KPMG

Promoting Ethics in Organisations: Letters from the field

BEN-Africa
The Business Ethics Network of Africa

Contents

Introduction

According to Victor Hugo, French novelist and author of Les Misérable, "nothing is as powerful as an idea whose time has come". By all accounts ethics is that idea in business and organisations today. In South Africa, ethics takes centre stage in leading practice documents in both the private and public sectors, including the King IV Report on Governance (2016) and the Public Service Integrity Management Framework ("the PSIMF"). According to the King Report, for instance, corporate governance is the exercise of ethical and effective leadership, and one of its primary outcomes is an ethical organisational culture. But achieving such laudable outcomes is easier said than done, and those having started this venture attest to challenges in motivating and implementing ethics programmes in organisations.

This publication is an anthology of essays from practitioners and academics in the field of Business Ethics, all within South Africa. It is the culmination of four "Ethics Forums" hosted by the Business Ethics Network of Africa and KPMG. The forums were held in 2015 and 2016, in Johannesburg, Cape Town, Stellenbosch and Port Elizabeth.

Our idea was simple. Instead of hosting just a larger annual conference in one city in South Africa, BEN-Africa in conjunction with KPMG would host a series of short forums where practitioners and academics could hear from ethics officers in the field, of the tricks and tragedies of ethics management in businesses and other organisations. It would also be an opportunity for participants to identify the needs and the challenges in their daily effort to create ethical organisations.

From the outset it was clear that both proponents and sceptics wanted to talk about the topic of ethics in organisations. In the public sector, functionaries are trying to get ahead of fraud, theft and corruption, using ethics as a pro-active approach, instead of only having to react after the (unethical) event. In the private sector, ethics officers are battling to justify their efforts amid profit targets and a myriad of compliance requirements.

Against this background, speakers at the Ethics Forums discussed:

- An understanding of business that makes room for ethics
- What it takes to establish and maintain an effective and relevant Ethics Office
- The challenges facing an Ethics Officer in a large organisation
- Maintaining a values-based organisational culture
- When and why people "cheat" in organisations.

The key messages encapsulated in this publication include that ethics becomes a priority when we understand that the purpose of business is to create sustainable shared value for stakeholders, instead of limiting business to the pursuit of profit for shareholders (Oliver Williams). But even when ethics is on the agenda, the Ethics Office initially spends much of its time motivating and contextualising the ethics programme among executives whose backing is essential if the programme is to have any effect. The nitty-gritty of an ethics function includes negotiating the mandate of an Ethics Office, and ensuring that the function is independent and balances the tasks of proactively creating an environment supportive of ethical conduct, while also responding adequately and effectively to incidents of misconduct (Mias de Klerk). Moreover, the Ethics Office must navigate the tensions between positive ethical debate and moralising; between celebrating whistleblowers while protecting them; and between embedding ethics or merely instrumentalising it (Julio Andrade).

The ideal pursued is a values-based organisation, "marked by a coherent set of explicit personal and organisational values which are acted on habitually and consistently in all contexts" (Piet Naude).

"The challenges facing the globe, our societies and our economies, combined with changes in thinking expressed, for instance, in the King IV Report, suggest that the practice of ethics management will become increasingly prominent"

These organisations, having effectively embedded values in strategy and operations, have the ability to positively influence individual decision-making while attending to global ethical challenges on the local level. Finally, getting this right requires an understanding of misconduct in organisations. "Cheating" in organisations is not simply caused by "greedy individuals", but is often the coincidence of organisational factors and individual (cognitive and psychological) limitations.

When under pressure in a business, for instance, people have the capacity to "morally disengage" – participating in suspect practices to get the job done, but without feeling personally responsible or morally compromised. (Schalk Engelbrecht).

Participants at the forums responded by identifying the following challenges and priorities:

- Demonstrating the "return on investment" of ethics programmes
- Achieving leadership commitment to ethical business
- Embedding ethics into organisational processes, including recruitment, performance assessment and performance incentive
- Dealing with the "ethical diversity" contained in multinational or culturally diverse organisations.

The challenges facing the globe, our societies and our economies, combined with changes in thinking expressed, for instance, in the King IV Report, suggest that the practice of ethics management will become increasingly prominent. It is our hope that this publication will contribute to an ongoing discussion aimed at capacitating those promoting ethics in organisations, elevating the practice, and achieving organisations that truly contribute to human and societal flourishing.

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The Purpose of Business: The Basic Issue

By Oliver F. Williams [1]

Much of the unethical behaviour in business today stems from the single-minded pursuit of profit. This unbalanced pursuit of profit can be corrected by an over-arching perspective, which helps us see business purpose in the context of the larger human picture.

When the purpose of business is seen as the creation of value for all stakeholders, business can serve the common good, and contribute not only to the material well-being of society, but also to its spiritual enhancement.

What is thought to be the role of business in society today? I argue that we are in the midst of a major paradigm shift in our understanding of the purpose of business. This new understanding holds much promise for business as a significant force for peace in our world. What we are seeing is the emergence of a view of the firm as a socially responsible political actor in the global economy, and as an institution that can generate not only material wealth, but also wealth that nourishes the full range of human needs—what some call spiritual capital. The purpose of business, then, is to create sustainable value for stakeholders, including employees, suppliers, the community, the environment, and, of course, the shareholders. [2]

Neoclassic economics asserts a strict division between the private and public sector domains. Governments are charged to provide public goods and deal with the challenges of social justice, while collecting taxes to pay for these services. If the people are not pleased with the way elected politicians establish priorities and mediate interests, they can vote them out of office. Business, on the other hand, has another task: to produce goods and services at a reasonable price while offering a return on investment. Business has made tremendous progress not only in the quality of goods and services made available, but also in enhancing the quality of life. Technology that enables us to enjoy good music, machinery that humanizes work, and medicines that increase life expectancy and decrease infant mortality, are only a few of the fruits of capitalism.

"Under the influence of the wider society, there is an expanding of the values of many business people and, hence, an expanding of the values of capitalism."

The strict division between the private and public sectors is no longer a reality in our time. Whether under the rubric of corporate social responsibility (CSR), corporate citizenship or sustainability, companies are taking increasing responsibility for problems in the wider society. In practice, there is clearly a change in in the way the responsibilities of the private and public sectors are apportioned. Perhaps a

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[2] For a discussion of the purpose of business, see Oliver F. Williams, *Corporate Social Responsibility: The Role of Business in Sustainable Development* (London and New York: Routledge, 2014), 30-50. Also Oliver F. Williams (ed): *Sustainable Development* (University of Notre Dame Press, Notre Dame, IN, 2014).

major driver of this enlarged role of business in society is the changing expectations of consumers. A May 1999 poll by Globe Scan revealed that two out of three respondents wanted companies to go beyond their traditional economic goals (provide jobs, create wealth, pay taxes and obey laws) and help solve some of wider society's problems. Called the Millennium Poll on Corporate Social Responsibility, and based on 25,000 interviews, the poll reported that one in five consumers claimed to reward or punish companies based on their perception of the companies' social performance. [3]

In contemporary business ethics literature, the term "license to operate" is often used to convey the idea that meeting society's expectations, such as business operating with the awareness of its environmental impact for example, is part of the implicit social contract between business and society. Failing to meet society's expectations can result in tough regulation; for example, in the US, the 2002 Sarbanes-Oxley law and the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, resulted in a loss of discretionary power formerly entrusted to companies. This may explain why many companies have become proactive in meeting society's expectations; some, for example, by collaborating with NGOs in designing and implementing ethical norms for the global community. Companies, either alone or partnering with NGOs have taken on numerous projects to assist the poor around the globe, for example, the public-private partnership (PPP) between the Merck Foundation, the Government of Botswana and the Bill & Melinda Gates Foundation established in 2001 to treat HIV/AIDS and related health conditions. Since its founding the number of people living with HIV receiving treatment has risen from 5 percent to 90 percent. Motives are always difficult to fathom, but clearly, some business leaders want to reach out to the poor because they are concerned with their welfare.

What we are experiencing is that, under the influence of the wider society, there is an expanding of the values of many business people and, hence, an expanding of the values of capitalism. To be sure, this phenomenon is not present in all business, but a growing number of business people want to make a difference. They are asking about ultimate purpose, about what matters most deeply in life, and they want to chart a life plan that draws on the full range of the human spirit's resources. This new focus is what many describe as a focus on spiritual values. From this standpoint, sustainability reflects the connectedness of business with the wider society. Business must not only take responsibility for its own activities, but also for some of the problems in the wider society.

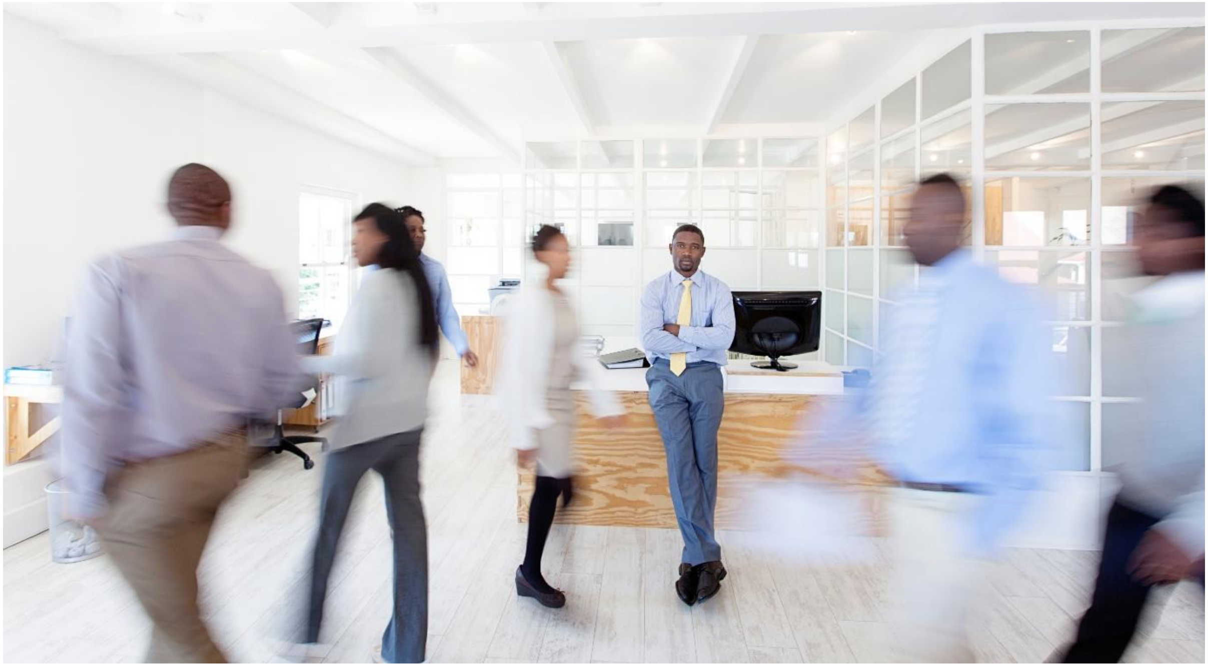
Lest the reader think that the wider notion of the purpose of business is a creation of scholars, it is important to note that many very successful business leaders have put this idea into practice long before it was popular in the academy. Consider the case of John Mackey, CEO of Whole Foods, an American company worth $8 billion, with over 300 stores specializing in natural foods. For Mackey, the challenge to resolve the tension between economic and social values was to be met not by compartmentalization, but rather by integrating these social values into the strategic plan of his business. For Mackey, then, the purpose of business is not profit, but rather to create sustainable value for stakeholders, including shareholders, employers, customers, suppliers, the environment, and the wider society. Mackey co-authored a book to share his philosophy, *Conscious*

[3] Globe Scan. 1999: http://www.globescan.com/news_archives/MPExecBrief.pdf.

Capitalism. [4] A number of other business leaders share this philosophy. For example, Bill Gates, founder of Microsoft, speaks of "creative capitalism." [5] Ben and Jerry, of the Vermont ice cream company, call their business philosophy "caring capitalism." [6]

The United Nations Global Compact (UNGC), a coalition of over 8,000 businesses in 140 countries striving to advance human rights, largely in developing countries, has assumed this new understanding of the purpose of business. The unit of the UNGC responsible for advancing business education, the Principles for Responsible Management Education (PRME), expresses this purpose well: "We will develop the capabilities of students to be future generators of sustainable value for business and society at large, and to work for an inclusive and sustainable global economy." [7]

As more and more young men and women educated in the PRME values join the business community, and as more businesses focus on the Sustainable Development Goals championed by the UNGC, there is great hope for a better future.



[4] John Mackey and Raj Sisodia, *Conscious Capitalism* (Cambridge, Mass.: Harvard Business Review Press, 2013).
[5] Bill Gates, "A New Approach to Capitalism" in *Creative Capitalism: A Conversation with Bill Gates, Warren Buffet and Other Economic Leaders*, ed. Michael Kinsley (New York: Simon & Schuster, 2008), 7-39.
[6] Ben Cohen and Jerry Greenfield, with Meredith Moran, *Ben and Jerry's Double-Dip; Lead with Your Values and Make Money, Too* (New York: Simon & Schuster, 1997).
[7] See the website, *www.unprme.org*.

The Role of an Ethics Office

By Prof Mias de Klerk [8]

Introduction

Traditionally, ethics in most organisations is managed in a fairly low key manner, or not managed at all. Part of the problem is that the mainstream thinking about, and approach to ethics management in organisations is predominantly operational and reactive. In other words, rather than promoting ethics strategically and proactively, ethics is dealt with on an operational level, and mainly as a reaction to calls made to the ethics reporting line, if indeed such a reporting line is even present. Few organisations have ethics management as an independent and separate function; the tendency is to make ethics management part of the role of other functions (e.g. Legal, HR, Compliance, Risk). As such, there is limited leadership on ethics, or a focus on shaping ethics to the benefit of the organisation.

The scope of ethics programmes is limited and restricted. In addition, limited resources are made available to manage ethics and promote an ethical culture.

The need for strategic ethics management

Good ethics is not only about doing the right thing; strategically it is also good business. Research by Ethisphere confirms that ethical business is good business and investing in ethics is beneficial for any company, even during a recession. [9] Ethisphere investigated the "World's Most Ethical" (WME) companies and found that since 2007 they outperform 500 top public American companies by about 35%, as determined by Standard and Poor. Similarly, research by the Corporate Leadership Council found that "companies with a strong culture of integrity and ethics deliver shareholder returns 5.8 percentage points higher than their counterparts."[10].

On the other hand, the lack of ethics, or breakdown in ethical culture routinely leads to scandals, reputational damage and negative financial implications, for instance:

- Sasol: the allocation of a R4,5 billion fine for anti-competitive behaviour plus reputational damage. (2014)
- Barclays bank: £290m Libor fine, reputational damage and the resignation of the chief executive. (2015)
- BP and the tragic Deep Water Horizon oil spill: reputational damage resulting from the way they dealt with the spill; slump of 50% in BP share price during 2010, resignation of the chief executive, huge fines and clean-up costs in excess of US$65 billion
- VW emissions scandal: 37% of share price wiped off in two weeks, resignation of its long-time chief executive, sending reputational shockwaves through both the global car

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[9] See www.ethisphere.com
[10] See www.cebglobal.com

industry and the German establishment (2015).

To gain the benefits that accrue to the WME companies and avoid the reputational damage that results from ethical failures, organisations require a strategic and proactive approach to ethics management. The World's Most Ethical Companies do not just loosely talk about ethics, or just claim to have a code of ethics. Rather, Ethisphere reports that organisations with this designation "...truly go beyond making statements about doing business ethically, but rather work to build strong ethical cultures through which those words are translated into action. WME honourees demonstrate real and sustained ethical leadership within their industries."

It is clear that an approach to ethics, different from the traditional operational and reactive approach, is required:

1. Ethics must have a strategic and proactive focus, resulting in the building of an ethical culture. Ethics must be managed to influence all business decisions, including strategic decisions.
2. The management of ethics must be appropriately resourced. Competent and passionate specialists must be appointed to provide ethics thought leadership in order to shape and safeguard an ethical culture.
3. In order to enhance the management of ethics, it must be entrusted to a specialised function, with a unique role and with a clear strategy and mandate. Such a function can provide focused ethical leadership, linked to an ethics strategy, as well as shape the organisation's ethics according to the strategy and mandate identified.

A strategic approach to ethics

What does a strategic approach to proactive ethics management encompass? Firstly, an organisation should have a clear strategic goal with what they want to achieve by building an ethical culture. Thereafter, a specific commitment towards this goal must be made at the highest level of the organisation. For instance, 'Achieving business success on the earned foundation and reputation as an ethical enterprise'. From this goal and commitment, an organisation should develop a fitting approach to ethics:

- A clear ethics strategy that is anchored in the organisation's values
- Ethics which is infused in all aspects of the business, and ethical reasoning an integral aspect of all business decision making
- A sensible application of ethics, based on sound reasoning
- A comprehensive ethics programme, which is foremost focused on proactively building an ethical culture.

Giving effect to this approach will be very difficult without establishing a functionally independent Group Ethics Office (EO) in larger organisations, or at least an official ethics function or responsibility in smaller organisations. This EO, or official ethics function will be the custodian of a comprehensive and integrated ethics programme.

The Structure of an Ethics Programme and Ethics Office Mandate:

Arguably, the most important goal of an Ethics Office is to assist top management to foster a resilient ethical culture in the organisation; a culture where ethical behaviour is the norm. This will, in turn, be reflected in everything done by all managers and other employees.

In order to achieve this, the first and most important requirement is a visible, practiced ethics tone and demonstrated commitment to ethics coming from the top of the organisation. Of course, this cannot be taken for granted. The Ethics Office has an important role to play as the conscience of both the organisation and executive management. Nevertheless, setting the tone at the top is largely the responsibility of the Board and the CEO, and outside the scope of an Ethics Office. The Ethics Office must give effect to the ethical culture through a structured Ethics programme and must be mandated to develop and implement this programme. The following points should be considered when structuring such a programme:

Ethics Office Design Essentials

In order to fulfil its mandate and function effectively, there are certain Ethics Office design essentials:

1. As far as possible, the Ethics Office must be functionally "independent". However, absolute independence within an organisation is mostly unattainable: Ethics Office personnel – like other personnel – have relationships with many other people in the organisation which might affect their independence. The Ethics Office reports somewhere into the organisational structure, and is financially dependent on the higher hierarchies of the organisation, while the personnel of the Ethics Office are likewise dependant on these higher hierarchies for their career advancement. As such, the Ethics office must be set up and managed to be impartial in everything they do.
2. An important aspect in achieving independence and impartiality is to ensure that the Chief Ethics Officer has direct access to the Chairman of Board, CEO, Chair of the Audit Committee, and Chair of the Social and Ethics Committee.
3. Moreover, nobody must be allowed to censure any reports of the Ethics Office to the Social and Ethics Committee.
4. The Ethics Office is to be separate from the Compliance office as ethics will easily be overpowered by more urgent compliance matters – executives love the excuse that "nothing illegal was done" when they are found guilty of severe ethical transgressions.
5. Ideally, the proactive and reactive aspects of the Ethics Office should be kept separate to ensure a balanced focus on, and effort towards both aspects. Those who promote an ethical culture through training, communication and dispensing advice should be "kept separate" from those who detect and respond to unethical conduct through the investigation of reports or disciplinary procedures. If not, reactive issues are likely to overpower proactive approaches, with the result that the creation of an ethical culture can be severely hampered. In addition, employees may be hesitant to approach those who investigate for advice on moral dilemmas.

The Role and Purpose of the Ethics Office

The Ethics Office is central in giving effect to the approach outlined above. The role and purpose of the Ethics Office can thus be summarised as:

1. Providing Ethics Assurance and Governance
2. Being the custodian for the code of ethics, ethics strategy and ethics programme
3. Developing, refining and rolling-out a comprehensive ethics strategyand programme, with initiatives that are simple, focused, cost effective and aligned with current best practice and relevant legislation

The four main aspects of this role is illustrated in Figure 1 below:

- 1. Ethics Strategy
  - 3. Pro-active Ethics
    - Create an ethical culture to prevent transgressions
  - 2. Ethis Governance
    - Provide assurance of an ethical company to Board and Stakeholders
  - 4. Reactive Ethics
    - Detect and deal with ethical transgressions

Reflections on some business ethics tensions within organisations.[11]

By Julio Andrade [12]

Organisations seeking to meet the challenge of good corporate citizenship need to balance their economic, social and environmental responsibilities. Achieving this balance requires that organisations attend to several ethical tensions that might be present within its boundaries. This article draws attention to three ethical tensions within the organisation, whose effective management may determine the organisation's success in creating an ethical culture: 1) the need to promote ethics talk within the organisation against the dangers of moralising; 2) the need to protect the whistleblower's disclosure against the need to celebrate ethical courage; and 3) the need to incentivise employees to participate in ethics interventions against the danger that such incentives will work against employees internalising those interventions.

Ethics talk versus ethics shouting

Creating awareness of ethics within the organisation starts with simple talk about ethics. 'Ethics talk' is about creating an opening within the day-to-day business of the organisation that allows ethics into the conversation. Talk about ethical aspirations needs to assume a position on an equal footing with operational matters or financial targets for example. Employees should feel free to speak about professed values such as integrity or trust without fear that they will be undermined, or seen as being naïve or idealistic. Ethics talk aims to encourage the verbalisation of anxieties or discomfort experienced around questionable business practices, and promotes the embedding of an ethical organisational culture. Ethics talk encourages employees to raise concerns about observed misconduct. Ethics talk also allows organisational values to be articulated, thereby enhancing value congruence between the organisation and employee.

Employees can, however, become uncomfortable with ethics talk. They might feel that their personal integrity is being called into question. Ethics becomes a hurdle, a swearword – the 'E' word. When ethical concerns start to dominate the conversation then ethics talk can escalate into ethics shouting, suppressing the voice of organisational purpose. To balance this tension, Rossouw & Van Vuuren (2014:311) stress that ethics talk needs to be driven by leaders whose "aim is to identify and solve ethical dilemmas and grey areas in the organisation." Counterintuitively, one need not even use the word 'ethics'. Simple statements such as 'we may hurt others if we go down this road' may be sufficient to trigger talk about ethics.

[11] This article is an adapted version of a newsletter that was first written for, and distributed to the membership of The Ethics Institute. www.tei.org.za. TEI has given permission for this article to be printed in this publication.
[12] The Ethics Institute & PhD candidate at University of Stellenbosch

Whistleblower protection versus whistleblowing celebration

Employees reporting observed misconduct could potentially be a powerful tool for an organisation to root out unethical behaviour. To overcome power asymmetries inherent in organisational hierarchies requires trust however. Employees may, rightly or wrongly, fear repercussions for raising concerns. Line managers may downplay issues brought to their attention, insinuating that a subordinate lacks proper judgement; or there may be a kind of collegial peer pressure not to 'rock the boat'. Sometimes the organisation retaliates, passing the whistleblower over for promotion for example. To prevent such practices organisations should take measures to protect the whistleblower. The most effective tool in this regard is a safe reporting mechanism – a hotline, preferably managed by an external third party, where the whistleblower can report observed misconduct anonymously.

However, whistleblowers will only feel emboldened to step forward and raise concerns if they have an assurance that they will be protected from unwarranted retaliation.

Against this is the need to celebrate the ethical courage the whistleblower demonstrates. If other employees are made aware of misconduct that is detected and eliminated as a result of a whisteblower's disclosure they will feel emboldened to 'step up'; similarly if such a disclosure ensures that an employee is justly dismissed for unethical behaviour. Those skirting the boundaries of acceptable organisational values may feel less confident in justifying their conduct. This point is linked to ethics talk as discussed above – talking about ethics serves to entrench ethical culture; in this instance to eradicate unethical behaviour. Celebrating the whistleblower leads to a strengthening of trust within the organisation. However to ensure that the whistleblower is not inadvertently revealed in this celebration the organisation needs to ensure that it is the whistleblowing *act* that is celebrated, while the *whistleblower* is protected. The organisational focus should not be on who lifts the veil, but rather what the unveiling reveals.

Incentivisation versus Internalisation

The final ethical tension to be examined relates to a much more practical concern. Ethics interventions in organisations, such as focus groups aimed at determining ethics risk, ethics awareness campaigns and ethics training sessions, compete not just for budgets with other departments, but also, more crucially, for time. Ensuring attendance and participation for these ethics interventions is a constant challenge. Survey fatigue shadows every attempt to measure one or another organisational dimension from financial performance to employee satisfaction. An online ethics questionnaire is often added to a seemingly never-ending list of demands on employees' time to complete surveys. 'Gentle and friendly' reminders are part and parcel of the work-flow design of these ethics interventions. And once the ethical climate has been ascertained and the awareness campaign completed there is the imperative to 'make it stick'. All such interventions consume what some employees' may label valuable 'work time'.

More astute ethics officers might know that an indication of lunch or coffee and snacks to follow an ethics intervention always bumps up the attendance register. Small spot prizes such as chocolate bars are enough to make participants sit up straighter when facilitators seek participation from those gathered. A pen or notepad inscribed with the organisation's values received after such an ethical intervention help to extend that interventions' shelf-life. While there is always a duty to make one's message interesting and engaging to an audience, these tactics speak to human motivation and the need to incentivise behaviour.

Such 'tricks-of-the-trade' well intentioned as they are, however, run the risk of bringing ethics instrumentalisation in via the back door – where ethics is viewed as just another tool to bring about a certain outcome rather than something important for its own sake. Business ethics training should strive to inculcate the idea that ethics belongs in the organisation because 'it is the right thing to do' and not just as an insurance policy against reputational damage. If employees need to be incentivised to attend and participate in ethics interventions, it may dull the sense that ethical behaviour at work is vitally important in and of itself.

Over time, these 'sweeteners' may obstruct the emergence of the ethical culture they are intended to encourage. Employees need to 'internalise' ethics in order for a truly ethical organisational culture to take root.

In conclusion, organisations that are cognisant of these tensions, and actively manage them, will be far better positioned to strengthen and sustain the ethical dimension of their organisational culture.

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How to build a value-based organisation

By Prof Piet Naude [13]

Organisations, whether private or public, serve a multitude of functions that include providing essential services, responding to customer needs, generating profit for shareholders and/or providing meaningful work and a livelihood for people. Our contemporary societies cannot function without these organisations. We are dependent on the municipalities that provide water and electricity, the schools that provide education, the hospitals that tend to us when we are sick, the insurance companies that fund our treatments, and the malls and shops where we get our food and entertainment. These organisations, of course, are also dependent on us. Given these interdependencies, and in light of the need for sustainability, organisational legitimacy and trust, leading practice standards like the King IV Report on Governance emphasise a responsibility to embed ethical values within organisations.

A value-based organisation is an organisation marked by a coherent set of explicit personal and organisational values which are acted on habitually and consistently in all contexts. 'Values' are aspirational moral principles guiding conduct. If one imagines an iceberg, then conduct represents the small portion of the iceberg that appears above the surface of the water; while values are represented by the bulk of the iceberg below. Values extend deeper, and further than conduct, making up the unseen (unspoken, tacit) foundation that supports the entire structure of the organisation. Without the mass of the iceberg below to support it, the tip of the iceberg would disappear beneath the surface. Guided by the exemplary leadership of Nelson Mandela, seven lessons to lead value-based organisations are presented:

Lesson 1: Values are at work in your organisation even if you do no explicitly recognise them.

A common business myth has it that 'once we are financially stable, we will give attention to values as a next stage in our development'. The idea that a 'financial stage' precedes an 'ethical stage', or that a 'value-driven' stage can only follow a 'value-free' stage in the organisation's development is misguided. It misses the crucial point that values are necessarily present at every stage of the organisation's evolution, and are what drives that evolution forward.

Lesson 2: Ethical synergy is increased where personal and organisational values roughly coincide and are mutually supportive.

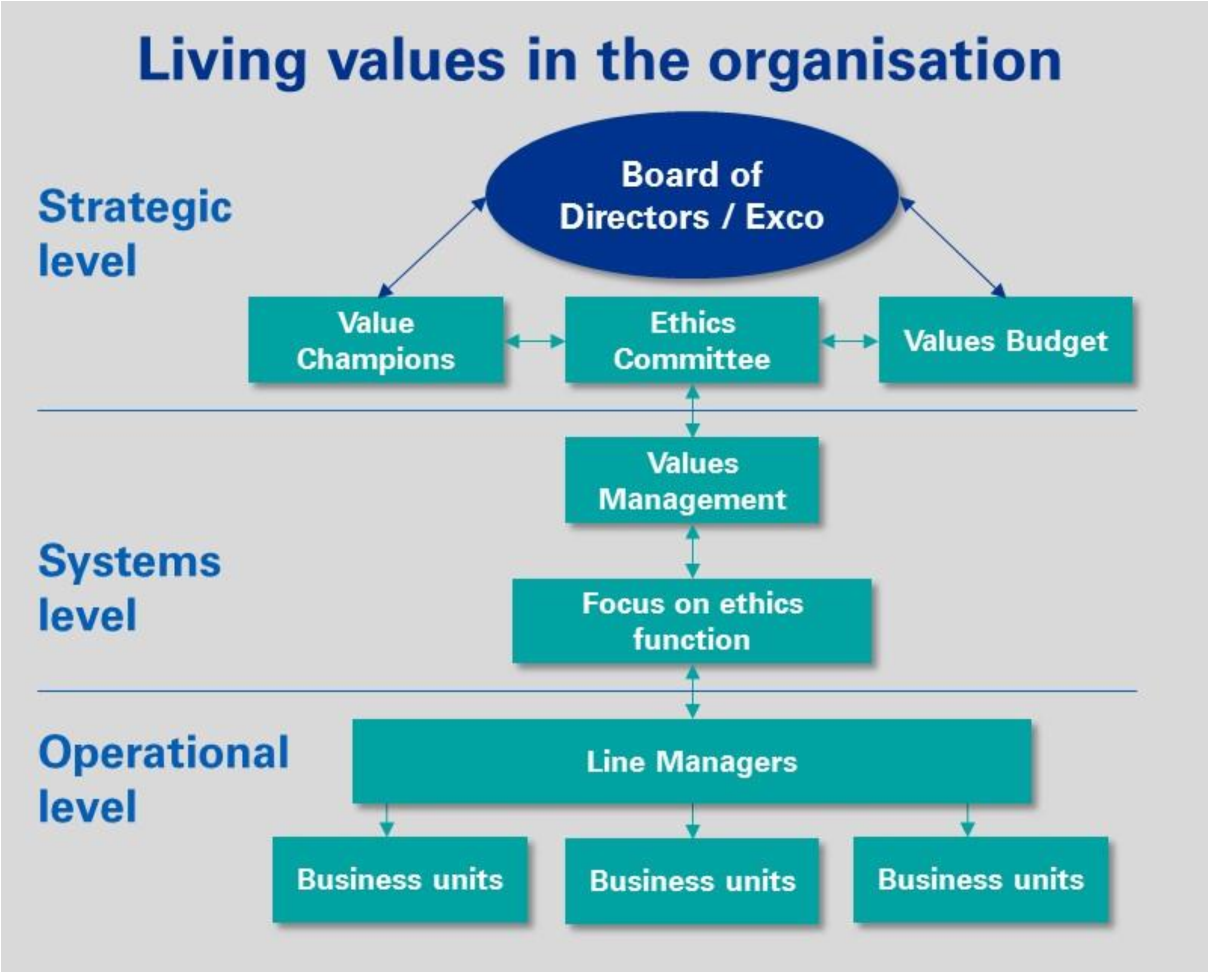
Individual and organisational ethics can be at odds, to the detriment of both:

Bad apples will leach into good boxes: An unethical employee erodes and undermines organisational integrity and so weakens it, while bad boxes will contaminate good apples: an ethical employee will find it hard to stand upright when the organisation continually tilts the playing-field toward unethical practices. A good apple in a good box, which fosters value congruence, creates a virtuous reinforcing cycle.

[13] Prof Piet Naude is a Director at University of Stellenbosch Business School

Lesson 3: Values are more "caught" than "taught".

While organisational values can, and should be actively managed through the ethics function of an organisation, they will not be fostered through institutionalisation alone. Establishing, and changing values, is a leadership function at the strategic level of the organisation, which will only catch on with organisational members if they are lived values, rather than espoused values.



(Adapted from *Business Ethics* by Rossouw and Van Vuuren 2011, published by OUP)

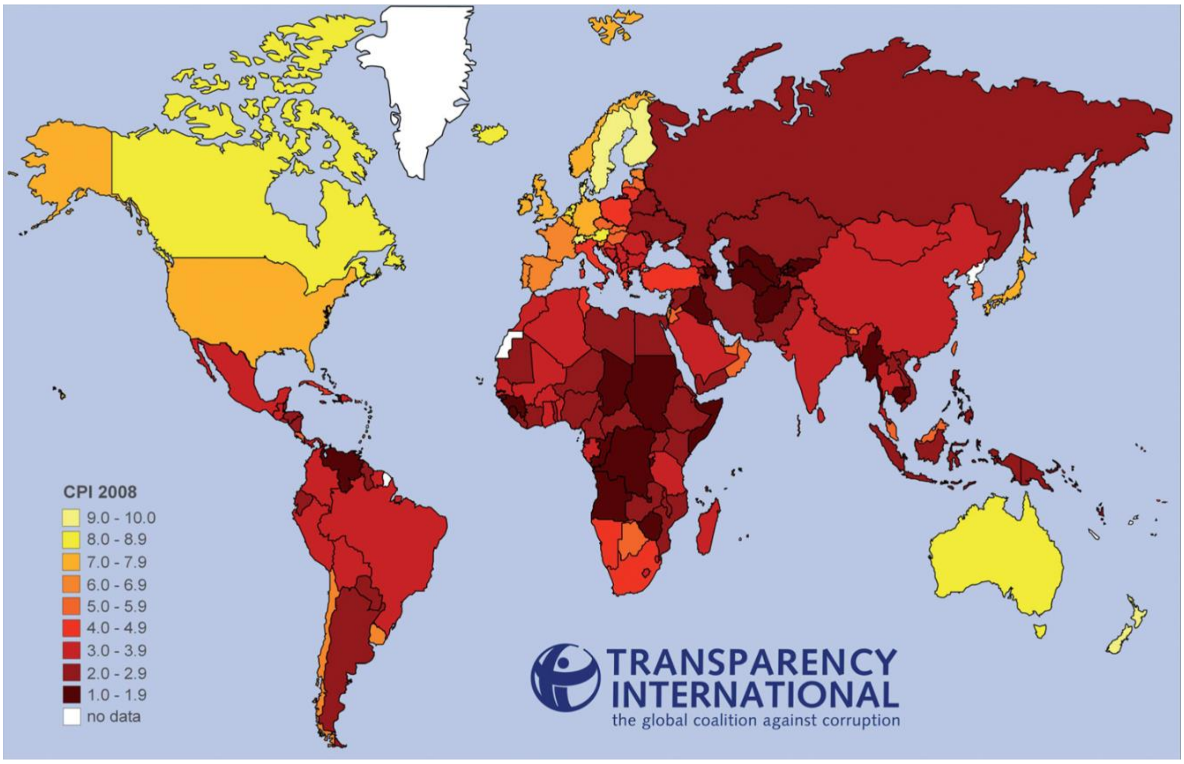
Lesson 4: If you market your values externally, then your customers and the public will hold you to them.

A company's reputation is not guaranteed by extensive ethics documents and value strategies or grand statements by leaders – it is "walking" the "talking" that counts. For example, consider that today Enron's Code of Ethics is widely used in corporate ethics workshops and business ethics courses to illustrate how an unsupported Code is a liability, rather than a marketing tool. Another example is how Google's purported ethical slogan "Don't be evil" was used against them by those who believed their participation in the Chinese market contradicted their own value of open and unrestricted communication.

Lesson 5: While there is often a direct, short term link between unethical conduct and business demise, there is an indirect, long term link between value-based leadership and financial success.

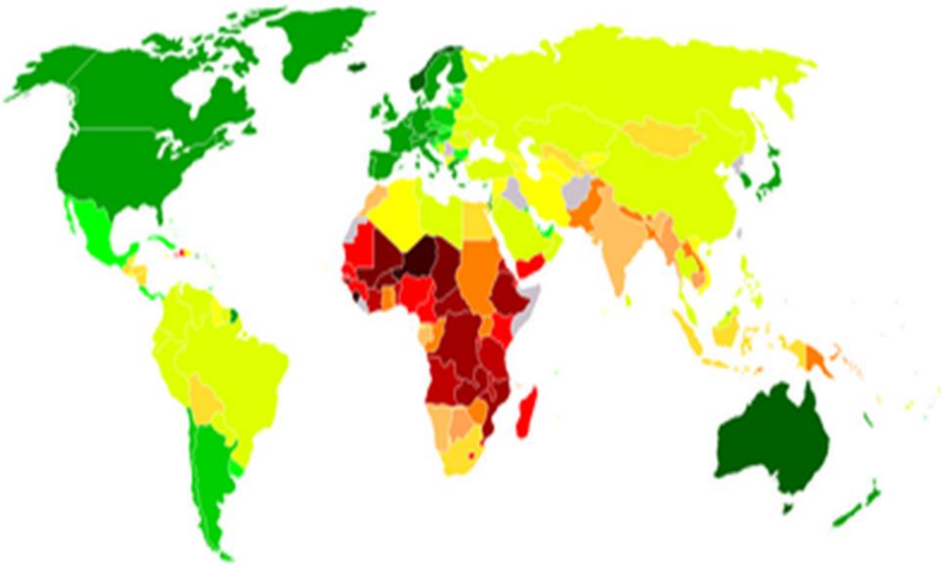
If one compares Transparency International's corruption index with the UN Human Development Index below, then a simplified correlation could be constructed between the two: countries perceived as less corrupt have higher human development indicators. An environment in which unethical conduct remains unchecked ties up with a country's economic underperformance.

Corruption Perception Index



Human Development Index

Colour	HDI
	≥ 0.950
	0.900 - 0.949
	0.850 - 0.899
	0.800 - 0.849
	0.750 - 0.799
	0.700 - 0.749
	0.650 - 0.699
	0.600 - 0.649
	0.550 - 0.599
	0.500 - 0.549
	0.450 - 0.499
	0.400 - 0.449
	0.350 - 0.399
	0.300 - 0.349
	< 0.300
	NA



Higher trust placed in an organisation by its stakeholders increases investor confidence, as evidenced in premiums the market allocates to the shares of organisations demonstrating value-driven leadership. In the UK the premium conferred on these organisations was estimated at18% above the share price of similar organisations the market did not believe demonstrated value-driven leadership; in Italy this was reckoned at 22%, and in Indonesia at 27%. (Coombes and Watson 2000: *The McKinsey Quarterly* no. 4) Well-governed boards offering independent oversight of executives are the basis of this investor confidence:

Lesson 6: Value-leadership requires the integration of values into performance cycles with continuous review of the values themselves.

We are used to evaluate performance on financial grounds. An ethics function within an organisation will only be taken seriously if a 360 degree values-assessment is included in management performance cycles. A seeming financial success might in fact be misleading and is not sustainable if built on the wrong kind of values. And in a fast-changing business and compliance environment, institutional values themselves require review in cycles of three to five years.

Lesson 7: A truly enlightened leader, and leading company seeks to provide (local) action in resolving the "big questions" of our time on a global scale.

We share the "wicked problems" as expressed in the Sustainable Development Goals. Each of these challenges has a local face. It provides for purpose if a company – in line with its business strategy – makes a focused contribution to one or two of these global challenges. The imperative of economic, social and environmental sustainability, daunting as it is in such a rapidly-changing time, demands that action be taken now, in spite of the magnitude of these challenges. Value-based organisations are those best equipped to meet that challenge and in turn shape our future global values.

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When and why we cheat: The science of integrity in business [14]

By Schalk Engelbrecht [15]

Is ethics a science?

Ethics is *not* a science. That's Ethics 101. Science tells us how things (or people) *are*, not how they *ought* to be. A scientific inquiry could, for instance, map the brainwaves of someone experiencing an ethical dilemma, or describe different forms of life, but it has no opinion on how to resolve the dilemma, or which form of life is *better*, more *worthwhile*, or more *moral*[16]. This is the realm of ethics, where behaviour is not explained, but evaluated. And within this realm what is judged *right*, *good* or *fair* is not determined by scientific inquiry, but by, among other things: intuition, negotiation, experience, empathy, social or religious background, and/or a sense of duty.

Yet today, business ethics is going scientific. It does not claim to be able to scientifically determine *right* from *wrong*, but an increasing number of researchers are trying to explain *when* and *why* people participate in what we already agree to be unethical behaviour, including fraud, theft or corruption. If we can determine why and when people do what is generally considered wrong, we are better placed to prevent misconduct.

For organisations, this has become important for a variety of reasons. Misconduct, whether illegal or unethical, costs money, clients and reputation. And in the age of transparency, moral blunders have become more costly than operational mistakes. Ask Volkswagen.

For society, it is equally important. Almost every part of our existence has become dependent in some way or another on businesses and other organisations. From the municipality whose operations ensure that we have water and electricity at home to the cellular network provider whose services have become almost as essential to most.

Things go wrong in these organisations, however. And the unethical behaviour that sparks these mistakes have often dumbfounded us. Hence the increased endeavour to understand when people cheat, or why good people sometimes do bad things, especially within organisations . What some of these "scientists of integrity" may change is the way ethics is managed in organisations.

[14] This article is a shortened and adapted version of a chapter written for the forthcoming 6th edition of *Business Ethics* by Deon Rossouw and Leon van Vuuren. The authors of this book have given permission for this amended version to be printed in this publication.
[15] Schalk Engelbrecht is an Associate Director in KPMG South Africa's Forensic Business Unit and the Head of Ethics Advisory. He is also a Research Associate with Stellenbosch University's Centre of Applied Ethics.
[16] There are those that differ from this traditional view. Sam Harris, author of *The Moral Landscape* (2010), argues that neuroscience demonstrates what best contributes to well-being. Hence, science can prescribe what is morally right, if one agrees that what is right is what contributes to the well-being of conscious creatures. Of course this is a big *if*, philosophically speaking.

What the scientists of integrity teach us

Saints or Psychopaths?

The first lesson taught to us by the scientists of integrity is that people are *not* foremost cold and calculating psychopaths. We do not naturally and spontaneously tend towards what is evil, as some religious traditions intimate. And while self-interest may be a powerful motivator, it is not the only, or even the primary, behavioural driving force. According to Dan Ariely, the basis of neo-liberal economics – the idea that people are rational to the extent that they make cost-benefit decisions in order to maximise their own utility – is flawed. While we are driven by a uniform economic motivation (the desire to maximise benefit for ourselves, even through cheating), our behaviour is also directed by an "ego motivation":the desire to "look at ourselves in the mirror and feel good about ourselves", to be honest and honourable (Ariely 2012:27).

The result of these conflicting motivations? All of us probably cheat, but just a little bit. Whether it is driving over the speed limit, completing a tax return or submitting a CV, in negotiating between benefit and honour, we make compromises. For instance, Ariely demonstrates through experiments with his students that, given an opportunity to cheat without the possibility of being caught, most cheat to some degree, although far less than expected, even when their cheating holds monetary reward. This picture is different, however, from the idea that each instance of dishonesty is the result of a calculation made by a rational moral agent that weighs up the costs and benefits of a particular unethical act, and then picks the most beneficial course. Instead, Ariely suggest, people are "predictably irrational".

People want to do the right thing, but we all probably "lie" somewhere between saint and psychopath. And we tend more towards sainthood when we are reminded of ethics, that is, when we are encouraged to contemplate what is right. We tend more towards what is wrong when we see examples of unethical behaviour around us.

These questions have even resulted in a new field of study (within the broader category of "descriptive" as opposed to "normative" ethics) called "behavioural ethics".

Wrongdoing: Normal or Abnormal?

The second lesson is that wrongdoing in organisations is not necessarily an abnormal or exceptional occurrence. When our irrationality combines with the pressures and routines of organisational life, unethical behaviour manifests in sometimes thoughtless and unintentional, but *normal,* ways. While the minority of people in organisations are deliberately and rationally unethical, Donald Palmer argues that "even the most ethical, socially responsible, and law-abiding people are at significant risk of becoming entangled in wrongdoing when placed in an organizational context." (2012:23)

Like Ariely, Palmer challenges the rational choice view of morality. It is true that some wrongdoers make deliberate and discrete decisions, uninfluenced by their immediate social context, and develop an inclination towards such wrongdoing over time. However, it is more often the case that organisational participants act unethically in a mindless way, influenced by their immediate social context, and gradually increasing their wrongdoing without developing or displaying a positive inclination towards such behaviour (Palmer 2012:10-12).

Some have suggested that the "defeat device" at the heart of the recent emissions scandal at Volkswagen is such an example of the kind of compromised "automatic" decision-making that has become predictable in corporate settings (Useem 2016). On the face of it, the decision to install defeat devices could not have been an accident – it must have been deliberate and deliberately deceitful. And yet an absurdity of this magnitude, and participated in by so many, suggests the effects of groupthink, the normalisation of deviance, and the gradual development of cognitive scripts. Decisions become compromised in organisations because of group cohesion and the individual self-censorship associated with it. Over time, what should clearly be regarded as "unethical" becomes "acceptable" due to the developed cognitive scripts (automatic decision-responses associated with particular sets of information). This explanation (automated, boundedly rational decisions influenced by group thinking) is also how Dennis Gioia explains how it was possible for himself and his team to repeatedly decide against recalling the Ford Pinto, despite mounting evidence that a design flaw linked to its petrol tank led to injury and deaths. Put simply, in trying to figure out what they were thinking, Gioia comes to the conclusion that they weren't.

Blindspots

The above findings point towards a phenomenon called "ethical fading", in which the ethical dimensions of our decision-making are excluded from conscious consideration, and so increasing unconscious unethical behaviour. According to Bazerman & Tenbrunsel (2011), various organisational factors can contribute to mindless, unethical behaviour. I mention two of these factors below:

- Conflicts of interest can lead to "motivated blindness" – the tendency to attach more importance to information that serves our interest, and to "miss" or ignore information contrary to our interests. Some suggest that this is the case when audit firms fail to notice or report serious concerns in the financial statements of their clients. Similarly, when a coach's star player is winning matches, he may be less inclined to consider the possibility of performance enhancing drugs as the reason for his winning streak.
- We often fail to notice a gradual erosion in our ethical standards. Bazerman & Tenbrunsel (2011) calls this a slippery slope. We tend to "miss" or accept unethical behaviour in ourselves and others when it occurs in degrees. A lie by omission seems harmless and prudent in the moment. This logic graduates to lies by admission, which becomes habitual or normal. For this reason "trivial" transgressions can spell danger downstream.

These and many other findings by social psychologists, behavioural economists and organisational researchers point towards the cognitive and behavioural quirks that influence our decisions and behaviour, and that make unethical conduct more or less likely.

Implications for organisations

The scientists of integrity have much to offer organisations wanting to operate ethically or to prevent the monetary and reputational costs associated with unethical behaviour.

Firstly, if it is true that people are not generally "bad" but mostly want to act ethically, it follows that organisations should not focus solely on monitoring and punishment. The cognitive and behavioural limitations and quirks identified by business ethicists suggest that harsher punishments will not always be the best deterrent to unethical behaviour. Instead, organisations should shift their focus towards leveraging the inner moral capacities of their members. This is achieved, partly, by creating the right kind of environment, including:

- Embedding ethical reminders into the organisational environment, whether through training, digital pop-ups, agenda points in team meetings, articles in company publications, posters and the like. The key to reminders, however, is to constantly change or revitalise them. Signing the Code of Ethics annually is not effective as a reminder for the entire year. Posters get attention for a while, but then become part of the background.
- Inserting so-called "red flags" in organisational processes and decision-making protocols, to force a halt for participants to reflect on any ethical dimensions to the process or the decision. As Gioia (in Trevino & Nelson 2007:142) suggests:

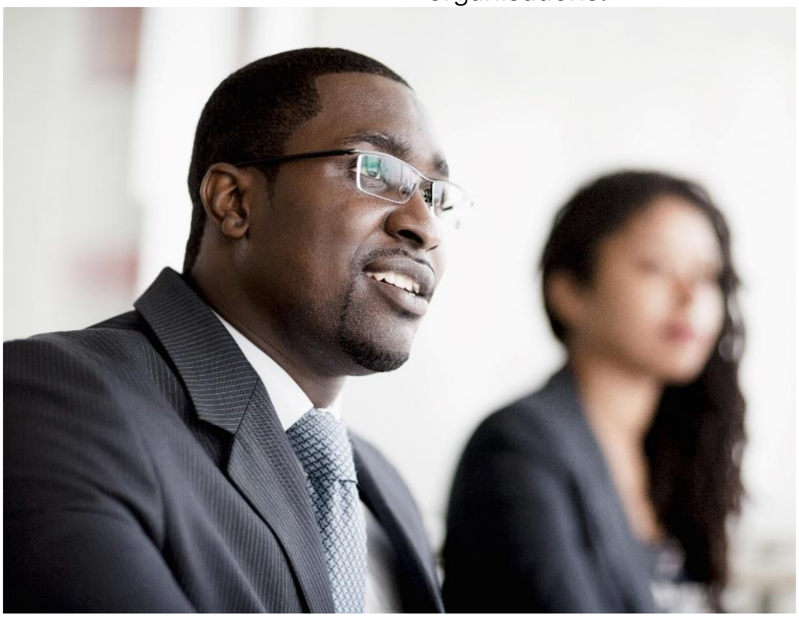
  "People are not necessarily stupid, ill-intentioned, or Machiavellian, but they are often unaware. They do indeed spend much of their time cruising on automatic, but the hallmark of human information processing is the ability to switch from automatic to controlled information processing. What we really need to do is to encourage people to recognize cues that build a "Now Think!" step into their scripts – waving red flags at yourself, so to speak – even though you are engaged in essentially automatic cognition and action."
- Eliminating conflicts of interest, instead of merely declaring or managing them. In this way organisations can counter the cognitive effects of conflicts of interest. In the US, for instance, the global financial crisis may have been avoided by eliminating the conflict between the rating agencies that assessed the creditworthiness of financial products and the companies that produced these products. Were the rating agencies not in effect paid by the companies they rated, the toxic products may not have spread so much destruction.
- Finally, responding swiftly to even trivial transgressions. According to Bazerman & Tenbrunsel (2011), "…to avoid the slow emergence of unethical behavior, managers should be on heightened alert for even trivial-seeming infractions and address them immediately."

These and other lessons from the scientists of integrity provide support for the shift in better practice standards, like the King III & IV reports, away from rules and punishments and towards a values-based approach to ethics in organisations, as well as an enabling environment or "ethical organisational culture". Such a culture, supported by leaders and managers, aims to capacitate and encourage employees to act in ethically sensitive and responsible ways.

A note of caution

A sophisticated ethics programme in an organisation must therefore focus on (at least) two outcomes. First, it must insert opportunities for careful ethical reflection into processes and decision-making. Such opportunities work to counter normal and heedless unethical behaviour by facilitating a switch towards ethical decision-making. For this to be effective, managers and employees must be skilled in ethical decision-making. But ethics programmes must also work towards unconscious ethical behaviour. This is its second aim. According to Useem, when Johnson&Johnson famously recalled 31 million bottles of its pain-killer Tylenol (which had reportedly been poisoned), their action was not really a conscious decision. Instead, "… the company's swift decisions—to remove every bottle of Tylenol capsules from store shelves nationwide, publicly warn people not to consume its product, and take a $100 million loss—weren't really decisions. They flowed more or less automatically from the signal sent three years earlier." What then CEO James Burke had achieved three years earlier, was to embed a certain automatic logic into strategy and operations. The logic was provided by J&J's credo which prioritises the users of J&J's products over all other concerns.

To be clear, the point of the "science of integrity" is not to make ethics a matter of stimulus-response, or to treat organisational participants as Pavlovian dogs or clockwork oranges. The goal is more Aristotelian: to consciously commit to specific value-orientations, and to cultivate virtues – a kind of second-nature or natural inclinations – that enable the realisation of these values. If business ethics is indeed going scientific, it is to identify the enabling factors and pitfalls that we have to leverage or contend with if our aim is to operate ethical organisations.



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