have rid themselves of delusion and are brutally honest with themselves, know when to take risks and when to play it safe. Leaders are courageous, defy group-think and accept the backlash against their unorthodox practices”⁹³ (Tuffley and Antonio, 2015, <http://theconversation.com>). The five traits of ethical leaders will be depicted in Figure 7.2 below.

⁹³ Tuffley, D. and Antonio, A. (2015) *Five Traits of An Ethical Leader*. Available from: <http://theconversation.com/five-traits-of-an-ethical-leader-51181>

Figure 7.2 Five traits of ethical leaders



Source: Modified: (Tuffley and Antonio, 2015, <http://theconversation.com>).

⁹⁴According to Tuffley and Antonio (2015):

7.5.1 The ability to set a good example. The defining feature of the ethical leader is that in addition to the foundational qualities mentioned above, they are seen to act from their own well developed set of ethical principles, setting a consistently good example for others to follow. The steady force of their attitude over time trickles down and becomes embedded in the culture. They have created a moral matrix that people internalise and operate from day to day.

⁹⁴ Tuffley, D. and Antonio, A. (2015) *Five Traits of An Ethical Leader*. Available from: <http://theconversation.com/five-traits-of-an-ethical-leader-51181>

7.5.2 *Selflessness*. Ethical leaders are strong on selfless service in the interests of the greater good.

7.5.3 *Their door is always open*. The whole topic of ethics is open for discussion, and everyone is encouraged to become part of the ongoing conversation. The moral DNA of the organisation is a work in progress; a living entity that evolves, becomes stronger. It is not enshrined in a framed mission statement, then forgotten about.

7.5.4 *They're not afraid to be challenged*. Having one's subordinates call you out, disagree with you, challenge your judgement; all of this calls for great understanding and tolerance. Ethical leaders understand that it's part of a culture of continuous improvement. There can be no '*I'm the boss, don't you dare challenge my authority*'. It is part of not taking oneself too seriously. Self-deprecating humour is used to good effect. Ethical leaders do not identify too closely with the position they occupy, such that they will be tempted to overstay their welcome. They cultivate successors and know when to step aside, leaving on a high rather than being pushed. New blood rejuvenates; it's often the best strategy for moving with the times.

7.5.5 *They take responsibility for everything*. The ethical leader accepts that they are either directly or indirectly responsible for everything that happens in the organisation. The ethical leader does not resort to the 'plausible deniability' defence (Tuffley and Antonio, 2015, <http://theconversation.com>). The following section will discuss the key elements of ethical leadership.

7.6 Key elements of ethical leadership

⁹⁵According to Villanova University (2019) ethical leadership is a form of leadership in which individuals demonstrate conduct for the common good that is acceptable and appropriate in every area of their life. It is composed of the following three major elements:

⁹⁵ Villanova University (2019) *What is Ethical Leadership?* Available from: <https://www.villanovau.com/resources/leadership/what-is-ethical-leadership/>

7.6.1 Be the Example

A noble quality of a leader is leading by example. As an ethical leader, it's important to remember that actions often speak louder than words. People are more likely to judge someone based on how they act, rather than what they say. By practicing and demonstrating the use of ethical, honest and unselfish behavior to subordinates, ethical leaders may begin to earn the respect of their peers. People may be more likely to follow a leader who respects others and shows integrity.

7.6.2 Champion the Importance of Ethics

One role of an ethical leader is focusing on the overall importance of ethics, including ethical standards and other ethical issues, and how these factors can influence society. As an ethical leader, it's important to teach peers about ethics, especially in cases where they are faced with an ethical issue in the workplace⁹⁶.

7.6.3 Communicate

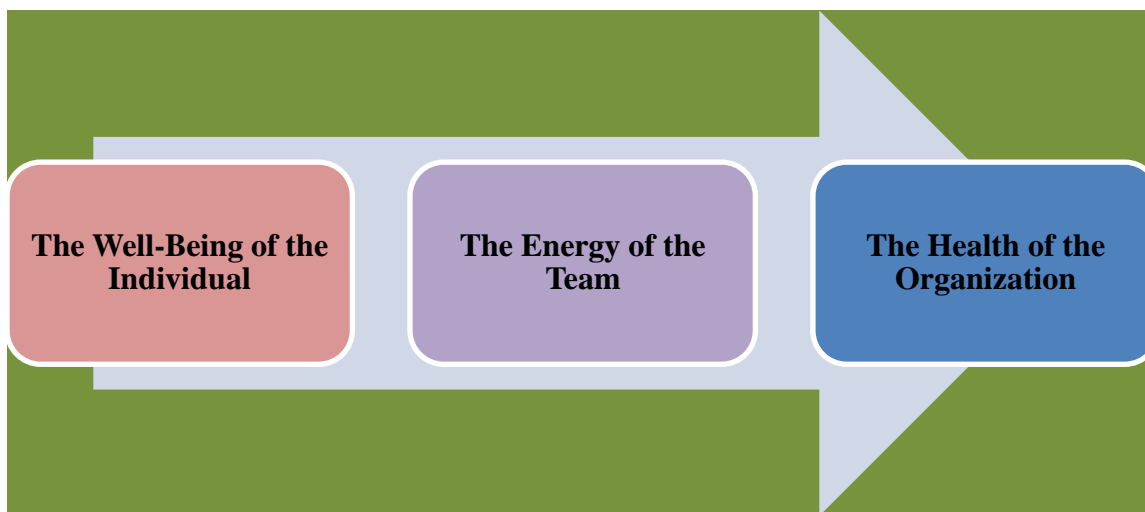
Successful ethical leaders tend to be good communicators. People communicate in different ways. Some may feel comfortable speaking in public, regardless of personnel or situation, while others may be hesitant to speak with a leader because of fear, anxiousness or simply not knowing how to articulate what they are trying to say. They might be better talking via email, rather than in person. It's an ethical leader's job to communicate with each member of the team, but also allow for open conversation, as some people may have questions and concerns that need addressed. It's important for leaders to build camaraderie with their team. Quality relationships tend to be built on trust, fairness, integrity, openness, compassion and respect (Villanova University, 2019, www.villanovau.com/). The following section will cover the impacts of ethical leadership.

⁹⁶ Villanova University (2019) *What is Ethical Leadership?* Available from: <https://www.villanovau.com/resources/leadership/what-is-ethical-leadership/>

7.7 Impacts of ethical leadership

“Ethical leaders can help to establish a positive environment with productive relationships over three levels: the individual, the team and the overall organization” (Villanova University, 2019, www.villanovau.com/). The three impacts ethical leadership have in an organization will be depicted in Figure 7.3 below.

Figure 7.3 Three impacts of ethical leadership in an organization identified by Villanova University (2019)



Source: Modified: (Villanova University, 2019, www.villanovau.com/).

⁹⁷According to the Villanova University (2019) nurturing the relationships at each of these levels can lead to the following outcomes and benefits:

7.7.1 The Well-Being of the Individual

Maintaining a positive working atmosphere is an important responsibility of a strong ethical leader. Ethical leaders who lead by example may influence others to do the same. Generally, people are affected by the interactions that occur around them. Positive communication among co-workers may help influence job productivity and attitude.

⁹⁷ Villanova University (2019) *What is Ethical Leadership?* Available from: <https://www.villanovau.com/resources/leadership/what-is-ethical-leadership/>

7.7.2 *The Energy of the Team*

Ethical leadership can also involve the management of conduct and collaboration within a team. Typically, morale is higher in the workplace when people are getting along with each other. When co-workers are working as a team, it can help build relationships in the workplace and help the overall performance of the group. Generally, strong leaders lead by example⁹⁸.

7.7.3 *The Health of the Organization*

The importance of maintaining a positive attitude in the workplace has a lot to do with improving the overall health of the organization. When people can show respect for one another, and can value other's opinions, it may help create a productive working environment. An ethical organization can occur when communities of people work together in an environment of mutual respect, where they can grow personally, build friendships and contribute to the overall goal (Villanova University, 2019, www.villanovau.com/). The next section will cover how to become an ethical leader in the organization.

7.8 How to become an ethical leader

“We live in a time where it’s almost impossible to identify role models. Most leaders are all too willing to compromise their values to achieve some goal. It’s an end justifies the means culture”⁹⁹ (Mintz, 2018, www.ethicssage.com). There is no clear and simple path an individual can follow in order to become the ultimate ‘super’ brilliant leader but efforts have been made in academia to determine what are some of the things business executives or directors can do to become ‘ethical leaders’. ¹⁰⁰According to the Ethical Systems.org (2019):

⁹⁸ Villanova University (2019) *What is Ethical Leadership?* Available from:

<https://www.villanovau.com/resources/leadership/what-is-ethical-leadership/>

⁹⁹ Mintz, S. (2018) *Leadership and Ethics Go Hand In Hand*. Available from:

<https://www.ethicssage.com/2018/03/leadership-ethics-go-hand-in-hand.html>

¹⁰⁰ Ethical Systems.org (2019) *Leadership*. Available from: <https://www.ethicalsystems.org/content/Ethical-Systems-Services>

- *Make ethics a clear priority.* Being an ethical leader means going beyond being a good person. Ethical leaders make ethics a clear and consistent part of their agendas, set standards, model appropriate behavior, and hold everyone accountable.
- *Make ethical culture a part of every personnel-related function in your organization.* Leaders must work hard through hiring, training, and performance management systems to bring in the right employees and then help employees internalize the organization's underlying values.
- *Encourage, measure, and reward ethical leadership at multiple levels.* Ethical leadership from the top is very important- because it creates an environment in which lower-level ethical leaders can flourish- but ethical leadership at the supervisory level has a huge impact on followers' attitudes and behavior. In fact, mid-level managers often find promoting C&E a greater challenge than do senior executives. Mid-level managers should be encouraged to:
 - Regularly communicate about C&E issues to employees in their work unit;
 - *Ensure that C&E 'performance'* is adequately reflected in employee evaluations and compensation decisions;
 - *Be alert to exemplary ethical behavior* in the work unit, and—as appropriate—praise that behavior to others in the unit¹⁰¹ (Ethical Systems.org, 2019, <https://www.ethicalsystems.org/content/Ethical-Systems-Services>). The following section will cover the steps used to ensure ethical decisions are made in an organization.

7.9 How to conduct ethical decision making in an organization & the boardroom

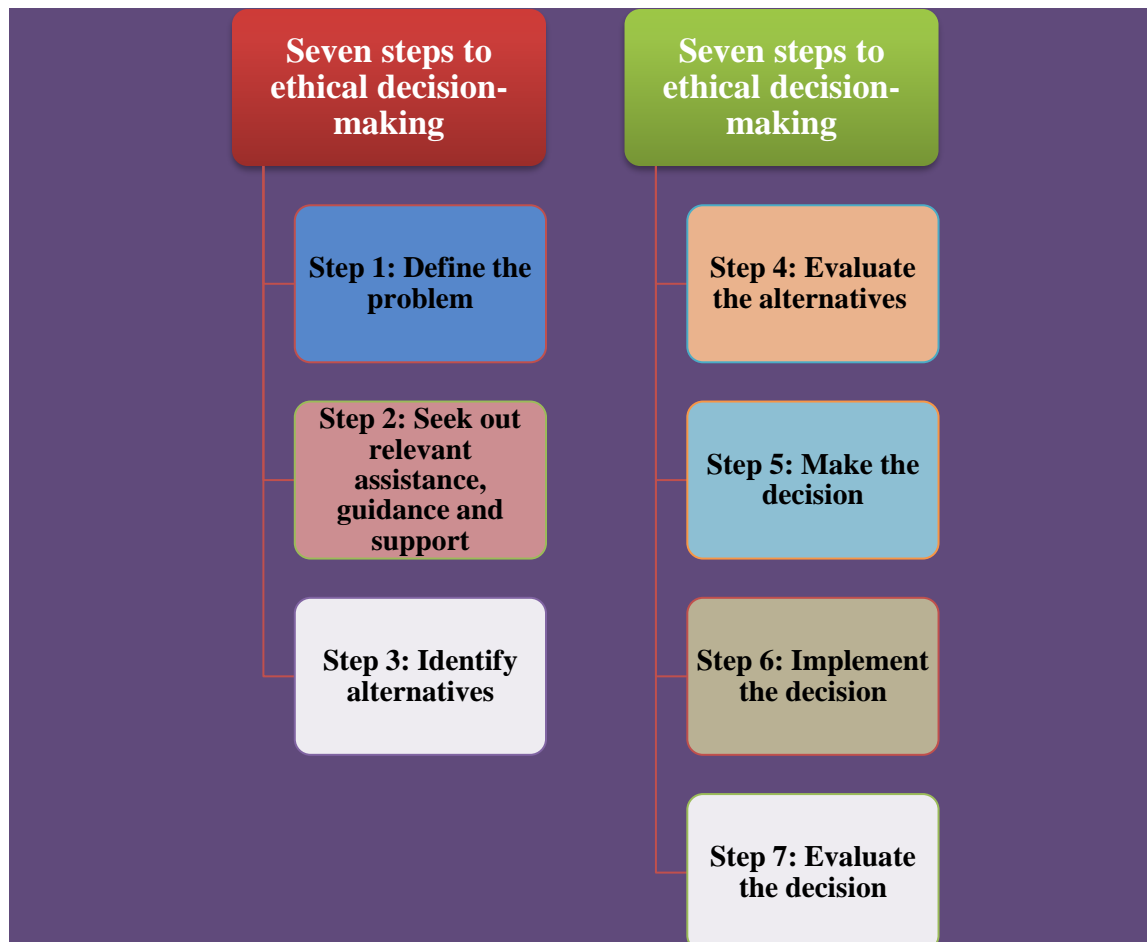
“Organizations struggle to develop a simple set of guidelines that makes it easier for individual employees, regardless of position or level, to be confident that his/her decisions meet all of the competing standards for effective and ethical decision-making used by the organization. Such a model must take into account two realities:

¹⁰¹ Ethical Systems.org (2019) *Leadership*. Available from: <https://www.ethicalsystems.org/content/Ethical-Systems-Services>

- Every employee is called upon to make decisions in the normal course of doing his/her job. Organizations cannot function effectively if employees are not empowered to make decisions consistent with their positions and responsibilities.
- For the decision maker to be confident in the decision's soundness, every decision should be tested against the organization's policies and values, applicable laws and regulations as well as the individual employee's definition of what is right, fair, good and acceptable"¹⁰² (Ethics and Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/decision-making-model/>). "© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org". Figure 7.4 will help to depict some of the steps that can be used by board of directors and senior management in an organization when making ethical decisions.

¹⁰² Ethics and Compliance Initiative (2019) *Decision Making Model*. Available from: <https://www.ethics.org/resources/free-toolkit/decision-making-model/> "© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".

Figure 7.4 Seven steps to ethical decision-making



Source: Modified: (Ethics and Compliance Initiative, 2019, www.ethics.org/)

¹⁰³As depicted by Figure 7.4 according to the Ethics and Compliance Initiative (2019):

Step 1: Define the problem

The most significant step in any decision-making process is to determine why a decision is called for and identify the desired outcome(s). How you define a problem shapes your understanding of its causes and where you will search for solutions. First, explore the difference between what you expect and/or desire and the current reality. By defining the problem in terms of outcomes, you

¹⁰³ Ethics and Compliance Initiative (2019) *Decision Making Model*. Available from:

<https://www.ethics.org/resources/free-toolkit/decision-making-model/> “© 2019 Ethics & Compliance Initiative.

Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

can clearly state the problem. Consider this example: Tenants at an older office building are complaining that their employees are getting angry and frustrated because there is always a long delay getting an elevator to the lobby at rush hour. ¹⁰⁴Many possible solutions exist, and all are predicated on a particular understanding the problem:

- Flexible hours – so all the tenants’ employees are not at the elevators at the same time.
- Faster elevators – so each elevator can carry more people in a given time period.
- Bigger elevators – so each elevator can carry more people per trip.
- Elevator banks – so each elevator only stops on certain floors, increasing efficiency.
- Better elevator controls – so each elevator is used more efficiently.
- More elevators – so that overall carrying capacity can be increased.
- Improved elevator maintenance – so each elevator is more efficient.
- Encourage employees to use the stairs – so fewer people use the elevators.

The real-life decision makers defined the problem as “people complaining about having to wait.” Their solution was to make the wait less frustrating by piping music into the elevator lobbies. The complaints stopped. There is no way that the eventual solution could have been reached if, for example, the problem had been defined as “too few elevators.” How you define the problem determines where you go to look for alternatives/solutions– so define the problem carefully.

Step 2: Seek out relevant assistance, guidance and support

Once the problem is defined, it is critical to search out resources that may be of assistance in making the decision. Resources can include people (i.e., a mentor, coworkers, external colleagues, or friends and family) as well professional guidelines and organizational policies and codes. Such resources are critical for determining parameters, generating solutions, clarifying priorities and providing support, both while implementing the solution and dealing with the repercussions of the solution (Ethics and Compliance Initiative, 2019,

¹⁰⁴ Ethics and Compliance Initiative (2019) *Decision Making Model*. Available from:

<https://www.ethics.org/resources/free-toolkit/decision-making-model/> “© 2019 Ethics & Compliance Initiative.

Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

<https://www.ethics.org/resources/free-toolkit/decision-making-model/>). Furthermore, according to the Ethics and Compliance Initiative (2019):

Step 3: Identify available alternative solutions to the problem

The key to this step is to not limit yourself to obvious alternatives or merely what has worked in the past. Be open to new and better alternatives. Consider as many as solutions as possible — five or more in most cases, three at the barest minimum. This gets away from the trap of seeing “both sides of the situation” and limiting one’s alternatives to two opposing choices (i.e., either this or that)¹⁰⁵.

Step 4: Evaluate the identified alternatives

As you evaluate each alternative, identify the likely positive and negative consequence of each. It is unusual to find one alternative that would completely resolve the problem and is significantly better than all others. As you consider positive and negative consequences, you must be careful to differentiate between what you know for a fact and what you believe might be the case. Consulting resources, including written guidelines and standards, can help you ascertain which consequences are of greater (and lesser) import. You should think through not just what results each alternative could yield, but the likelihood it is that such impact will occur. You will only have all the facts in simple cases. It is reasonable and usually even necessary to supplement the facts you have with realistic assumptions and informed beliefs. Nonetheless, keep in mind that the more the evaluation is fact-based, the more confident you can be that the expected outcome will occur. Knowing the ratio of fact-based evaluation versus non-fact-based evaluation allows you to gauge how confident you can be in the proposed impact of each alternative (Ethics and Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/decision-making-model/>). Furthermore, according to the Ethics and Compliance Initiative (2019):

¹⁰⁵ Ethics and Compliance Initiative (2019) *Decision Making Model*. Available from: <https://www.ethics.org/resources/free-toolkit/decision-making-model/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

Step 5: Make the decision

When acting alone, this is the natural next step after selecting the best alternative. When you are working in a team environment, this is where a proposal is made to the team, complete with a clear definition of the problem, a clear list of the alternatives that were considered and a clear rationale for the proposed solution.

Step 6: Implement the decision

While this might seem obvious, it is necessary to make the point that deciding on the best alternative is not the same as doing something. The action itself is the first real, tangible step in changing the situation. It is not enough to think about it or talk about it or even decide to do it. A decision only counts when it is implemented.

Step 7: Evaluate the decision

Every decision is intended to fix a problem. The final test of any decision is whether or not the problem was fixed. Did it go away? Did it change appreciably? Is it better now, or worse, or the same? What new problems did the solution create? (Ethics and Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/decision-making-model/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”. All the issues related to the board of directors ethics training will be discussed in the following section.

7.10 Board of directors’ ethics training

Training can be defined as an instructor-led human resources management activity that focuses on the sharing of knowledge, skills and character to an individual or group of people in order to assist them to enhance their job performance and productivity levels at the workplace^{106 107}

¹⁰⁶ Masadeh, M. (2012) Training, Education, Development and Learning: What is the Difference? *European Scientific Journal Vol 8(10)*, p63-65.

¹⁰⁸(Manpower Services Commission, 1981; Masadeh, 2012:63). On the other hand *training* itself can be defined as a learning process that can be conducted ‘on-the-job’ and or ‘off-the-job’ in order to directly improve the performance of the trainee in performing their job related duties (Masadeh, 2012:63). Board of director ethics training helps to trigger quick, analytical and decisive thinking in the board of directors which results in faster problem solving abilities. Regular ethics training of the board of directors helps them to be consistently kept abreast with new latest skills, knowledge and concepts on all matters related to ethics, honesty, transparency, accountability and integrity so that they may easily cope with changes in the micro and macro business environment. Figure 7.5 below helps to highlight the six benefits of the board of directors’ ethics training.

¹⁰⁷ Manpower Services Commission (1981) *Glossary of Training Terms*. London: HMSO

¹⁰⁸ Manpower Services Commission (1981) *Glossary of Training Terms*. London: Department of Employment now the Department for Work and Pensions. Available from: <https://www.gov.uk/government/> © Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> OGL v3.0

Figure 7.5 Six benefits of ethics training by the board of directors



7.10.1 It helps board of directors to protect and utilize the organization's assets or resources strategically

An ethically trained board of director is more likely to be a disciplined individual in the organization who carries-out his/her fiduciary duties in a responsible manner. Board of directors with adequate training in ethics practice are often more cautious when performing their daily duties at the workplace and they usually first conduct their due diligence. This is done before using the organization's scarce resources or assets in order to avoid unnecessary wastage costs as they are consistently knowledgeable of the fact that these scarce resources play a critical role in helping the organization to achieve its long term goals or vision.

7.10.2 It helps to boost performance

Board training generally helps board of directors to boost their performance levels in carrying-out their day-to-day activities. Training makes board of directors to become much more efficient and effective at the workplace. In most of the organizations board training helps to improve board of directors' effectiveness since trained board members are in a better position to produce

excellent quality work results, make fewer mistakes and they often require less supervision. Therefore, ethics training helps board of directors to make less mistakes on all matters related to ethics and compliance in the organization.

7.10.3 It helps to boost creative thinking on issues related to ethics, accountability and transparency

When board of directors receive ethics training their reasoning is generally boosted and they become more creative in generating useful ideas on topics related to ethics, accountability, honesty and transparency. In general when innovative thinking is ignited in business leaders new viable ideas are consistently generated as these new ideas often help the organization to solve its current problems it would have identified in the boardroom in a cost effective manner. New policies, codes of ethics/conducts and or values statements that help to guide senior management and employees at the workplace on a daily basis on how to deal with ethics related issues in an organization are a true reflection of the positive results of effective ethics board training due to the fact that board of directors play a critical role in devising these policies using their newly acquired board training knowledge.

7.10.4 Enhanced customer satisfaction and corporate image

When professional ethics training is provided to board of directors they often share their newly acquired knowledge with their subordinates (*or senior management*) who also share their newly acquired knowledge with other employees in the organization.

7.10.5 It leads to reduced unethical behavior in the boardroom

In general board of directors and senior management often make the mistake of assuming that a code of ethics is the solution to ethical dilemmas in an organization and all matters related to ethics must be solved by opening the code of ethics/conduct. Indeed it is true that codes help to solve ethical problems but in certain instances a decision must be made based on the concept of ‘right or wrong or morals’ in order to guide the organization in the right direction. When board of directors receive regular ethics training they are empowered to become champions in ethics

and compliance knowledge, philosophy, principles and values to the extent that an ethics culture is naturally embedded in their working life thereby reducing any form of unethical behavior in the boardroom. Highly functional boardrooms have zero to none occurrences of unethical behavior in the boardroom.

7.10.6 It helps to align an ethics culture in an organization with corporate and business strategy

Board of directors when they receive ethics training they become much more knowledgeable of the advantages of ethical practices in an organization and how an ethics culture helps to propel the organization towards achieving its long term vision or goals. When board of directors understand the goals of ethics training they are often better able to support or commit to the ethics program and furthermore initiate a process of aligning the organization's ethical practices and standards with either the business strategy or corporate strategy. The conclusion of this chapter will be discussed in the following section.

7.11 Conclusion

Undoubtedly there is a relation between ethics and leadership. Board of directors have a fiduciary duty to be at the frontline of upholding ethical practices in the organization in order to lead by example to the people they lead. Organizations that strive to be champions of ethical practice must ensure that they invest adequate resources in their board nomination committees and human resources departments in order to hire ethical business leaders in the organization and its board. The regular media headlines exposing major business scandals across the world on issues related to fraud, bribery and many other unethical practices in organizations has resulted in business owners/shareholders, directors and management to immensely invest in ethical leadership. Organizations that hire effective leaders in their board of directors are more likely to boost their corporate image and employer brand status in the market. It can be concluded that ethical leaders are trustworthy, display unshakeable honesty and a strong work ethic.

7.12 Review questions

1) What is the meaning of the terms 'leadership' and 'ethical leadership'?

- 2) Discuss the reasons why ethics and leadership are linked? Outline the benefits of effective business leadership?
- 3) Identify the characteristics of an ethical leader? Describe the three key elements of ethical leadership?
- 4) Describe the impacts of ethical leadership in an organization? Explain in detail how a board of director can become an ethical leader?
- 5) Describe what it means to be an ethical leader? Describe the seven steps an organization can use to make ethical decisions? Identify the six benefits of ethics training of board of directors?

Chapter 8: Appointment of ethical ambassadors in the boardroom

After reading this chapter you should be able to:

- Define the terms ‘ethics ambassador’ and ‘ethics champion’.
- List the various responsibilities of an ‘ethics ambassador’.
- Identify who is responsible of ethics in an organization.
- Explain the range of job titles associated with the ‘ethics ambassador’ roles.
- Explain why ethics ambassadors play a critical role in the ethics programme of the organization.

8.1 Introduction

Today ethics and compliance are now the key determinants of success in any type of organization operating in both the public and or private sector. The availability of research and knowledge often helps to determine what motivates people to behave unethically or make unethical decisions. Generally a greater understanding of the motives behind unethical behavior by people helps to play a crucial role of enabling the organization to adopt measures that help to avoid the repeat of such unethical behavior in its day-to-day activities. It has since been discovered that ethical decisions are driven by three elements: (1) a person’s moral standards, (2) the influence of their colleagues and immediate superior and (3) lastly the opportunity to carry-out the unethical act. For instance, if your colleagues decide for themselves to finish their working day at a time that is much earlier than the official stipulated time you are more likely to follow in their footsteps, and this is due to the fact that people in the organization have an enormous influence over the decisions or actions you carry-out at the workplace¹⁰⁹ (Ferrell and Hirt, 2000:63). Thus this is one of the key reasons why organizations are now hiring people who specifically focus on guiding the organizations board of directors, senior management and

¹⁰⁹ Ferrell, O. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: McGraw-Hill Incorporation, p60-65.

employees on all matters related to ethics and compliance in the organization. The following section will cover the definition of the following terms ‘ethics ambassadors’ and ‘ethics champion’.

8.2 Definition of terms

It is important to first have a more detailed understanding of the meaning of a term before applying it. In this chapter the term ‘ethics ambassador’ and ‘ethics champion’ are some of the terms that will be used more often. “*Ethics ambassadors* can be defined as employees that assist senior management in promoting an ethical culture based on shared core values within the organization”^{110 111}(Institute of Business Ethics, 2017:1, <https://www.ibe.org.uk/>). The following section will discuss the responsibilities of an ethics ambassador in the organization.

8.3 Responsibilities of an ethics ambassador

There are numerous responsibilities that are associated with the job title of an ethics ambassador.¹¹²“Care needs to be taken to ensure that the responsibility allocated to an ethics ambassador is commensurate with his/her skills, experience and motivation. This may include:

- localising global ethics material and initiatives,
- acting as a point of contact for employees,
- acting as an advocate for the ethics programme, the values of the organization and communicating and disseminating information from the ethics office;
- delivering training; recording, reporting and investigating suspected unethical conduct;

¹¹⁰ Institute of Business Ethics (IBE) (2017) Ethics Ambassadors: Promoting Ethics on the Front Line. *Business Ethics Briefing, Issue 57*. Available from:

https://www.ibe.org.uk/userassets/briefings/ibe_briefing_57_ethics_ambassadors.pdf

¹¹¹ IBE Good Practice Guide (2010) Ethics Ambassadors

¹¹² Steinholtz, R.N. and Irwin, J. (2010) *GOOD PRACTICE GUIDE: Ethics Ambassadors*. London: Institute of Business Ethics, p4-10.

- investigating reports of misconduct;
- keeping the ethics programme top of mind with leaders”¹¹³ (IBE Good Practice, Steinholtz, R.N. and Irwin, J., 2010, *Ethics Ambassadors* cited in Institute of Business Ethics, 2017, https://www.ibe.org.uk/userassets/briefings/ibe_briefing_57_ethics_ambassadors.pdf). The parties that are responsible of ethics in an organization will be discussed in the following section.

8.4 Who is responsible of ethics & the range of job titles associated with the ‘ethics ambassador’ roles

The task of overseeing that all matters related to ethics and compliance in an organization is conducted by ethics officers in the organization. One of the most common mistake the board of directors, senior management and employees often make is assuming that the responsibility of ethics lies with ethics ambassadors only whilst in actual fact the responsibility lies with everyone in the organization and they all have a role to play in ensuring that the ethics standards and policies of the organization are maintained or improved on a regular basis. The modern day term that is similar to the term ‘ethics officers’ which is more popular nowadays in organizations is ‘ethical ambassadors’. The job titles that are linked to the role of an ethics ambassador depend on the type, size and operations of the organization. In some organizations the job titles these different titles simply refer to the role of an ethics ambassador. *“What are ethics ambassadors?”* Ethics ambassadors are employees selected to formally assist senior management in promoting and embedding the ethics policies, codes of conduct, business principles, statements of values or other similar policies of their organisations. The post of ethics ambassador may be full-time or may be taken on in addition to an employee’s day-to-day job. Ethics ambassadors will normally be positioned throughout the company; across business units, geographical locations, and the hierarchy of an organisation and may comprise an informal ‘network’ of diverse employees with similar responsibilities. In practice ethics ambassadors have a range of different job titles depending on the organisation and the scope of their responsibilities within it. Examples include:

- Ethics Champion
- Ethics Advisor

¹¹³ Institute of Business Ethics, Steinholtz, R. and Irwin, J. (2010) *Ethical Ambassadors*. Available from: https://www.ibe.org.uk/userassets/pubsummaries/ea_gpg_exec_summary.pdf

- Ethics Point of Contact
- Ethics Coordinator
- Ethics Officer
- Ethics and Compliance Focal Point
- Compliance and Ethics Leader
- Ethics Liaison
- Business Compliance Representative
- Business Conduct Officer
- Compliance and Ethics Ambassadors
- Operating Company Compliance Officer
- Ethics Star” (Institute of Business Ethics, Steinholtz, R. and Irwin, J., 2010, <https://www.ibe.org.uk>). The following section will cover why ethics ambassadors play a critical role in the ethics programme of the organization.

8.5 Why ethics ambassadors play a critical role in the ethics programme of the organization

An ethics programme encompasses all the activities that are related to ethics and compliance in the organization while on the other hand they are specific ethics programs such as whistleblowing, anti-bribery and speaking up programs. The various contributions done by ethics ambassadors in the ethics program of the organization will be depicted in Figure 8.1 below.

Figure 8.1 Five contributions made by ethics ambassadors to the ethics program in an organization



Source: Modified: (Ethics & Compliance Initiative, 2018, www.ethics.org; Institute of Business Ethics, 2017:2, <https://www.ibe.org.uk/>)

The five contributions of ethics ambassadors in an organization that were previously highlighted in Figure 8.1 include the following:

8.5.1 *“Ethics Ambassadors expand the reach and effectiveness of your ethics & compliance program.* This report shows that in organizations with robust E&C programs, assigning ethics ambassadors, or ethics liaisons, proves to be an effective and cost-efficient way to enlist employees in the effort to communicate and support the E&C program. The report defines an ethics ambassador as, *“an employee designated as a single point of contact within an organization’s business units to assist with building and sustaining an ethical culture through communication, training and other ethics or compliance-related initiatives.”*¹¹⁴ (Ethics & Compliance Initiative, 2018, www.ethics.org). *“© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”*.

8.5.2 *They help to enforce the code of ethics and code of conduct in the organization.* Board of directors, senior management and employees often rely on the guidance of the code of ethics and code of conduct to determine the do’s and don’ts on matters relating to the organization’s operational activities. Ethics ambassadors are usually the initiators towards the introduction of ethics programs and culture in an organization. When an ethics culture is embedded as the new way of doing things in an organization people tend to engage in ethical practices and perform their daily duties in line with the professional code of conduct of the organization. Therefore ethics ambassadors are the cornerstone of upholding the code of ethics in the organization as they ensure that they educate everyone in the organization about the benefits of the ethics and compliance program (Institute of Business Ethics, 2017, <https://www.ibe.org.uk/>).

8.5.3 *They develop new strategies on how to facilitate conversations on ethics and solve ethical issues.* In general organizations that place more emphasis on performance, corporate branding, transparency, accountability and good corporate governance often invest adequate resources in training and developing their ethics ambassadors with the necessary skills in the field of ethics

¹¹⁴ Ethics & Compliance Initiative (ECI) (2018) *Ethics Ambassadors Expand the Reach and Effectiveness of your Ethics & Compliance Program*. Available from: <https://www.ethics.org/press-release/ethics-ambassadors-expand-the-reach-and-effectiveness-of-your-ethics-compliance-program/> *“© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”*.

and compliance¹¹⁵ (Institute of Business Ethics, 2017:2, <https://www.ibe.org.uk/>). Investments in training are often done so that the ethics ambassadors can be able to consistently formulate new effective strategies or ways they can use to initiate conversations related to institutionalizing the code of ethics, implementing the anti-bribery programs, introducing the whistleblowing programs and the speak up behaviour in the organization. Therefore, ethics ambassadors that receive specialist training in the field of ethics play a crucial role in the consistent communication of information related to ethics development amongst the board of directors, senior management and employees.

8.5.4 They act as a point of contact between the organization and local employees. According to The Institute of Business Ethics (2017:2) they can act as points of contact between the organization and local employees, and as source of advice for their colleagues who might not feel comfortable with raising their concerns or asking questions through the official speak up line. While they do not need to be ethics experts, ethics ambassadors should have substantial knowledge of the company's ethics programme and be able to point staff in the right direction for further guidance if necessary¹¹⁶ (Institute of Business Ethics, 2017:2, <https://www.ibe.org.uk/>).

8.5.5 They help to translate ethics & compliance messages to everyone in the organization. “Ethics ambassadors can also play a role in adapting the way ethics messages are communicated in the local context and language. This may involve translating codes of ethics and other relevant policies, writing or translating training and guidance manuals, and adaptating the ethics programme to meet the needs of the local operating environment. This encourages buy-in from employees in that it decreases the likelihood of misconceptions which arise from inadequate

¹¹⁵ Institute of Business Ethics (IBE) (2017) Ethics Ambassadors: Promoting Ethics on the Front Line. *Business Ethics Briefing, Issue 57*. Available from:
https://www.ibe.org.uk/userassets/briefings/ibe_briefing_57_ethics_ambassadors.pdf [Accessed 2019, 02 August]
p1-6

¹¹⁶ Institute of Business Ethics (IBE) (2017) Ethics Ambassadors: Promoting Ethics on the Front Line. *Business Ethics Briefing, Issue 57*. Available from:
https://www.ibe.org.uk/userassets/briefings/ibe_briefing_57_ethics_ambassadors.pdf [Accessed 2019, 02 August]
p1-6

translations or a clumsy choice of wording” (Institute of Business Ethics, 2017:2, <https://www.ibe.org.uk/>). The conclusion of this chapter will be covered in the following section.

8.6 Conclusion

Historically issues related with ethics and compliance in organizations were dealt with either: by the public relations department. The present day business world is highly susceptible to global ethics and compliance scandals thus putting pressure on organizations to establish departments and specific job positions of ethics specialists who act as counsels in the organization on all matters related to ethics and compliance. Board of directors nowadays can only be effective if they have ethics and compliance counsel to regularly use to enquire on all issues related to ethical conduct and standards in the organization’s day-to-day operations. The modern day term that is similar to the term ‘ethics officers’ which is more popular nowadays in organizations is ‘ethical ambassadors’ who are positioned in all the organization’s functional departments, the boardroom, subsidiaries and so on. It can therefore be concluded that organizations when they are appointing ethics ambassadors they must ensure that they select people from different career specializations and geographical locations in the organization in order for the organization to enjoy a larger pool of diversified knowledge contribution while simultaneously avoiding making the subject of ‘ethics’ to be associated with a single department or a career specialization in the organization.

8.7 Review questions

- 1) Define the terms ‘ethics ambassador’ and ‘ethics champion’?
- 2) Explain who is responsible of ethics & the range of job titles associated with the ‘ethics ambassador’ roles?
- 3) Identify the various responsibilities of an ‘ethics ambassador’?
- 4) Describe the various parties that are responsible of ethics in an organization?
- 5) Explain why ethics ambassadors play a critical role in the ethics programme of the organization?

Chapter 9: Exemplary leadership and examples of organizations with ethics & compliance standards

After reading this chapter you should be able to:

- Define the meaning of the term ‘exemplary leadership’.
- Explain why exemplary leadership has become an important topic in striving to uphold good corporate governance and ethical practices in organizations.
- Describe how business leaders can model the way and inspire a shared vision in the boardroom and the rest of the organization.
- Explain how a business leader can enable others to act in an ethical and transparent manner in the boardroom.
- Discuss the four leading global organizations you believe practice unique ethical business practices and have exemplary business leaders.

9.1 Introduction

True leaders ensure that they lead by example and nowadays this is a common synonym in the modern day business world since board of directors generally have a fiduciary duty to behave in an ethical and transparent manner when conducting the affairs of the organization. The world’s leading organizations often invest a lot of financial resources in talent acquisition and retention of effective leaders so that they continue to innovate and strengthen their competitive advantages in the marketplace. A unique boardroom is one that is flagged by ‘exemplary leadership’ that is founded on strong ethical practices accompanied by good corporate governance standards. When leaders of global organizations behave in an ethical, transparent, accountable and honest manner they tend to positively impact other upcoming business leaders around the world to do the same in terms of upholding or establishing strong ethical culture and practices in their organizations. Globalization has made the world borderless and international trade is growing rapidly due to modern day technology advancements such as the Internet, social media, mobile money, online banking products and so on. In addition globalization has led to the creation of global business leaders who have successfully managed to grow their small businesses into large global organizations by simply adhering to strong ethical practices and as a result this has led to them

becoming ‘exemplary global business leaders’. In this chapter examples of some of the few leading global organizations that have exemplary ethics practices and standards will be highlighted. The following section will cover the definition of terms used in this chapter.

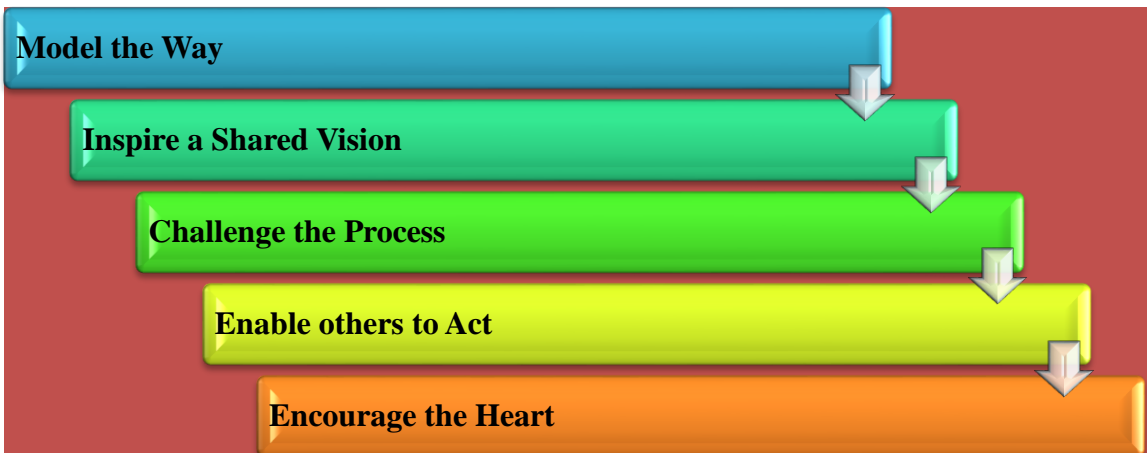
9.2 Definition of the term ‘exemplary leadership’

It is important to simplify the meaning of certain terms that will be often used in a chapter to help readers to understand them. The term ‘*exemplary leadership*’ refers to leaders who perform their duties in a way that is considered to be admirable, respectable, humble, ethical, accountable and recognizable to the people they lead to the extent that they are willing to follow in their footsteps in order to achieve what they have accomplished at the workplace or in their lifetime (Rudolph. Patrick. T. Muteswa, 2019). The 21st century global business world still has a huge appetite for exemplary leaders who can effectively drive global economic growth, international trade, acceptable business practices (*ethics & corporate governance*) and societal development (*job creation and improved standards of living*). The following section will discuss issues related to exemplary leadership that is centered on ethics and compliance.

9.3 Exemplary leadership centered on ethics and compliance

The number one question most of the world’s largest corporations keep asking themselves is ‘*who will get there first?*’ in terms of being considered to be a 100% ethical & compliant organization in the global marketplace. This golden question has immensely put pressure on board of directors, CEOs and managers in organizations around the world to continuously shift their focus on re-inventing their core beliefs, principles and corporate culture to reduce their ethics and compliance risk. Exemplary leadership is the fuel that drives the ethics and compliance agenda in the boardroom. Therefore today most of the organizations now want leaders who can model the way for their employees to follow by practicing exemplary leadership via upholding ethical behavior, values, principles and goals of the organization. According to a book by James M. Kouzes and Barry Z. Posner, *The Leadership Challenge, 6th Edition* published by John Wiley and Sons, Inc. Copyright@ 2017, the *five practices of exemplary leadership* were identified and these are depicted in Figure 9.1 below.

Figure 9.1 Five Practices of Exemplary Leadership by Kouzes & Posner (2017)



Source: Modified (Kouzes and Posner, 2017)

9.3.1 Model the way

As previously depicted in Figure 9.1 *model the way* is concerned with the leader doing things in a way that helps him or her to lead-by-example (*also known as walk-the-talk*). A leader can have great job titles but the only way they can earn respect, value and inspiration to those titles is through their behavior therefore their behavior can win them the respect they deserve or vice versa (Kouzes and Posner, 2017). An exemplary leader always initiates the good behavior of doing things at the workplace in order to set an example and illustrate commitment in what they believe¹¹⁷ (Kouzes and Posner, 2017).

9.3.2 Inspire a shared vision

Therefore, no matter what type of organization or size every organization starts with a dream which helps to outline the future. True leaders *inspire a shared vision* by foreseeing the future through scanning for lucrative opportunities the organization can take advantage of when the time arrives to do so. Leaders use their imagination to foresee the outcomes of opportunities they come across on a day-to-day basis (Kouzes and Posner, 2017). It is practically impossible for a leader to dictate commitment but it can only be attained through inspiring it. Leaders who inspire

¹¹⁷ James M. Kouzes and Barry Z. Posner, *The Leadership Challenge, 6th Edition*. Published by John Wiley and Sons, Inc. Copyright@ 2017

their people give life to their dreams, goals, desires, growth and even create opportunities for them to become great leaders in the organization (Kouzes and Posner, 2017).

9.3.3 Challenge the process

A great leader looks for opportunities instead of waiting for them to come to him or her and is willing to face or accept any challenge they may face. Challenges can be in the form of a task to introduce a new technological invention, new product or service, regain lost market share or sales, restructuring the organization to make it more efficient, highly profitable and so on. Therefore, all this requires the leader to shift the organization from one point to another thus *challenging the process* (Kouzes and Posner, 2017). Great leaders never stop learning and through continuous learning that is how they successfully challenge the process or overcome any challenge that comes in their way (Kouzes and Posner, 2017)¹¹⁸.

9.3.4 Enable others to act

Leaders acknowledge that in order for them to accomplish the organization's vision, mission and goals they need to collaborate with others hence they embrace a team spirit culture in the organization (Kouzes and Posner, 2017). Exemplary leaders *enable others to act* through direct engagement with all their followers (*employees, middle and low level managers*) and other stakeholders who have an interest in the organization's vision and mission (Kouzes and Posner, 2017).

9.3.5 Encourage the heart

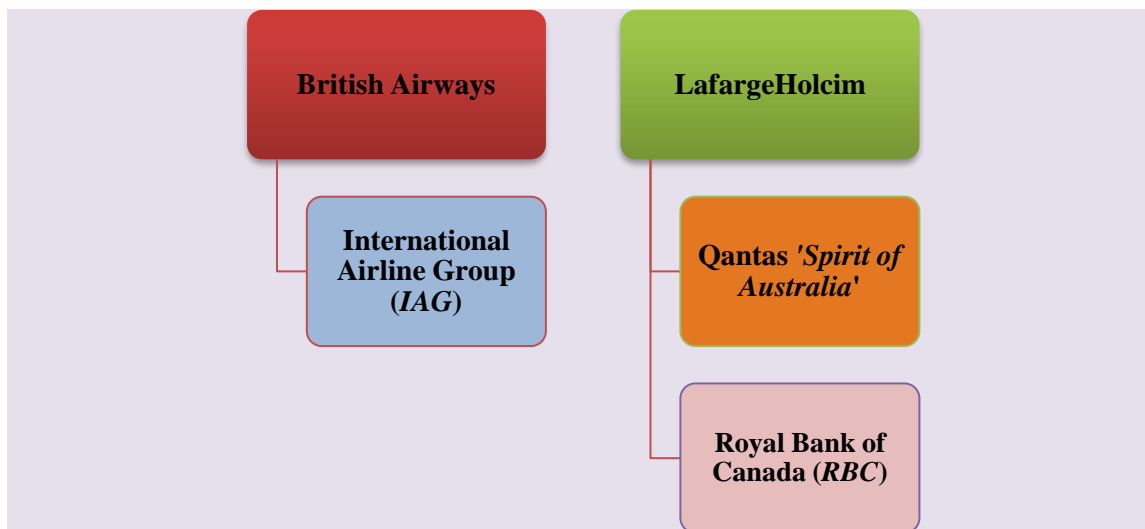
Every journey in an organization's life is full of obstacles and challenges which often makes people exhausted or even think of leaving the organization but good leaders *encourage the heart* to soldier on until the vision or final destination is reached (Kouzes and Posner, 2017). The following section will cover the various examples of leading organizations with unique ethics practices.

¹¹⁸ James M. Kouzes and Barry Z. Posner, *The Leadership Challenge, 6th Edition*. Published by John Wiley and Sons, Inc. Copyright@ 2017

9.4 Examples of leading global organizations with unique ethics practices

There are numerous organizations in the world with exemplary leadership and unique ethics practices they implement in their day-to-day business operations. Some of the various examples of leading global organizations with good-to-great leaders and unique ethics practices are depicted in Figure 9.2 below.

Figure 9.2 Five examples of leading global organizations with unique ethics practices



Source: Modified: (British Airways, 2019, www.britishairways.com; International Airlines Group, 2019, <https://www.iairgroup.com/>; Qantas, 2019, <https://www.qantas.com/au/>; LafargeHolcim, 2019, <https://www.lafargeholcim.com>; Royal Bank of Canada, 2019, <http://www.rbc.com/>).

9.4.1 British Airways

A good example of an organization that has achieved milestones and a good corporate image as a result of its ethics practices is Harmondsworth, United Kingdom-based leading airline company called ‘British Airways’ the flag carrier airline of the nation of the United Kingdom which is now owned by the Spanish firm the ‘International Airlines Group’ (IAG). The current Chief Executive of British Airways is Mr. Alex Cruz¹¹⁹ (British Airways, 2019,

¹¹⁹ British Airways (2019) *Explore Our Past*. Available from: <https://www.britishairways.com/en-zw/information/about-ba/history-and-heritage/explore-our-past>

www.britishairways.com).¹²⁰ “Celebrating 99 years of flying with pride. British Airways can trace its origins back to the birth of civil aviation, the pioneering days following World War I. In the 99 years that have passed since the world's first schedule air service on 25 August 1919, air travel has changed beyond all recognition. Each decade saw new developments and challenges, which shaped the path for the future,.. On 25 August 1919 Aircraft Transport and Travel Limited (AT&T), a forerunner company of today’s British Airways, launched the world’s first daily international scheduled air service, between London and Paris. That first flight, which took off from Hounslow Heath, close to today’s Heathrow Airport, carried a single passenger and cargo that included newspapers, Devonshire cream, jam and grouse” (British Airways, 2019, www.britishairways.com). Table 9.1 will help depict the corporate responsibility practices of British Airways.¹²¹ According to the British Airways (2019):

Table 9.1 Corporate responsibility of British Airways
<p><i>British Airways:</i></p> <p><i>“Corporate Responsibility</i></p> <p>At British Airways, we work hard to manage our business responsibly, be a good neighbour, reduce our environmental impact and celebrate diversity. We are committed to fight human and wildlife trafficking. We operate our aircraft with sensitivity to noise and air quality and engage with the community on these issues. To tackle climate change we are investing in sustainable fuel solutions, flying efficiently to reduce fuel consumption, supporting global regulation, modernising our fleet and reducing waste and increasing recycling. We ensure we run a safe and comfortable operation for our customers, continually invest in our aircraft and facilities and offer additional help to those who require it. We look after our colleagues, encouraging their physical and mental well-being, creating an inclusive culture and developing initiatives to create a more diverse workforce. Our Community Investment programme has helped more than 600,000 people since 2010, in the UK and overseas, and provided much needed support and funding to</p>

¹²⁰ British Airways Media Centre (2017) *British Airways Transforms International Boarding Experience*. Available from: <http://mediacentre.britishairways.com/pressrelease/details/86/2017-228/9072>

¹²¹ British Airways (2019) *Corporate Responsibility*. Available from: <https://www.britishairways.com/en-us/information/about-ba/csr/corporate-responsibility>

charities during humanitarian crises. We offer hundreds of work experience placements and apprenticeships every year” (British Airways, 2019).

“Conducting business responsibly: We are committed to operating our business in a responsible manner. *Ethics and Integrity* - Everyone working for us is expected to act with integrity, in accordance with company policies and in compliance of the laws of the countries where they work. Our suppliers are bound by the terms of the IAG Supplier Code of Conduct which requires them to:

- Act with honest and integrity.
- Provide a safe working environment where employees are treated with dignity and respect.
- Seek to minimise and reduce our impact on the environment.
- Provide supply chain transparency and improve supply chain standards.

Human Trafficking and Modern Slavery: British Airways supports tackling human trafficking. Our cabin and flight crew have the most exposure to potential trafficking situations and are trained to spot incidents. British Airways has a zero-tolerance approach to Modern Slavery. [Our full statement on Modern Slavery and Human Trafficking](https://www.britishairways.com/en-us/information/about-ba/csr/corporate-responsibility)¹²² (British Airways, 2019, <https://www.britishairways.com/en-us/information/about-ba/csr/corporate-responsibility>).

Source: Modified: (British Airways, 2019, www.britishairways.com)

9.4.2 International Airlines Group (IAG)

One of the leading global organizations with unique ethics practices and standards is the International Airlines Group. The current Chief Executive of IAG is Mr. Willie Walsh. The International Airlines Group was launched in 2011¹²³ (International Airlines Group - IAG, 2019, www.iairgroup.com). “International Airlines Group (IAG) is one of the world's largest airline groups with 573 aircraft flying to 268 destinations and carrying around 113 million passengers

¹²² British Airways (2019) *Corporate Responsibility*. Available from: <https://www.britishairways.com/en-us/information/about-ba/csr/corporate-responsibility>

¹²³ International Airlines Group (IAG) (2019) *IAG Overview*. Available from: <https://www.iairgroup.com/en/the-group/iag-overview>

each year. It is a Spanish registered company with shares traded on the London Stock Exchange and Spanish Stock Exchanges. Our vision is to be the world’s leading airline group, maximizing sustainable value creation for our shareholders and customers. Our business model makes us well-positioned to achieve this in an increasingly competitive and fast-paced environment”¹²⁴ (International Airlines Group - IAG, 2019, www.iairgroup.com). IAG brands portfolio includes: **Aer Lingus** (is the national airline of Ireland, founded in 1936), **British Airways** (is the number one carrier in London, the world’s largest international aviation market, and the number one European carrier across the North Atlantic), **Iberia** (founded in 1927, Iberia is Spain's largest airline and its flag carrier), **LEVEL** (is IAG’s new low-cost airline brand, built on the belief that the world is a better place when we all get out and experience it), **Vueling** (is one of Europe’s leading low-cost airlines and is number one in connecting Spain and Continental Europe), **Avios** (is transforming its loyalty programmes, diversifying its partnerships and leveraging data to become the loyalty partner of choice and a centre of loyalty excellence for the International Airlines Group), **IAG CARGO** (Five IAG airlines – one cargo carrier. IAG Cargo is the trusted cargo partner of more than 10,000 businesses), **IAG Global Business Services (GBS)** (since launching in 2014, IAG GBS has transferred and restructured services, implemented new technology, created new ways of working and delivered unprecedented cost savings – establishing IAG GBS as a strategic platform for growth as well as IAG itself) (International Airlines Group, 2019, <https://www.iairgroup.com/en/our-brands>). A portion of the IAG Code of Conduct that covers the issues related about ethical business practice will be highlighted in Table 9.2 below.

Table 9.2 International Airlines Group			
“CEO Statement - Our vision is to be the world’s leading airline group and we will only achieve that if we conduct our business in a way which is not only safe, but ethical. We have worked hard over many years to establish the reputation of our businesses across the globe and it is important that we continue to work to protect that reputation” ¹²⁵			
	(International	Airlines	Group,
			2019:2,

¹²⁴ International Airlines Group (IAG) (2019) *Our Brands*. Available from: <https://www.iairgroup.com/en/our-brands>

¹²⁵ International Airlines Group (2019) *International Airlines Group: Our Code of Conduct*. Available from: <https://www.iairgroup.com/~media/Files/IAG/documents/iag-code-of-conduct-april-2019.pdf> [Accessed 2019, 03 August] p1-7

<https://www.iairgroup.com/~media/Files/I/AG/documents/iag-code-of-conduct-april-2019.pdf>). According to the International Airlines Group (2019:5):

Our principles

In the following section, you will find the principles we must all work by every day at IAG, wherever we are in the world.

Our People and Workplace

Health, Safety and Security

Health, safety and security is fundamental to our business, whether in the air or on the ground. It is our highest priority. We must work and operate in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards.

Fairness and Respect

¹²⁶Safe and ethical behaviour depends on all of us as individuals and, fundamental to that, is how we treat each other. We must treat all employees with dignity and respect and we should never engage in bullying or harassment. We must ensure that everyone who works for or with the Group is treated fairly and not unlawfully discriminated against. It is our collective responsibility to promote and provide a work environment that is free from intimidation and harassment and allows people to raise concerns freely and without fear of retaliation.

Our Customers and Stakeholders

Our Customers

We are a customer service business. We aim to provide good value and service to our customers and to look after them, or their cargo, properly in many different circumstances. We must treat our customers with fairness, care, respect and dignity and in a professional and non-discriminatory way.

Environment

Our planet is a precious place. We are aware of our impact on the environment and we work to mitigate that impact, both on the ground and in the air, while responding to the demand for passenger and cargo air transport in the 21st century.

Suppliers and Business Partners

¹²⁶ International Airlines Group (2019) *International Airlines Group: Our Code of Conduct*. Available from: <https://www.iairgroup.com/~media/Files/I/AG/documents/iag-code-of-conduct-april-2019.pdf> [Accessed 2019, 03 August] p1-7

We promote and maintain relationships with suppliers and business partners that are cooperative and based on trust, fairness and transparency. We engage with suppliers and business partners in accordance with this Code. Though we cannot control the behaviour of others, it is our expectation that our suppliers and business partners will carry out their business in a way that is consistent with our Code.

Local Community

Companies can have a positive impact in the communities they serve and the social good they do is recognised by employees, customers and investors. We are committed to supporting positive engagement with those communities local to our operations in a manner that aligns with the values and objectives of our operating companies.

Political Engagement

We do not allow the use of company funds or resources, including any company brands, to support any political party or candidate.

Our Business Dealings

Compliance with Laws

We must act in compliance with the applicable laws, rules and regulations of the countries in which we operate.

Competing Fairly

We conduct our business in an open and honest manner and must carry out our business in compliance with competition laws.

Anti-bribery

We must never offer, pay, request or accept anything of value to obtain an improper advantage, or improperly influence any kind of decision or action, whether directly or through a third party.

Avoiding Conflicts of Interest

¹²⁷We must act in the best interests of the Group. This means we should avoid situations where personal interests, such as family or financial interests, conflict with those of the Group (or may be perceived as such). If we encounter an actual, potential or perceived conflict of interest, we must report it to ensure it is managed appropriately.

Securities Law Compliance

¹²⁷ International Airlines Group (2019) *International Airlines Group: Our Code of Conduct*. Available from: <https://www.iairgroup.com/~media/Files/I/AG/documents/iag-code-of-conduct-april-2019.pdf> [Accessed 2019, 03 August] p1-7

We must comply with securities laws and never engage in any insider dealing.

Tax Compliance

We understand and comply with our tax obligations in the countries in which we operate and we must never engage in tax evasion or facilitate the tax evasion of others.

Trade Compliance

We abide by all relevant international trade laws, including export control, sanctions and customs laws.

Respecting Human Rights

We carry out our work in a manner that respects the human rights of others. This means we do not accept any form of forced or involuntary labour, human trafficking and modern slavery anywhere in our business (International Airlines Group, 2019:7, <https://www.iairgroup.com/~media/Files/I/AG/documents/iag-code-of-conduct-april-2019.pdf>).

Source: Modified: (International Airlines Group, 2019:1-7, www.iairgroup.com)

9.4.3 Qantas ‘Spirit of Australia’

A good example of an organization that is successful as a result of its good-to-great leaders and unique ethics practice is Qantas Airways. ¹²⁸“Founded in the Queensland outback in 1920, Qantas has grown to be Australia's largest domestic and international airline. Registered originally as the Queensland and Northern Territory Aerial Services Limited (QANTAS), Qantas is widely regarded as the world's leading long distance airline and one of the strongest brands in Australia. We've built a reputation for excellence in safety, operational reliability, engineering and maintenance, and customer service. The Qantas Group's main business is the transportation of customers using two complementary airline brands - Qantas and Jetstar” (Qantas, 2019, <https://www.qantas.com/au/en/about-us.html>). ¹²⁹“Richard Goyder was appointed to the Qantas Board in November 2017 and as Chairman in October 2018. He is Chairman of the Nominations Committee. Alan Joyce was appointed Chief Executive Officer and Managing Director of Qantas in November 2008. He is a Member of the Safety, Health, Environment and Security Committee” (Qantas, 2019, <https://www.qantas.com/au/en/qantas-group/acting-responsibly/our->

¹²⁸ Qantas (2019) *About Us*. Available from: <https://www.qantas.com/au/en/about-us.html>

¹²⁹ Qantas (2019) *Our Leadership*. Available from: <https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-leadership.html>

[leadership.htm](#)). Table 9.3 below will help depict how Qantas drives its ethical business practices.

Table 9.3 How Qantas drives its ethical business practices

“Message from the Qantas Group CEO - Qantas has led the development of the global aviation industry since its founding in 1920. Today the Qantas Group is a strong, globally competitive aviation business, serving Australia and connecting Australians to the world; an Australian icon loved at home and respected across the globe. Most importantly, the Qantas Group is the sum of its skilled, passionate and diverse workforce. All of us have a responsibility to work together to realise Qantas’ potential, build on its competitive advantages, and lay the foundations for sustainable growth long into the future. And doing so, we make a shared commitment to maintain the highest standards of ethics, to comply fully with all relevant laws and regulations, and to reflect Qantas’ beliefs in everything we do - Alan Joyce, Qantas Group Chief Executive Officer”¹³⁰ (Qantas, 2019:3, http://media.corporate-ir.net/media_files/irol/69/69499/corp_gov/Code_of_Business_Conduct_and_Ethics.pdf).

Driving ethical business practice

“The Qantas Group is committed to complying with all applicable laws and regulations, and to conducting business with the highest levels of ethics and integrity. The [Qantas Group Business Practices Document \(PDF\)](#) provides an overview of our beliefs, values and business practices and highlights the standards to be upheld by all employees. It encompasses Continuous Disclosure, Employee Share Trading, Risk Management, Safety, Whistleblower Protection and Stakeholder Communications (including [Shareholder Communications \(PDF\)](#)).

Our Business Integrity and Compliance function, reporting to the General Counsel, ensures the Group is best positioned to respond to a rapidly evolving regulatory environment. It is responsible for maintaining a consistent, global approach to address ethics and compliance issues across the Qantas Group as well as with our business partners and throughout our supply chain. The global reach of the Qantas Group means we must comply with the laws and regulations of the territories in which we operate, including countries we fly across. We monitor global events closely and collaborate broadly across the Group to ensure that we continue to comply with relevant international trade laws and regulations including sanctions and embargoes.

Anti-bribery and corruption

We recognise corruption has a negative social, economic, political and anti-competitive impact wherever it occurs. We have a responsibility not only to meet expanding foreign and domestic anti-bribery legislation, but to also ensure those we do business with operate with integrity. We are investing in technology and resources to ensure that we understand and manage our business risks and to better meet the evolving regulatory landscape. Initiatives during

¹³⁰ Qantas (2019) *Code of Business Conduct and Ethics*. Available from: http://media.corporate-ir.net/media_files/irol/69/69499/corp_gov/Code_of_Business_Conduct_and_Ethics.pdf

FY18 include:

- Development of a sophisticated anti-bribery and corruption risk framework to assist us in identifying areas which present an elevated risk to the Group.
- Continuing to support an ethical supply chain by introducing automated due diligence technology to assess potential third party suppliers presenting an elevated risk of bribery.
- Strengthening our third party contracts and agreements with the development of a Group Compliance Statement outlining our business integrity expectations. This is progressively being included through new and renewed third party contracts.
- Continued membership of the Business Integrity Council, founded with industry peers to collaborate on a better approach to anti-corruption.

Whistleblower program

¹³¹The Qantas Group highly values and promotes a *speaking up* culture, where all Disclosing Persons feel comfortable to raise matters that are of legitimate concern to them, including in relation to a potential breach of any legal or regulatory requirement or a Qantas Group Policy.

A Whistleblower program is an important element in deterring corrupt, illegal or other undesirable conduct. The [Whistleblower Policy \[PDF\]](#) outlines the operation of the Qantas Whistleblower program including what qualifies as a Disclosable Matter, how Qualifying Disclosures can be made (including the various channels available for disclosure), who qualifies as a Disclosing Person and who the Eligible Recipients for Qualifying Disclosures are. Further information regarding the investigation process and the protections available to Disclosing Persons is also available in the Policy.

Enhancing human rights

Qantas respects and supports human rights, as is reflected in our [Code of Conduct and Ethics \[PDF\]](#). In 2017, we made a commitment to aligning our business with the UN Guiding Principles on Business and Human Rights. Since then we've continued to widen and deepen the scope of our commitment. We have worked to embed our commitment throughout the Group by:

- Ensuring Board commitment to the development of a statement of the Qantas Group's commitment to human rights, incorporating our position on due diligence and remediation;
- Publicly communicating governance structures, with defined responsibilities and reporting lines; and
- Forming a comprehensive understanding of the Group's salient human rights issues across the Group.

¹³¹ Qantas (2019) *Code of Business Conduct and Ethics*. Available from: http://media.corporate-ir.net/media_files/irol/69/69499/corp_gov/Code_of_Business_Conduct_and_Ethics.pdf

In 2018 we conducted peer and industry analysis alongside in-depth interviews with a range of key internal and external stakeholders to better understand our salient human rights risks. From this we have identified five focus areas for the Group. These five focus areas are not exhaustive and we will continue to monitor as well as address and remediate other issues that may arise.

They are:

Labour rights: Labour standards for employees and the contracted and supplier workforce

We take a proactive approach to the management of modern slavery and other labour rights risk across our employee base and supply chain, described in detail in the Group's most recent [Modern Slavery and Human Trafficking Statement \(PDF\)](#).

Privacy rights: Protection and appropriate use of customer data

The Group's publicly available [Privacy Policy](#) details governance and procedures protection and the appropriate use of customer data. Protection and appropriate use of customer data is also an initiative within the Supply Chain Assurance program, outlined above.

Freedom of movement: Trafficking in persons and transportation without genuine consent

The increasing accessibility of airline transportation has led to an unprecedented level of human mobility. Despite the social and economic benefits of this connectivity, it has also contributed to international organised crime syndicates, with human trafficking and migrant smuggling emerging as one of the most profitable and widespread forms of organised crime. We recognise the role of airlines in working with global agencies to address this issue, and as a member of IATA, we have shown our early support for the drafting and passing of a resolution to encourage member airlines to implement appropriate training on the prevention of human trafficking and reporting mechanisms. We will continue our support activities through the development and operationalisation of human trafficking awareness training for key personnel through the 2019 financial year¹³² (Qantas, 2019, <https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-governance.html>).

Source: Modified: (Qantas, 2019, www.qantas.com)

9.4.4 LafargeHolcim

A typical good example of a leading global organization with a powerful employer brand, large market presence, high quality products and with unique good ethical practices is LafargeHolcim,

¹³² Qantas (2019) *Code of Business Conduct and Ethics*. Available from: http://media.corporate-ir.net/media_files/irol/69/69499/corp_gov/Code_of_Business_Conduct_and_Ethics.pdf

headquartered in Jona, Switzerland. ¹³³“LafargeHolcim is the global leader in building materials and solutions. We are active in four business segments: Cement, Aggregates, Ready-Mix Concrete and Solutions & Products. With leading positions in all regions of the world and a balanced portfolio between developing and mature markets, LafargeHolcim offers a broad range of high-quality building materials and solutions. LafargeHolcim experts solve the challenges that customers face around the world, whether they are building individual homes or major infrastructure projects. Demand for LafargeHolcim materials is driven by global population growth, urbanization, improved living standards and sustainable solutions construction. Around 75,000 people work for the company in around 80 countries” (LafargeHolcim, 2019, <https://www.lafargeholcim.com/our-strategy>). The current Chairman of LafargeHolcim is Mr. Beat Hess and the Vice Chairman is Mr. Oscar Fanjul. The other board of directors of LafargeHolcim include: Mr. Paul Desmarais Jr., Mr. Patrick Kron, Mr. Adrian Loader, Mr. Jürg Oleas, Ms. Hanne Birgitte Breinbjerg Sørensen, Dr. Dieter Spälti, Mr. Colin Hall, Ms. Naina Lal Kidwai and Ms. Claudia Sender Ramirez¹³⁴ (LafargeHolcim, 2019, <https://www.lafargeholcim.com/board-directors>). Table 9.4 below will help depict some of the parts of the code of business conduct and ethical practices of LafargeHolcim.

Table 9.4 Sections of the code of business conduct of LafargeHolcim

*“Message from the CEO - Dear colleagues, as a world leader in the building solutions and materials industry, it is imperative that each and every employee acts with integrity. Each one of us is accountable for compliance. This is our commitment to our millions of customers around the world, our suppliers, and colleagues in our operations and offices. Doing things the right way is a requirement for the ongoing success and sustainability of our company. Our reputation and continued license to operate demand that we always act with integrity, driving excellence in everything we do. Best Regards, Jan Jenisch – Group Chief Executive Officer”*¹³⁵ (LafargeHolcim, 2018:5, https://www.lafargeholcim.com/sites/lafargeholcim.com/files/atoms/files/03292018-group-lafargeholcim_code_business_conduct-en.pdf).

Code of Business Conduct

“Acting with integrity and living the right behaviors is critical to fulfilling our role as a good corporate citizen in

¹³³ LafargeHolcim (2019) *Our Strategy*. Available from: <https://www.lafargeholcim.com/our-strategy>

¹³⁴ LafargeHolcim (2019) *Board of Directors*. Available from: <https://www.lafargeholcim.com/board-directors>

¹³⁵ LafargeHolcim (2019) *Code of Business Conduct*. Available from: <https://www.lafargeholcim.com/code-business-conduct>

the communities we operate in and supporting their healthy development. Integrity is therefore one of the core values we have defined as a building block for our corporate culture that describes who we are, what we do and how we behave. LafargeHolcim strives to create an environment where honesty and accountability flourish and compliance is a central focus. Using common sense and good judgment together with our Code and LafargeHolcim policies and directives will usually be sufficient to ensure business is conducted with integrity. The Code of Business Conduct ensures that all directors, officers and employees share LafargeHolcim's commitment to conducting business with integrity, and provides guidance on how to put this commitment into practice. It also helps to ensure that we are adhering to the laws and regulations in the countries in which we operate.

Code of Conduct for Suppliers

LafargeHolcim seeks to engage in long-term relationships with Suppliers that are committed to sustainable development. Our goal is to partner with Suppliers to deliver value-for-cost procurement for the Group and our customers, and to demonstrate responsible supply chain management” (LafargeHolcim, 2019, <https://www.lafargeholcim.com/code-business-conduct>).

Acting with integrity

“LafargeHolcim strives to create an environment where honesty and accountability flourish and compliance is a central focus. Using common sense and good judgment together with our Code and LafargeHolcim policies and directives will usually be sufficient to ensure business is conducted with integrity. Our Code cannot anticipate every situation we might encounter in the workplace, but it will help us to make sound and ethical decisions. We expect our employees to have the courage to take the right decisions based on our ethical principles and to uphold them, even when we are under pressure.

Education and training

All employees receive introductory and regular ethics and compliance training. These sessions are opportunities for you to raise questions and to discuss how to make this Code part of your daily work in practice.

Higher standards for supervisors

Supervisors at all levels have additional responsibilities under our Code which include creating an open environment in which employees feel comfortable to ask questions, raise concerns, and report misconduct. Leaders with behavioral integrity are valued and promoted in the organization”¹³⁶ (LafargeHolcim, 2018:6, https://www.lafargeholcim.com/sites/lafargeholcim.com/files/atoms/files/03292018-group-lafargeholcim_code_business_conduct-en.pdf).

¹³⁶ LafargeHolcim (2019) *Code of Business Conduct*. Available from: <https://www.lafargeholcim.com/code-business-conduct>

Source: Modified: (LafargeHolcim, 2018 & 2019, www.lafargeholcim.com)

9.4.5 Royal Bank of Canada (RBC)

A typical example of a global organization with a board that is made up of good-to-great leaders with exemplary leadership qualities is the ‘Royal Bank of Canada’ (RBC).¹³⁷The current Chair of the Board of RBC is Ms. Kathleen Taylor and the current President & CEO of RBC is Mr. David McKay. The other board of directors of the ‘Royal Bank of Canada’ (RBC) include: Mr. Andrew A. Chisholm, Ms. Jacynthe Côté, Mr. Toos N. Daruvala, Mr. David. F. Denison, Ms. Alice D. Laberge, Mr. Michael H. McCain, Mr. Frank M. Vettese, Ms. Heather Munroe-Blum, Ms. Bridget A. van Kralingen, Mr. Thierry Vandal and Mr. Jeffery W. Yabuki (Royal Bank of Canada, 2019, <http://www.rbc.com/governance/directors.html>).¹³⁸“*Corporate Governance: The strengths of our governance start at the top, with an independent chairman leading a board composed of independent, well-informed directors, who give priority to strategic planning, ensure that standards exist to promote ethical behaviour throughout the organization, and seek continuous improvement in governance practices. These strengths are fostered throughout the organization by a proactive governance culture that has consistently adopted industry-leading standards. Royal Bank of Canada was constituted in 1869 under a private act of Canada and is governed by the Bank Act, S.C. 1991, C. 46.*” (Royal Bank of Canada, 2019, <http://www.rbc.com/governance/index.html>). *Reproduced with permission of Royal Bank of Canada.* Table 9.5 below helps to depict parts of the Code of Conduct of the Royal Bank of Canada.

Table 9.5 Parts of the Code of Conduct of the Royal Bank of Canada

Code of Conduct:

1.1 Living Our Values and Acting with Integrity

¹³⁷ Royal Bank of Canada (2019) *Corporate Governance: Board of Directors*. Available from: <http://www.rbc.com/governance/directors.html> *Reproduced with permission of Royal Bank of Canada.*

¹³⁸ Royal Bank of Canada (2019) *Corporate Governance*. Available from: <http://www.rbc.com/governance/index.html> *Reproduced with permission of Royal Bank of Canada.*

¹³⁹“RBC is a values-based organization. Respect for each other, RBC clients and our commitments to all our stakeholders are rooted in our Values. RBC’s Code of Conduct (the “Code”) incorporates RBC’s Values, and in particular our Value of Integrity, to guide our day-to-day actions and decisions so we can always do the right thing.

1.2 Our Culture of Integrity — Doing What’s Right

Every day our actions demonstrate not only our Value of excellent service to clients, but also our personal commitments. We each have a responsibility to be truthful, respect others, and comply with laws, regulations and RBC’s policies. (In the Code, the word “policy” includes policies, procedures and standards.) Over many years RBC has earned trust and a reputation for doing what’s right through the actions of those who work here. A continued strong focus on doing what’s right will sustain and build on that trust — the cornerstone of the financial services industry and our relationships with clients and communities. We do business across the globe, and each one of us has a responsibility to behave with integrity so that we can continue to serve clients and generate value for RBC’s shareholders. More than simply being aware of our Values and following our Code, we need to make them an integral part of how we operate day to day. This will ensure we tell the truth, respect others, uphold the law and comply with policies and practices. These behaviours are the foundation for our culture of integrity and doing what’s right.

Tell the truth

Our work places us in a position of trust. RBC clients, shareholders, communities and our colleagues rely on us to be honest and do business responsibly. We do what we say we will do and earn the trust and loyalty of our clients, shareholders and communities.

Respect others and treat them fairly

Showing respect for everyone we work with, treating them fairly and taking personal responsibility for high performance enables us to achieve RBC’s strategic goals. By living our Values and following the Code, we show others we honour the trust they place in us — making RBC a great place to work and do business.

Uphold the law

RBC is subject to the laws of the countries where we do business. RBC’s policies are designed to comply with its legal and regulatory obligations, including the intent and spirit of the laws that apply to it. By doing so, RBC maintains its reputation for acting with integrity. To this end, each of us must understand and comply with RBC’s policies and practices that apply to the way we do our jobs. Keep in mind that breaking the law could result in civil

¹³⁹ Royal Bank of Canada (2019) *Code of Conduct*. Available from: <http://www.rbc.com/governance/assets-custom/pdf/RBCCodeofConduct-accessibility.pdf> *Reproduced with permission of Royal Bank of Canada.*

and criminal penalties and fines for RBC and the individual involved, as well as potential damage to both RBC's and the individual's reputation.

Comply with policies and instructions

We are each responsible for knowing and following the RBC policies that apply to us. We must also comply with managers' instructions unless they are inconsistent with RBC Values or policies, against the law or result in health and safety risks. We must always be aware of both enterprise and local policies specific to business or geographic areas and work within the boundaries of what we have been authorized to do.

1.3 Our Shared Commitment and Accountability

The Code applies to all RBC employees, contract workers and members of the boards of directors. The importance of the Code cannot be overemphasized. Understanding and complying with the Code is a condition of our work at RBC, and critical to earning the trust RBC clients have placed in us. This Code helps to protect our personal integrity and reputation as well as RBC's and the financial services industry's as a whole. Any one of us who breaches, or fails to report an actual or suspected breach of the Code will be subject to corrective or disciplinary action. Corrective or disciplinary action is RBC's response to unacceptable behaviour, including breach of the Code, and can range from reprimands to termination of our working relationship with RBC. We also expect RBC suppliers to follow similar principles and share our commitment to ethics and integrity as set out in our Supplier Code of Conduct. We will not knowingly use suppliers or other third parties who violate the law or operate unethically" (Royal Bank of Canada, 2019:1-2, <http://www.rbc.com/governance/assets-custom/pdf/RBCCodeofConduct-accessibility.pdf>).

Source: Modified: (Royal Bank of Canada, 2019:1-2, www.rbc.com)

The conclusion of this chapter will be covered in the following section.

9.5 Conclusion

Therefore leadership involves persuading and convincing people to work hard and be willing to achieve the organization's goals and objectives in a transparent, honest and ethical way. A highly functional boardroom is flagged by 'exemplary leadership' that is founded on strong ethical practices accompanied by good corporate governance standards. It can therefore be concluded that globalization has led to the creation of global business leaders who have also successfully managed to grow their small businesses into large global organizations using ethical practices thereby making these individuals to become exemplary global business leaders.

9.6 Review questions

- 1) Define the term 'exemplary leadership' and give an example of an exemplary business leader of a global leading organization?
- 2) Why has exemplary leadership become an important topic in striving to uphold good corporate governance and ethical practices in organizations?
- 3) Explain how business leaders can model the way and inspire a shared vision in the boardroom and the rest of the organization?
- 4) Discuss how a business leader can enable others to act in an ethical and transparent manner in the boardroom?
- 5) Identify four leading global organizations you believe practice unique ethical business practices and have exemplary business leaders?

Chapter 10: Special topics about ethics and board of directors

After reading this chapter you should be able to:

- Define the terms ‘courage’ and ‘respect’.
- Discuss how courage drives ethics compliance in an organization.
- Describe how respect is an ethical practice.
- Explain how the Ethics Department collaborates with the HR department.
- Highlight how incentivizing ethical behavior helps to boost ethical practices.

10.1 Introduction

Various topics have been produced by researchers and industry experts in the field of ethics and compliance. Ethics is a never ending topic that keeps evolving on a daily basis and as every second passes by on a daily basis ‘ethics’ is positioning itself as a strategic element that determines business success in this present day global economy. Courage is one of the components that enables people in an organization to be bold enough and do the right thing despite the consequences. Other board of directors nowadays have taken the issue of ethics a step further by introducing incentives on ethical behavior in the organization in order to help reduce ethics risk. The ethics department over the past years has become an important function that enables the organization to train its staff with vital ethics skills to become transparent, accountable and honest in general when at the workplace. Often the functional activities of the ethics department in an organization interrelates with those of the human resources function thus in most instances the two functions end up collaborating. The definition of terms used in this chapter will be covered in the following section.

10.2 Definition of terms

The various terms that were used in this chapter are clearly defined in simple words to enable the reader to properly understand their meaning. “*Courage* is an ethical value if it is applied in a moral way. What does that mean? It means to distinguish right from wrong; good from bad and

act out of the conviction that morality is the basis of an ethical community/society. *Moral courage* in our personal lives means to stand up and be counted when a wrongdoing occurs. It means to support people of good will. It means, at least sometimes, to put the interests of others ahead of our own self-interest”¹⁴⁰ (Mintz, 2018, www.ethicssage.com). ‘*Respect*’ is when you treat and or look up to someone with honor, humility, confidence and integrity (Rudolph. Patrick. T. Muteswa, 2019). “*Fairness* is whereby equal treatment is uniformly applied to everyone dealing with an organization, institution, person or any form of legal entity and it is done in a way that is in direct alignment with relevant legislation and or rules” (Rudolph. Patrick.T. Muteswa, 2019). The following section will cover how courage drives ethics compliance in an organization.

10.3 Courage drives ethics compliance in an organization

“Workplaces can provide many challenges that test our ability and willingness to act with courage. If you see someone do something wrong – i.e., steal from the employer; take credit for someone else’s work; falsify data and records, it takes a person of courage to inform higher-ups in the organization about the misdeeds even if it means you will be retaliated against. Doing what is right is not always easy but it is moral behavior. In today’s society it has become more difficult than ever, it seems, for people to act courageously” (Mintz, 2018, www.ethicssage.com). In the next section how the ethics department collaborates with the HR department.

10.4 How the Ethics Department collaborates with the HR department

According to the Institute of Business Ethics (2014:1) *Collaboration Between the Ethics Function and HR*. When embedding ethical values into organisational culture, the roles of the company Ethics and HR functions can frequently overlap. It is important therefore that they work together effectively to ensure this happens. This Briefing identifies the areas where HR and the Ethics department can work together and looks at ways in which effective partnerships can be formed.

¹⁴⁰ Mintz, S. (2018) *Are You Courageous and Is It A Good Thing*. Available from: <https://www.ethicssage.com/2018/12/are-you-courageous-and-is-it-a-good-thing.html>

10.4.1 ¹⁴¹ ¹⁴²**Recruitment and exit interviews:** Job applicants are increasingly concerned about the ethical conduct and reputation of an organisation. HR are often the first interaction that a potential employee has with the company and where they get their initial impression of the organisational culture. The Ethics function can inform HR about how the company approaches its corporate responsibility and ethical commitments so they are able to effectively answer interviewee's questions. This, as well as including ethics issues, questions and dilemmas at the interview stages of recruitment can help HR ensure new employees are aware of, and accept, the behaviours expected of them by an organisation. Including questions around the company values, expected behaviours and organisational culture in exit interviews can also provide useful information for monitoring the effectiveness of the ethics programme. HR and the Ethics function can work together to identify what to ask to assess whether ethical concerns were a reason for an employee leaving.

10.4.2 Induction: Often overseen by HR, induction is an opportunity to provide new employees with an objective view of the company, organisational culture, work ethic and expected behaviours. Therefore, to support this process effectively and assist employees with their integration into the workforce, the Ethics function can provide HR with relevant materials.

10.4.3 Training: Ensuring *all* training sessions include a focus on expected behaviours is a key way to ensure that ethical values are understood and applied by employees and ethical conduct is not viewed as an 'add on'. Learning and Development experts are often positioned in HR and can deliver training together with the Ethics team where possible, thus allowing the functions to utilise shared knowledge and expertise. HR can also use employee records to help monitor which employees have or have not completed training or 'refresher' training.

¹⁴¹ Institute of Business Ethics (IBE) (2014) Collaboration Between the Ethics Function and HR. *Business Ethics Briefing, Issue 40*. Available from: https://www.ibe.org.uk/userassets/briefings/b40_hr.pdf [Accessed 2019, 04 August] p1-4

¹⁴² IBE Business Ethics Briefing 17 (2010) *Ethical Due Diligence in Recruitment*. Available http://www.ibe.org.uk/userassets/briefings/ibe_briefing_17_ethical_due_diligence_in_recruitment.pdf

10.4.4 Speak Up: Ownership of the Speak Up process can vary company to company but HR and the Ethics function commonly both play a role. There are many issues that stakeholders may speak up about including bullying, harassment, discrimination, violence etc. that are relevant to both functions. Although typically the domain of HR, consequent investigations to resolve issues might include the involvement of the Ethics team too. Rather than come through other official Speak Up channels, employee concerns may also be handed directly to either HR or the Ethics department. Both teams can then liaise about the logging and management of these cases as well as any training or awareness actions that may be required¹⁴³.

10.4.5 Performance management and appraisals: Assessing employees' application of ethical values through appraisals can encourage them to behave ethically. Developing a rewards system for ethical behaviour, such as remuneration, promotion or ethics 'awards', are ways of encouraging and reinforcing the expected ethical behaviour of employees. HR and the Ethics function can work together to develop an employee incentive system for their organisation to reward employees who demonstrate ethical behaviours. HR could provide the Ethics function with (anonymous) results from staff appraisals. These would help towards monitoring the effectiveness of the ethics programme or help to see where further training should be focused. In disciplinary matters there is often an ethical element. The Ethics function could be consulted by HR on whether a particular behaviour is acceptable and HR can then implement corrective action when it is not.

10.4.6 ¹⁴⁴Staff survey: One way of taking the 'ethical temperature' of a business is to survey employees about their experiences, perceptions and awareness of the organisation's ethical values and business practices. HR may oversee the surveying but the Ethics function can provide insight regarding ethical challenges the company is facing and input into the questions that are asked. Findings can then inform future training needs.

¹⁴³ Institute of Business Ethics (IBE) (2014) Collaboration Between the Ethics Function and HR. *Business Ethics Briefing, Issue 40*. Available from: https://www.ibe.org.uk/userassets/briefings/b40_hr.pdf [Accessed 2019, 04 August] p1-4

¹⁴⁴ IBE (2008) *Surveying Staff on Ethical Matters*. Available to order from <http://www.ibe.org.uk/list-of-publications/67/47>

10.4.7 ¹⁴⁵Ethics Ambassadors: The Ethics function might approach HR to help identify employees to act as ‘ethics ambassadors’ (EAs, also sometimes called ‘ethics champions’). HR may be well positioned to do this because of the information they hold on employees including job descriptions, appraisal results and accountabilities. HR can also help the Ethics function to communicate what and who EAs are within the organisation.

10.4.8 Reporting to the Board: Most boards are interested in whether a company is operating ethically and in line with corporate values or not.

10.4.9 Internal Communications: HR are often the owner or champion of the internal communications process in which multiple channels of information that can directly reinforce the messages around ethical culture and expected behaviours exist. These include newsletters, intranet, social media etc. and provide opportunities for ethics messages to be cascaded internally. HR can be invaluable to the Ethics team in terms of communications when new programs are being implemented locally. They can provide expertise on labour relations issues as well as reviewing translations so that they fit with the local culture but at the same time still mean the same in legal terms (Institute of Business Ethics, 2014:1-4, https://www.ibe.org.uk/userassets/briefings/b40_hr.pdf). The following ethical behavior of people in the organization can be incentivized.

10.5 Ethical behavior of people in the organization can be incentivised

According to the Institute of Business Ethics (IBE) (2009:1) *Incentivising Ethical Behaviour in Staff*. Too often companies experience a gap between having a business ethics policy and programme in place and its absorption by employees. In considering ways of closing this gap, a number of organizations are no longer relying on negative deterrents but are developing positive incentives to encourage high ethical standards throughout their business. Some argue that the only reward necessary to incentivise ethical behaviour in an organisation is a clear conscience. To be assured that they 'are doing the right thing'; would be considered by some to be reward

¹⁴⁵ IBE (2010) *Ethics Ambassadors*. Available to order from <http://www.ibe.org.uk/list-of-publications/67/47>

enough. But not by all; ethical lapses continue. Some organisations find that a more active approach is an effective way to sustain high ethical standards; that is 'incentivisation'.

10.5.1 Sticks and carrots. There are two principal ways in which employees can be incentivised to take into account ethical aspects of both their decision making and their relations with their organisation's principal stakeholders. The first, is the threat of disciplinary action when any part of the code of ethics (or its equivalent) is breached. The second, rewards, is the provision of some of inducement to behave ethically whatever the situation.

10.5.2 Rewards. The rewards approach is to provide either a monetary or a non-financial incentive to employees to take ethics seriously. Rewards may be linked to annual performance appraisals which require the employee to demonstrate awareness and understanding of the organisation's ethics policy and how they are applying it in their day-to-day business life. Examples of questions that could be asked are: "*Did you have any occasion this year to ask a question starting 'ought we or 'should' we...? and "Are you aware of anything happening in this (company/department) that is contrary to the values or code of ethics of the organisation?"*" (Institute of Business Ethics, 2009:1-3, https://www.ibe.org.uk/userassets/briefings/ibe_briefing_11_incentivising_ethical_behaviour_in_staff.pdf). The glossary of term used in codes of ethics/conduct will be outlined in detail in the next section.

10.6 Glossary of terms used in codes of ethics/conduct and in ethics related topics

A glossary is similar to a dictionary but it designed to help simplify terms used in a certain book or subject topic. According to the Ethics and Compliance Initiative (2019) Glossary of terms used in codes of ethics/conduct and the ethics related topics. Even among those who believe they know ethics, there is not total agreement on the meaning of the terms that are used. ECI has also compiled a list of the definitions of values typically used in codes (Ethics and Compliance Initiative, 2019, <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/>). “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”. Some of the popular terms that are commonly used

in the field of ethics, conversations related to ethics and compliance or a code of ethics/conduct are depicted in Table 10.1 below.

Table 10.1 Glossary of terms used in ethics and compliance in organizations

<p>Agency</p> <p>“Belief that one has the power to enact change. Agency is a critical component in reporting decisions because most people will only report if they believe their action has the potential to make a difference.” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Ethical Decision-Making</p> <p>““Decisions that involve ethical considerations. Factors to be considered include:</p> <ul style="list-style-type: none"> • Impact of the action or decision on others or relationships with them (altruistic considerations) • Determination of the “right thing to do” – as defined by the values and principles which apply to this situation (idealistic considerations) • Potential consequences of the action or decision (individualistic considerations) • Business consequences of this action or decision (pragmatic considerations)”” (Ethics and Compliance Initiative, 2019, www.ethics.org).
<p>Benchmarking</p> <p>““The process of comparing to established “best practices,” peer organizations or even past results in order to better understand strengths, challenges and progress made.”” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Ethical Differences</p> <p>“Situations in which two people agree on a particular value and disagree as to the action to be taken or decision to be made” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Code of Conduct</p> <p>“Can refer to a listing of required behaviors, the violation of which would result in disciplinary action. In practice, used interchangeably with Code of Ethics” (Ethics and Compliance Initiative, 2019,</p>	<p>Ethical Dilemmas</p> <p>“Challenging situations that involve competing sets of values” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>

<p>www.ethics.org).</p>	
<p>Code of Ethics</p> <p>““Often conveys organizational values, a commitment to standards and communicates a set of ideals. In practice, used interchangeably with Code of Conduct. ¹⁴⁶In Section 406(c), the Sarbanes-Oxley Act defines “code of ethics” as such standards as are reasonably necessary to promote– (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (2) full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer; and (3) in compliance with applicable governmental rules and regulations.”” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Ethics</p> <p>“The study of right and wrong conduct” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Code Provisions</p> <p>“The specific standards of behavior and performance expectations that your organization chooses to highlight and address in your code” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Ethics culture</p> <p>“The extent to which employees at all levels are committed to doing what is right and successfully upholding values and standards. Ethics culture includes ethical leadership (tone at the top); supervisor reinforcement of ethical behavior; and peer commitment to support one another in doing right” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Compliance</p> <p>“Conforming or adapting one’s actions to another’s</p>	<p>Ethical Risk</p>

¹⁴⁶ United States of America.gov, *Sarbanes-Oxley Act of 2002* cited in the US Library of Congress (2019) 07/30/2002 Became Public Law No: 107-204. Main website link: <https://www.congress.gov/bill/107th-congress/house-bill/3763> The PDF Download website link Available from: <https://www.congress.gov/bill/107th-congress/house-bill/3763> [Accessed 2019, 10 October]

<p>wishes, to a rule or to necessity. A compliance code would be intended to meet all legal requirements” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>“Potential for harm to an organization caused by misconduct that goes undetected and persists due to lack of management awareness and action” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Conflict of Interest</p> <p>“A person has a conflict of interest when the person is in a position of trust which requires her to exercise judgment on behalf of others (people, institutions, etc.) and also has interests or obligations of the sort that might interfere with the exercise of her judgment, and which the person is required to either avoid or openly acknowledge” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Good Faith</p> <p>“Based on the belief in the accuracy of the information or concern being reported” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Corruption</p> <p>“The abuse of public power for private benefit. Perversion or destruction of integrity in the discharge of public duties by bribery or favor or the use or existence of corrupt practices, especially in a state or public corporation” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Governance</p> <p>“The act, process or power of exercising authority or control in an organizational setting” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Courage</p> <p>“Choosing to do what one believes is right even if the result will not be to everyone’s liking or may lead to personal loss” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Integrity</p> <p>“Consistency of values and actions that breeds trust and confidence in stakeholders. When stated and operative values are in congruence” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>
<p>Credo</p> <p>“Fundamental beliefs (or a set of beliefs) or guiding principles” (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>	<p>Ombudsman</p> <p>“A designated neutral or impartial dispute resolution practitioner whose major function is to provide confidential and informal assistance to managers and employees and/or clients of the employer: patients,</p>

	students, suppliers or customers” (Ethics and Compliance Initiative, 2019, www.ethics.org).
<p>Ethical Congruence</p> <p>¹⁴⁷“A situation where one’s decision is consistent with, aligns with, the applicable set(s) of values. Under these circumstances, a choice to take some action will harmonize with the decision-maker’s values. The organizational state where values, behaviors and perceptions are aligned” (Ethics and Compliance Initiative, 2019, www.ethics.org)</p>	<p>Whistleblower</p> <p>“Any employee who reports misconduct when observed in the workplace. Although some believe whistleblowers are distinct from internal reporters, ECI research indicates that nearly all employees who report to someone outside their organization report internally as well”¹⁴⁸ (Ethics and Compliance Initiative, 2019, www.ethics.org).</p>

Source: Modified: (Ethics and Compliance Initiative, 2019, www.ethics.org) “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

The conclusion of this chapter will be covered in the following section.

10.7 Conclusion

The ethics function keeps gaining momentum in the operations of the organization as almost everything an organization does on a daily basis requires ethical consideration first. Today most of the staff in organizations are faced with several situations of ethical dilemmas at the workplace on a regular basis and this helps to increase the importance of the ethics function on a daily basis. Ethical behavior can be enhanced by courage and in most instances when people in an organization are courageous enough to stand up for what is right their stance slowly becomes an ethics culture with time. It can therefore be concluded that one of the most effective ways an organization can maintain its momentum on ethical behavior in the organization is through

¹⁴⁷ Ethics and Compliance Initiative (2019) *Toolkit Glossary*. Available from: <https://www.ethics.org/resources/free-toolkit/toolkit-glossary/> “© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org”.

¹⁴⁸ Ethics Resource Center (2011) *Inside the Mind of a Whistleblower*. Available from: <https://www.corporatecomplianceinsights.com/wp-content/uploads/2012/05/inside-the-mind-of-a-whistleblower-NBES.pdf> [Accessed February 18, 2020]

incentivising ethical behavior to reinforce the behavior to become a culture or way of doing things.

10.8 Review questions

- 1) What is the meaning of the terms 'courage' and 'respect'?
- 2) Explain how courage drives ethics compliance in an organization?
- 3) Discuss how respect is an ethical practice?
- 4) Explain how the Ethics Department collaborates with the HR department?
- 5) Discuss whether the incentivizing of ethical behavior in an organization is right or wrong?
Please give an example?

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