

Business ethics

Establishing a cultural DNA

2015 prompted boardrooms to re-evaluate their view of reputation and in particular the ethics that feeds it. This whitepaper explores the complex dynamics in today's organisations that can lend themselves to weaknesses and how to overcome them and establish a cultural DNA of ethical behaviour.

Fuelling the organisation

Organisations that meet their strategic goals and thrive, are the ones that create an environment where there are no barriers to change and collaboration. They encourage freethinking, challenge the status quo and are open and transparent about how they operate. Conversely, it's evident that organisations that lack these cultural attributes often lose their competitive edge and risk their reputation.

It may seem a stark scenario, yet in the past 12 months we've seen companies stumble because their culture, especially the ethics that underpin them, have faltered.

Protecting ones reputation has never been so fierce a battle. Consumers now define a company by its product, service and a range of less tangible measures. No longer can you assume the product is enough.

In fact, research by The Reputation Institute shows that 60% of people's willingness to engage with an organisation is driven by their perception of who they are and only 40% by the products they produce. It's one of the clearest indicators to the boardroom that what you stand for as an organisation matters more than what you do.

This naturally brings challenges. How do you ensure consistent decision-making aligned with organisational values and objectives throughout your organisation? And more particularly, how do you ensure it's an integral part of the company's DNA?

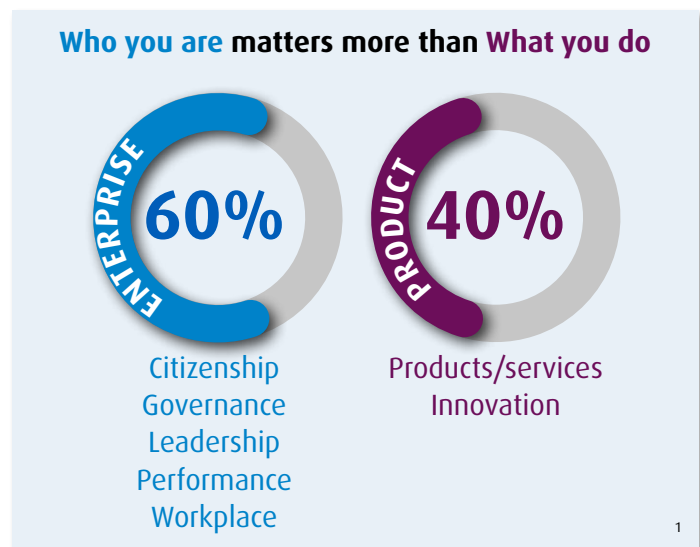
Values for business behaviour

There's no denying that organisations are significantly more complex than they used to be. They are more fluid and grow organically thanks to the rapid acceleration of technology, government initiatives, and the entrepreneurial phenomenon that is being cultivated throughout the world. Just look at the Googles and Ubers of this world – they are transforming what we recognise as a natural model for growth.

But this change in dynamics also brings an unpredictable nature to growth where the values of the organisation are implicit until they reach a certain size. They then need to be explicit and almost taught to ensure consistency.

That's because no matter whether you are a family run multi-national like Laing O'Rourke or a rapid scale-up like AirBnB your business values are still scrutinised by the discerning consumer. Not to mention subject to an ever evolving compliance landscape.

At the heart of it, these businesses face the same obstacles: many layers of decision-making, spread across geographic boundaries and time zones, a constant flow of trading and regulatory pressures, with the added complexity of cultural nuance.



Navigating and managing the pressures has traditionally been left to the respective functional heads – finance to manage compliance, HR to manage cultural behaviour, PR to manage reputation. But since Volkswagen and Reckitt Benckiser hit the headlines there is increased awareness that a more holistic view is required to ensure cultural norms are consistent throughout the organisation. Organisations are at risk when different areas develop their own variants where unacceptable behaviours are condoned or hidden away.

What is needed is a rethink on the deep-rooted fabric of the organisation's make-up in totality, and an approach that can embed the right cultural behaviours for perpetuity.

Understanding the risk

Today, organisations operate in a society where information is more readily available to a wider audience and decisions that might previously have remained 'behind closed' doors are exposed. Corporate whistle blowers have highlighted the vulnerabilities. Likewise The Freedom of Information Act has prompted many a Government agency to consider its position – though often after the event.

No matter what type of organisation, the over-riding evidence is that when a company and its management is seen to be failing in its wider obligations, people can and will take matters into their own hands, either directly or indirectly.

Take for example Starbucks. For the first time in 16 years the company witnessed a downturn in its results. The direct result of a boycott related to its tax practices. It cost the business £14 million – the outcome of people voting with their feet on what was deemed an 'ethical' issue.

Reckitt Benckiser is currently awaiting the true cost of its fate as more details emerge of how it misled customers of Nurofen.

But of course, the biggest ethics scandal in recent memory was the Volkswagen emissions crisis in 2015. The revelations hit hard. The company posted its first quarterly loss in 15 years and in turn the share price dropped by almost 10%.

As if that wasn't brutal enough, Volkswagen fell from 14 to 123 in the Global Reprtrak survey of Most Reputable Companies. The years spent building Volkswagen's reputation and the millions of dollars invested in positioning the manufacturer as reliable and trusted took a serious beating.

The impact of losing trust, a fundamental part of its brand essence, was acknowledged by the new Chairman, Mr. Mueller, who said "My most urgent task is to win back trust for the Volkswagen Group – by leaving no stone unturned."

If boardrooms needed a reminder that the actions of a select few can bring a company to its knees this was it.

How consumer trust impacts on sales

In the last 12 months have you taken any of these actions in relation to the Companies you previously trusted?

Chosen to buy products/services

68%

Refused to buy products/services

48%

2

Turning to regulation is a misnomer

Empowering people to make decisions is what drives innovation, competitive advantage and builds a sustainable business. Yet failing to provide people with the frameworks to assess how their conduct will harm or enhance reputation and financial stability is nothing short of misguided.

The financial crisis highlighted just how imperative it was for companies, industries even, to have such frameworks in place. There were, and still are calls for regulation to bring the finance sector in line. However, as we now know with hindsight, it wasn't the majority of employees that brought the sector to its knees, it was a slim minority who caused irreparable damage.

When news of Volkswagen's crisis broke, there were again renewed calls for regulation. It's an easy argument to turn to when there was a precedent in the financial world.

However, Volkswagen's crisis was no different to the banks – once again a few were at the heart of the problem. So regulation can only form part of the solution, if any.

As with so many parts of working life, the grey areas, caught up in how we make decisions and assess the risk and consequences of the decisions, would undoubtedly slip through. And in the same way, many argue that regulation would grate with the very fabric of what makes every company unique, and its ability to succeed.

Ultimately though, regulation fails to deal with a critical element of decision-making. Namely discretion, which is invariably where regulation ends and ethics begins.

Building a framework for change

In the latest ICAWE report 'Critical success factors for tomorrow's business leaders', one participant summed up the challenge succinctly: 'Our businesses are not sustainable if we're depending on regulation to make us ethical. Ethics is about the soul of the organisation. It's not a matter of compliance and it starts at the top in the boardroom.'³

This prompts three over-riding principles that a CEO and his team setting out to change ethical standards needs to pursue:

1 No one should have to rely on regulation to make the right decision It's a strong reminder that instead of relying on greater regulation we need to give people the skills to recognise the impact of the choices they make so they can make better decisions. Higher ethical standards driven by strong values will help minimise the number of poor choices.

2 Long-term sustainability is derived from better decision-making Plenty of people express this sentiment but when the pressure is on short-termism can creep in. The business case for better decision-making needs to be communicated more strongly. Saying 'this is the right thing to do' is not sufficient. The outcomes derived from different actions and behaviour need to be shared. The argument then becomes 'this is the right thing to do' and 'it delivers better results'. Improved understanding of the potential consequences will help maintain focus on the long-term sustainability of the business.

3 Your audience must be engaged by a relevant and compelling argument to do the right thing Real cultural change does not come from online learning assessments and tick box questionnaires. It comes from a passionate leadership that sets examples, combined with ways of learning that leave all staff in the same passionate frame of mind.

Instilling a common purpose

With complex corporate structures to navigate, and an overwhelming need to change their business culture many organisations are turning to business simulations to help unlock the door to ethical behaviour. It's a methodology that promotes lasting behavioural change and can be applied throughout an organisation with confidence.

Take for example, The Ethics Challenge (TEC) from Elgood Effective Learning and developed in association with The Institute of Business Ethics. It considers the mix of responsibilities leaders have in the organisation – from those tasked with developing good corporate governance practices, through those that are charged with enhancing an organisation's reputation and minimising risk, to those responsible with embedding corporate values and ethical decision-making – and provides them with a vehicle that will really engage their audience.

The Ethics Challenge does this by:

1 **Creating a strong link between how the decisions made impact on the long-term sustainability of an organisation**

This is achieved by using a cycle of decision-making and consequences. The decisions result in consequences for the business providing a clear link between the business decisions and business performance.

2 **Demonstrating that good financial performance is not the only determinant of long-term sustainability**

This is achieved by focussing on other key factors which directly affect the overall financial performance including an organisation's wider corporate reputation and the level of trust senior managers inspire within the wider employee population.

TEC uses three performance measures, financial performance 'Return on Capital Employed', external perception 'Corporate Reputation' and internal perception 'Leadership Trust', to create an overall measure the 'Most Admired Company'.



3 Using subject matter that is meaningful to all managers and shows how their decisions matter

The focus for the activity is the business and the decisions that need to be made to make it successful. It is not specifically about one area, ethics, compliance or risk. It's a business debate where the 'how' decisions are highly important.

MATCH TO YOUR ISSUES The activity centres around a series of business dilemmas linked to consequences which can be customised to fit specific industry or company challenges making it even more relevant to an audience.

4 Introduces a framework to help drive consistent decision-making supported by an organisation's values

In large organisations where decision-making is devolved down the management chain, and where culture adds complexity, it becomes increasingly difficult to ensure decisions are made consistently.

TEC introduces a decision-making framework in which participants are encouraged to think decisions through from the perspective of multiple stakeholders and with reference to organisational values.

MATCH TO YOUR COMPANY The decision-making framework can be adjusted to reflect an existing decision-making framework and values and as a starting point for developing an in-house set. Where there are legal requirements (e.g. Bribery act) evidence of a framework that is applied within the business is one way to demonstrate a company's commitment to fulfilling its obligations.

A cohesive approach for ethical DNA

Of course, there is no short cut. The constituent parts of the simulated game illustrated above will not create a mindfully ethical organisation on their own. Only when every one of the four parts is combined together can they become a powerful force for change and way to mitigate risk.

That's because to truly instigate a cultural shift it's imperative that there is an ethical DNA running throughout the company. Without one, the risk of repeating the mistakes of others is too high.

Taking a considered simulated approach gets under the skin of the organisation and provokes debate, which can flush out the behaviours that are at odds with the strategic goals. It focuses the mind and influences the way individuals consider their options and take the decisions they do. But ultimately it will change the way they behave both now and into the future.

Why Elgood?

Elgood has been developing business games and simulations covering a wide variety of topics from Sales Management, Business and Commercial Acumen, Business processes and Health and Safety for over 30 years. It has worked across Industries, the Public Sector and across Continents to enable change in some of the most influential companies and organisations in the world.

TEC has been developed in association with The Institute of Business Ethics a charity set up in 1986 to encourage high standards of business behaviour based on ethical values.



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