SHAPING A COMPANY'S CORPORATE CULTURE
Clear guidance can help managers deal with potential ethical dilemmas

CREATING AN ETHICAL
WORK CULTURE

Ethics underpin good corporate governance and developing an ethical corporate culture is an essential role of the board. Ethical behaviour is in ever more urgent need of attention, as witnessed by just the most recent corporate scandals from Wells Fargo to Facebook's Cambridge Analytica debacle to Dieselgate, Harvey Weinstein and Google's sexual misconduct investigations.

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. Facebook's biggest scandal hit its share price dramatically when in March 2018 we learned that Global Science Research had been able to harvest 87 million Facebook users' data and then sell it to Cambridge Analytica, who used it to create highly targeted ads to encourage users to vote for Trump and Brexit.

Here in the Gulf, the collapse of the private equity firm Abraaj has focussed renewed scrutiny on corporate governance standards in the region and has highlighted the importance of a strong governance culture, so important for attracting international investors.

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

Why codes of ethics are an important part of good corporate governance

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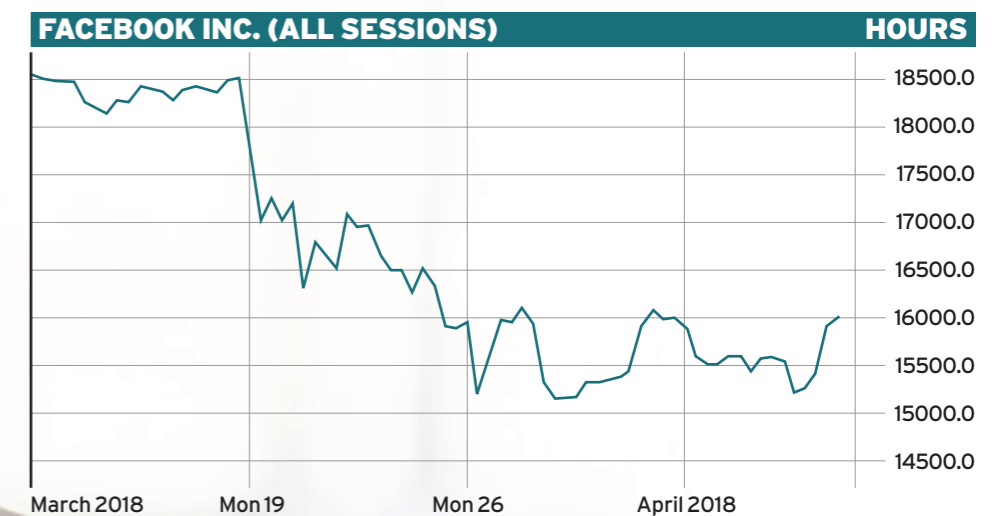
individuals or groups, but whoever makes them will be influenced by the corporate culture. The tone at the top is critical to creating the right ethical culture in the workplace. Having a code of ethics is a good start, but words on paper are not enough. I am sure Barclays had a great code of ethics at the time of the libor scandal but, as Lord Salz remarked in his 2013 Libor Inquiry Report: "Culture exists regardless. If left to its own devices, it shapes itself with the inherent risk that the behaviours will not be those desired… the board sets the tone from the top of the organisation and must carry the ultimate responsibility for its values, culture and business practices."

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. Let's look at Starbucks for example. Coffee is a commodity which you can get anywhere these days, so that is why the Starbucks story is so impressive. It changed our perception of coffee and became the market leader. Its core values are its success story: "With our partners, our coffee and our customers at our core, we live these values:

■ Creating a culture of warmth and belonging, where everyone is welcome
■ Acting with courage, challenging the status quo and finding new ways to grow our company and each other
■ Being present, connecting with transparency, dignity and respect
■ Delivering our very best in all we do, holding ourselves accountable for results »

FACEBOOK INC. (ALL SESSIONS)　　　　**HOURS**

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» "We make sure everything we do is through the lens of humanity – from our commitment to the highest quality coffee in the world, to the way we engage with our customers and communities to do business responsibly."

And, when an incident happened that did not match its values, it dealt with it quickly and responsibly, closing all its US locations – more than 8,000 stores – for an afternoon for a company-wide racial bias education day. Howard Schultz set the tone at the top and developed a culture of employee respect, based on clear and well-communicated values.

A company culture is either proactively created and built from the very beginning or – sadly, more often – it simply develops in a haphazard and reactive way over time through the beliefs and experiences of whoever has the most influence, good or bad.

Embedding ethics

So, if a board wants to develop a positive ethical work culture, it needs to work hard at the values and develop strategies and policies to embed ethical behaviour in its organisations. It needs a proper ethics management system with the appropriate governance and management frameworks for its organisation.

Family businesses often do this best because the patriarch has instilled the family values in the first generation, but beware as these values can get lost among future generations. Johnson & Johnson is probably the most famous with its credo 'Our Values and Caring: Our Credo challenges us to put the needs of customers and patients first. Caring is at the heart of everything we do'.

"Acting in the highest ethical manner is one of the critical steps in achieving our vision," is the message of Khalid Mohamed Kanoo, chairman of YBA Kanoo Group, based in Bahrain, and it emphases the importance of an ethical culture as part of a good corporate governance framework. Established in the Kingdom of Bahrain in 1890 as a small family trading and shipping business, the YBA Kanoo Group has evolved into a diversified conglomerate that provides a broad range of products and services, based on strong family values that have supported its sustainability.

Once an organisation's values are clearly defined, they should also be the guiding light for how performance is evaluated at all levels. This is about values-based leadership – motivating employees by connecting organisational goals to employees' personal values. Values-based leadership connects organisational values to employee behaviour in order to fulfil the organisation's mission and constantly communicates those values at every opportunity possible – in every internal and external communication and every time a person is publicly recognised.

Business ethics goes beyond simple compliance and respecting the law; it is about written and unwritten codes of principles, values and behaviours, based on the organisation's culture, that govern decisions and actions within an organisation. It is how you make decisions and conduct business.

The tone at the top is critical to creating the ethical culture of the workplace. Corporate leadership and management therefore have an important role to play in developing corporate cultures – both the board and senior management have the responsibility for ensuring that the organisation's values are lived and breathed throughout the organisation. A recent ACCA survey showed

SETTING THE TONE IN THE BOARDROOM Directors have a duty to promote a positive culture

We live in the information age. Today's prospective employee has more information than ever before, and businesses are more transparent now than they ever have been

that 61 per cent said tone at the top, ahead of incentives and rules and procedures, was what most influences corporate behaviour. Justin King, the former boss of Sainsbury's in the UK, says: "Nothing moves a business in a direction as powerfully as corporate culture. The challenge of directors and management is to ensure that it moves it in the right direction."

The board and senior leadership have governance responsibilities in driving corporate culture through setting organisational direction, making key internal and external decisions and setting behavioural examples. Collectively, they set the overall tone of the organisation, which impacts a broad framework of policies, processes and procedures in the organisation.

Future employees

Corporate culture is also a key ingredient if organisations want to attract and retain the best employees. We live in the information age. Today's prospective employee has more information than ever before, and businesses are more transparent now than they ever have been. It's also important to realise that 86 per cent of millennials, according to a Bentley University Study, consider it a main priority to work for a business that conducts itself ethically and responsibly. A company's ethics and corporate social responsibility matter more today than they did a few decades ago. Employees place a higher emphasis on the values of their employers. Moreover a 2017 Gartner Survey shows that 29 per cent of employees witnessed at least one compliance violation in the last two years and that employees who witness misconduct and perceive that the company has not addressed the issue, are twice as likely to leave an organisation. The departure of employees can

therefore signal an underlying problem in an organisation and employee attrition can have a big impact on cost, productivity and morale. This means that it is even more important to promote a culture of integrity and ethical conduct because that's how companies attract and retain the best employees.

Ultimately, it is the directors who set the tone and have a legal duty of care to do so. It is their role to ensure the governance structures and processes are in place that will ensure the ethics of the company are addressed on a regular basis by the board and the executive management. Laws, such as the UK Bribery Act, means that companies can no longer outsource their morality and turn a blind eye to what their agents or partners or suppliers are doing.

An ethical culture needs ethical leadership. Without integrity at the top, the rest can be a precarious house of cards, just waiting for the next scandal to break. ☸