



# The seven dimensions of ethical culture in companies

## An interview with Anne Van Heerden and Muel Kaptein

A recent KPMG study<sup>1</sup> confirmed that company leaders – in the US and in Europe – are shifting their attitudes in favor of strengthening corporate culture and placing more emphasis on ethics among their strategic priorities.

Muel Kaptein and Anne Van Heerden (bios below) share their perspectives on the reasons underlying this shift, what companies are doing to build ethical culture, and how companies are establishing the values that drive good ethical behavior.

*KPMG's research last year indicated that two-thirds of chief ethics officers and chief compliance officers agreed that "ethics" would top their list of regulatory and compliance topics. What do you think is the reason for this shift – and consensus – in focus?*

**Anne Van Heerden:** The fact that 66 percent of chief ethics officers and chief compliance officers identified "ethics" as one of the key regulatory and compliance obligations around which they plan to refine their efforts is certainly eye-opening – but it's not surprising, given the scrutiny companies find themselves under as of late.

<sup>1</sup> [www.corporatesecretary.com/articles/compliance/31630/research-shows-ethics-taking-center-stage-compliance](http://www.corporatesecretary.com/articles/compliance/31630/research-shows-ethics-taking-center-stage-compliance)

**Muel Kaptein:** Within the past five years, accounting scandals, financial crises and corporate misconduct have been grabbing headlines – and chipping away at many corporations' reputations. These news stories have a massive impact on the public's perception of a company, but they can also have a negative impact within the company – from employees and management to leadership and the board.

Any company that is caught in the crosshairs of a scandal can lose the momentum of stakeholder goodwill – which lies at the foundation of business.

*Can you expand a bit on the term "ethical culture"? How does a company know if they have it or need it, and if it's robust?*

**Anne:** When companies do not have a robust ethical culture, they struggle during times of crisis to respond swiftly, transparently and appropriately – for both, internal and external audiences. Ethical culture is rising to the top of board members' agendas. In fact, because boards are increasingly expected to play a greater oversight role, they rely on a framework within which to hold their companies' CEOs and other C-suite executives accountable to allegations of misconduct.

**Muel:** I have analyzed many cases of misconduct and have done much research into what the main dimensions of an ethical culture of organizations are. At the core, the question is: what factors in an organization drive good people to do bad things?

My research has identified **seven factors** – or seven dimensions – of the ethical culture: clarity, role-modeling, openness, achievability, enforcement (and reinforcement), transparency and commitment. (These are outlined in detail at the end of the article.)

The more managers and employees perceive these factors to be embedded in their work, the more it stimulates ethical behavior, resulting in an improvement in the organization's ethical culture.

**Anne van Heerden**  
Partner, KPMG in Switzerland





*It sounds like the seven dimensions are a good spring board for designing a model of ethical culture for the organization.*

**Muel:** Indeed. Such a model will address each of the seven dimensions of the company's desired ethical culture. To echo Anne's point, the model can serve boards by monitoring and measuring the ethics of their organizations. It also helps organizations understand what drives good behavior, and can point to the root causes of incidents. Every company can tailor this model to its own needs.

*How does a company go about building a strong ethical culture, or designing such a model?*

**Anne:** Before a company starts building a model, it's always good to run an assessment and establish a basis upon which to measure progress. So, it should come as no surprise that 65 percent of professionals surveyed ranked both investigations as well as monitoring and testing as a top priority among the ethics and compliance activities they plan to enhance. Implementing data analytics ranked a distant third with only 32 percent of respondents including it among their activities.

This suggests to us that the main drivers behind their choice include a need for real-time detection and responsiveness. Also, many corporations don't feel like they are as far along the ethics and compliance path as they would like to be. After all, what data would they analyze, if they haven't yet established a model for their ethical culture?

*What do you recommend for companies that wish to monitor their ethical culture?*

**Muel:** Many organizations today monitor their ethical culture. That is big step forward. Some organizations measure their ethical culture employing a biannual survey – which is good practice. I know organizations that have measured their ethical culture as many as five times, so they can monitor their progress.

Of course it is important for organizations who measure their ethical culture to have a survey that fits well with the risks, vocabulary and concepts of the organizations. Organizations that report the ethical culture on the level of every team or department in their organization have experience with this, because teams and departments then receive their own results, stimulating local management to use the results for improving their ethics.

*Can any technology be used to automate or simplify monitoring ethical culture?*

**Muel:** Increasingly, organizations are measuring their ethical culture with methods such as interviews and artificial intelligence. Some organizations I know require every manager to perform a root-cause analysis when they are confronted with an incident. In those cases, they have to analyze to what extent which factor of the ethical culture caused the incident – essentially pointing to any weak links in the company's ethics chain. Some organizations make use of an ethical culture dashboard, hold regular audits of their ethical culture and report on their ethical culture in their annual report.

*What would be essential for organizations to start doing now if they have not had this on their radar so far?*

**Muel:** The start for improving the ethical culture is to measure the existing culture among employees. The survey could point to the need for, say, an adjustment to the Code of Conduct, what types of topics employees need more training in, or what accommodations need to be made to help create a safe environment of speaking out.



**Muel Kaptein**  
Partner, KPMG in Netherlands



*Where do Swiss companies stand?*

**Anne:** A number of Swiss companies also already regularly survey their employees on their culture, leading to a greater understanding of the internal trends in ethics over time. Those companies have learned that periodically performing a survey provides opportunities to benchmark against previous data and to act on changing practices. Employees are allowed to comment on current topics and express their opinions on points of improvement and provide valuable qualitative feedback. Depending on the method of the survey, questions can be validated and used to benchmark the company's level of ethical culture maturity against that of other companies. After such a survey, a company's ethics and compliance program can be further implemented, improved and measured.

*There is an increased demand for new approaches to enhance compliance within companies. What is your view on that?*

**Anne:** We have noticed a change in the Swiss market in the last few years. First, Swiss companies want to focus more on strengthening the organization's culture, and second, there's a push for an organization to respond proactively rather than reactively on incidents.

*Can you elaborate on Swiss companies' drive to focus on strengthening their organizations' cultures?*

**Anne:** We see companies adopting several approaches to strengthening the organization's culture, such as establishing training, implementing employee surveys and establishing whistleblower hotlines.

Because many Swiss companies have already been asking their employees about company culture with surveys and questionnaires, they have already established a greater understanding of the internal trends in ethics over time – creating a more informed starting point for companies interested in strengthening company culture.

For example, we performed a survey on behalf of a Swiss company in 2013, 2016 and 2018. In response to the results, the company was able to implement several measures, and noticed a significant rise in employee satisfaction, as well as survey participation. At the same time, a benchmark over these years indicated a downward trend in satisfaction in one particular division. Because of this, the company could take specific measures to address and correct this.

*What if employees' grievances are of a more specific nature, which is inadequately addressed in an employee satisfaction survey?*

**Muel:** With a whistleblower hotline, employees can report proactively to a third party when they do not agree with behavior demonstrated by management. They could report, for example, when they notice a manager charging personal expenses as business expenses -- such as lunches, hotels, laptops, house renovations – but these reports could also include intimidation by board members and management.

*So, you're saying that benchmarking, thanks to survey results, and feedback through whistleblower hotlines are ways that companies can be more proactive when it comes to strengthening company culture?*

**Anne:** While in previous years, forensic investigations would start only when fraud had taken place – and a company wanted to investigate how this fraud happened – in the last few years, many of our investigations have started with a whistleblower report – before fraud could take root.





*Are you seeing any deeper trends as a result of companies taking the lead in strengthening their company culture?*

**Muel:** For this change from reactive investigating to proactive monitoring to be possible, an organization's investigation process must be more firmly integrated into the broader risk management and control environment than they typically are today.

**Anne:** Agreed. The environment – particularly among Swiss companies – is changing and we're witnessing an ongoing shift from external to internal investigations. Organizations are anticipating more and being more proactive, by building up their own competencies.

*Given all that you have seen insofar as trends in corporate ethics, are there any final thoughts you would like to share with readers?*

**Muel:** All the skills, processes and technology combined will not earn the trust of a company's internal and external stakeholders. An organization must behave according to sound moral and ethical principles and embed this in their culture.

**Anne:** Indeed, the qualities that differentiate the good organizations from the bad, are – as ever – a commitment to the truth, fair dealing, uprightness, honesty and sincerity.

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The seven dimensions of the ethical culture:

#### Clarity

Employees need to understand the difference between acceptable and unacceptable behavior, as well as the consequences for non-compliance. The more clearly company culture is understood, the greater the likelihood that people will do the right thing.

#### Openness

There are always grey areas that can shed light on the tough questions. Openness helps all the people in an organization develop a consensus on what is acceptable behavior and helps reinforce the culture. This creates a sense of shared responsibility.

#### Enforcement

It's important that systems of reward and punishment are clear, explicit and directly related to guiding principles and desired behavior. Integrity is destroyed at the root when rewards and sanctions are out of alignment with core values and avowed norms – and rewarded behavior and tolerated misbehavior become the norm.

#### Commitment

The organization's leadership must demonstrate a commitment to its company culture to stimulate commitment on the part of its managers and employees. Do people feel trusted and involved? Do they feel that their views are taken into account?

#### Role-modeling

Effective role-modeling is the foundation for mutual respect across all levels of an organization. The right tone is set at the top and cascades down through all levels of the organization. When senior executives set the right example, people tend to follow suit.

#### Achievability

The goals and targets an organization sets for itself must be realistic and achievable. "Stretch" targets are fine. But unrealistic objectives and targets stimulate cynicism and resistance or – worse – a culture of breaking the rules to achieve them.

#### Transparency

Transparent and open behavior means each individual can witness and understand the impact of his or her actions on others, and correctly interpret the actions of others. Transparency has a proactive impact because it allows staff to act according to the core principles of the firm, while also seeing them in action every day.







### About Muel Kaptein

Muel Kaptein is a Partner at KPMG where he helps organizations in developing and auditing their ethics. He is also a professor of business ethics at the Rotterdam School of Management of the Erasmus University, where he also teaches CSR, leadership and business ethics. He has written eight books and has published 60 peer-reviewed articles. Muel started his work in the field of business ethics in 1991.

### About Anne van Heerden

Anne van Heerden is a Partner and leads KPMG's Forensic practice in Switzerland. He possesses more than 25 years of experience in the fields of forensic investigations, fraud prevention and regulatory compliance services. Anne joined KPMG Netherlands in 1986 and transferred to KPMG in Switzerland in 2000.

#### More information

**2019 CCO survey**  
[advisory.kpmg.us/content/dam/advisory/en/pdfs/2019/2019-cco-survey.pdf](https://advisory.kpmg.us/content/dam/advisory/en/pdfs/2019/2019-cco-survey.pdf)

**Research shows ethics taking center stage for compliance**  
[www.corporatesecretary.com/articles/compliance/31630/research-shows-ethics-taking-center-stage-compliance](https://www.corporatesecretary.com/articles/compliance/31630/research-shows-ethics-taking-center-stage-compliance)

**Washington Post, 15 May 2019**  
[www.washingtonpost.com/business/2019/05/15/more-ceos-were-forced-out-ethical-lapses-than-poor-financial-performance/](https://www.washingtonpost.com/business/2019/05/15/more-ceos-were-forced-out-ethical-lapses-than-poor-financial-performance/)

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