Integrating a Culture of Ethics

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Speakers

Alyssa G. Martin, CPA
Dallas Executive Partner,
Risk Advisory Services

John Wauson, CPA
Partner, Risk Advisory Services

Practice emphasis in risk management, internal audit, and process re-engineering and consulting

Integrating a Culture of Ethics

Culture is the **foundation** from which employee expectations are built **reinforced** by leadership **decision making**

Integrating ethics into the a culture is established in policy and procedures but **illustrated** through actions

Integrating a Culture of Ethics

- Key components necessary to establish an ethical culture, communicate expectations, set the tone at the top and the tone in the middle.

  - What should be **in place to establish** a culture of ethics

  - How to **evaluate ethics** in an organization and its infusion with the current culture

  - Steps to **communicate expectations and enhance an ethical culture** in an organization

Today's Discussion

1. Importance of "ethics" and true permeation within the culture

2. Integrating and evaluating the ethical value of the company's culture

Remember Enron

We know that lack of ethics was the issue !

Enron's core values were:

Integrity
Communication
Respect
Excellence

Hollow values sound good, but do not reflect the true culture

or

how individuals **actually** interact with each other and external parties, receive rewards, and motivate performance

Still relevant today … 16 years later

Wells Fargo

- Over 2 million fake accounts were created by Wells Fargo employees
  - Unrealistic sales quotas, cross-selling
  - 5,300 employees terminated
- CEO response:
  - "There was no incentive to do bad things."

Where was the culture of ethics?

- Core Value:
  - We value what's right for our customers in everything we do
  - **Update:** Making things right for our customers

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Uber

UBER

- "Tech Bros"
  - The new good old boy club !
- A culture that placed high performance over all else
- Freedom but no responsibility
- Systematically ignored reports of sexual harassment
- Mass exodus of Executive team and Management in 2017

Ethics:

- the body of moral principles or values governing or distinctive of a particular culture or group

Culture:

- the behaviors and belief characteristics of a particular group

Compliance

- Compliance aligns actions with a structured, formalized set of principles that have been acknowledged and agreed upon by a group

Ethical Culture

What does this mean?

- Ethics and culture must be established

- The **organization must determine their ethical position** and create a culture congruent with tenants desired

- Requires **intentional action by management** to develop, communicate, live-out, and enforce ethical expectations

It Really Matters!!

- Ethics are emphasized as critical and important

- **BUT** the execution and alignment with actual behavior of the organization takes intentionality and continual monitoring

- Management must first design the ethical culture that it wants, then live it and hold themselves, and others accountable to expectations

Should be natural to the environment
Acting with integrity as employees execute duties
*Accountability is accepted without the need for punishment*

Personal Ethics and Integrity

Integrity is the quality of being honest with strong moral principles. Having integrity means never being ashamed of your reflection.

Integrity in the workplace is exhibited by compliance with the ethical stance of the company

Compliance is measured by internal controls (operational and financial).
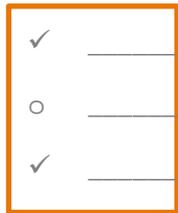
- o Internal controls are outlined by the policies, procedures, charters and other governing documents
- o Internal controls are the points in the process that we stop, verify and get approval

Ethics   INTEGRITY   Compliance
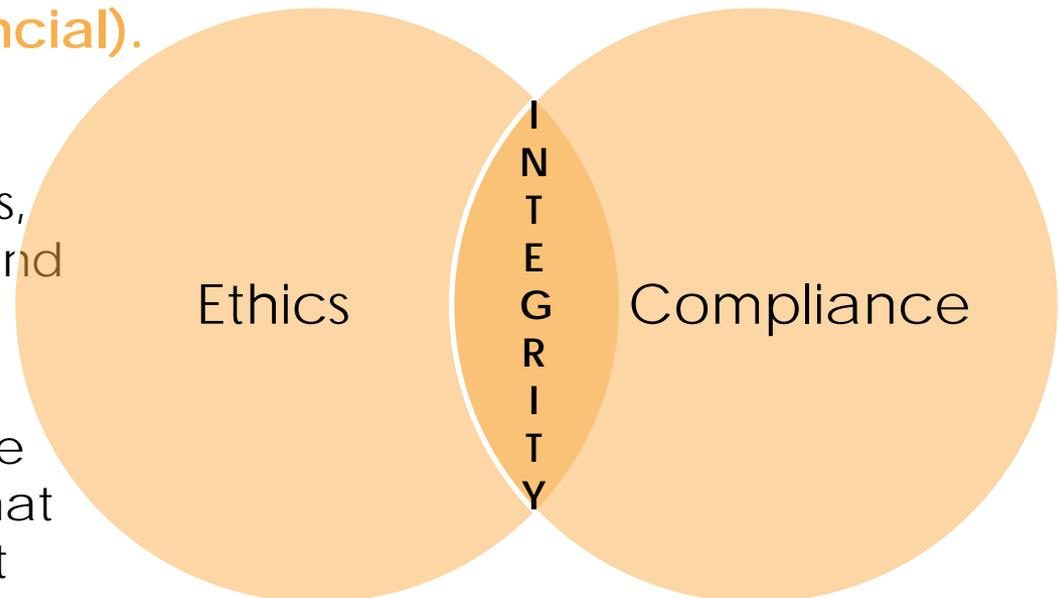
Questions…

- Does your company have a formal Ethics Policy or Code of Conduct?

- How often does management update and reinforce it? Is it acknowledged annually?

- Has internal audit reviewed the policy for coverage and to ensure the implementation is designed to be understood and followed?

- Does your organization have a committee that meets regularly and discusses ethical and cultural issues?

Establishing a Culture of Ethics

How does an organization establish a culture of ethics?

First, Leadership illustrations through every day decisions

Reinforced through …

- Core values
- Policies and guidelines
- Monitoring ethical behavior

Core Values

Core Values are a great place to start when establishing or evaluating the ethical culture of an organization

- Core values are the tenants for how people in the organization are expected to interact and conduct themselves, both internally to the organization and externally to partners

- They should be specific and meaningful, not broad or hollow

- Represent what the organization is, and ultimately wants to be

- They should resonate with all employees, at all levels

Netflix

"We Seek Excellence"

- Developed core values that are behaviors and skills desired in their employees
- Identified the goal: High Performance
- Freedom and Responsibility = Flexibility
  - What are your necessary rules?
  - Avoid "hollow" values

Intuit

Be Bold	Be Passionate	Be Decisive	Learn Fast	Win Together	Deliver Awesome
· Solve BIG customer problems	· Personally embrace and role model change	· Choose what we will and will not do	· Lead with a hypothesis	· Deliver exceptional results so others can count on you	· Delight our customers and partners with experiences they love
· Create a vision that inspires	· Inspire with your insights and initiative	· Be transparent with your logic and judgment	· Measure and act on what matters most	· Develop yourself and others to do the best work of our lives	· Nail the fundamentals and sweat the details
· Think beyond what is accepted as possible	· Strive to perfect your craft every day	· Be direct and respectful	· Savor the surprises	· Be boundary-less in our thinking and actions	· Never stop short of awesome

Ethics Policies

Many organizations have an Code of Conduct and Ethics policy, but is it sufficiently designed to act as a benchmark and establish expectations for which employees may be held accountable?

- Confidentiality
- Conflicts of Interest
- Gifts and Entertainment
- Policy Compliance and Violations
- Bribery
- Political Contributions and Activities

- Proper Use of Company Assets
- Insider Trading
- Non-Discrimination and Fair Employment
- Expectations of Managers
- Competition
- Records Retention

- Policies should be clear and precise so that the intent and expectations are not misunderstood

- Employees should be trained on the meaning of the policies, rather than left to independently read and interpret them individually

Ethics Policies

What if people do not do the right thing? Policies will eventually be violated.

- There should be a culture of compliance

- Employees hold each other accountable for doing the right thing and feel safe reporting violations and concerns

- Ethics defines how we should behave

  - **Self-interest must be tempered based on how actions impact others and the organization**
  - **When out of line…others should reel you back in**

- Accountability and enforcement actions should inform employees and clarify expectations so that they are disinclined to act on opportunities and incentives that violate ethical conduct, values, and policies

Monitoring Ethical Behavior

Management should be monitoring for signs of both

- Compliance, which should be recognized, and

- Non-compliance, which should be corrected

The signs that an ethical culture truly permeates the environment comes out in:

- Customer Service and Loyalty

- Employee Satisfaction

- Shareholder Value

- Audit Results

Monitoring Ethical Behavior

Monitoring compliance with ethics and following the ethical tenants established should be incorporated into how employee's are evaluated

Incorporate compliance with core values into your performance evaluation process

- Require individuals to be evaluated by colleagues at all levels - 360º evaluations

- Include questions that assess non-technical components of job performance:

  - Ability to accept and adapt to changes

  - Communication and supervisory skills

  - Transparency of workload and responsibilities

  - Adherence to control and monitoring activities

Communicating Ethics Expectations

Establishing the ethical culture is important, but equally so is the communication and enforcement of ethics expectations.

- **Tone at the Top** – Senior leadership should be the trailblazers and best examples of the ethical culture and core values

- **Tone in the Middle** – middle managers that touch employees everyday must adhere to ethics expectations and communicate those expectations consistent with their design

- **Employee Training** – require employees to attend training events to discuss and clarify acceptable and unacceptable behaviors

- **Reporting and enforcement** – ensure that employees have an avenue to report violations and that enforcement is timely and appropriate

Tone at the Top

All other efforts can be quickly undone if senior leadership fails to live out core values and follow the organization's ethical expectations.

How do you establish and assess the tone at the top?

- Conduct employee satisfaction surveys:

  - Do employees feel the **freedom to speak up** when they see something inappropriate?
  - Are employees hesitant to share when things are **not going as expected**?
  - Is senior leadership connected to and open to **communications** with the staff?

- Turnover analyses – at an entity and department level. Are there indications based on feedback that ethical requirements are not being followed?

Tone at the Top

Other considerations when evaluating Tone at the Top may include:

- Consistency of management actions and decisions

- Communications from senior leadership that describe the companies core values and expectations for employees

- Rewards and advancement systems should be aligned with the organization's core values and ethical expectations

  - Advance the idea that results are important, but **the way in which results are obtained is of equal significance**, if not more

- Compliance with ethics, code of conduct, values, and policies and procedures is valued and non-compliance is not tolerated

United

- Most recently, accidental death of a pet placed in overhead compartment
  - 18 out of 24 animal deaths in major US airlines were on United

- Dragging Incident
  - CEO apology: "I apologize for having to re-accommodate these customers"

- Core Values
  - We hold ourselves to the highest standards in safety and reliability
  - Warm and welcoming is who we are

Chick-Fil-A

- "We should be about more than just selling chicken. We should be a part of our customers lives and communities in which we serve." – Truett Cathy

- One of the largest family-owned businesses in the country. Owned and operated by the Cathy family for over 50 years.
  - Consistency in management is a significant component to establishing tone at the top and embedding the culture
- Closed on Sundays – important for employees to have a day of rest, time with family, and for worship, if they choose
  - Management proactively taking steps to emphasize the culture they want in the organization

Tone at the Top

Establishing the ethical cultural should be collaborative to enhance acceptance and accountability.

- Identify the influential people within and across the organization

Who are the mentors, go-to people, and cornerstones for culture in the organization?

- Should not just be senior management. Incorporate mid and lower levels of management as well.

- There involvement will help ensure the message is carried accurately out into the organization

- These individuals should be an example through their behavior to the remainder of the organization

Tone in the Middle

The concept of Tone in the Middle is often an overlooked component when developing and assessing an ethical culture.

- No matter how involved Senior Leadership may be in operations and communicating the ethical expectations of the organization, mid-level managers must also carry the torch to really bolster the culture

- These individuals are in the trenches and carry much of the load when it comes to demonstrating adherence to core values in all situations

- Middle managers must be encouraged to follow expectations and swiftly held accountable when they do not

- Ensures that values and culture become institutional and are not lost when changes in leadership occur

Involvement begets buy-in
Critical to ensuring the expectations are followed and enforced

Tone in the Middle

Additionally, senior leaders should take extra care to ensure that middle managers have a thorough understanding of the ethical tenants, cultural vision, and core values.

- Any **misunderstanding** of the concepts and tone can **undermine** the success of the initiative

- The explanations to staff should be the same as if they are coming from the CEO

- Middle managers should ask questions and **seek clarification** on issues or violations as they occur

- Include middle managers in the development of the core values and ethical culture

Employee Training

Core values and ethics can be interpreted differently based on an individual's experiences and background. Training provides a method with which the organization can engage with employees and personally convey the message.

- Take the time to explain core values to employees and why they are important to the organization

- Review the code of conduct and ethics policies with employees and be specific about what is allowed vs. non-allowed behavior

- Encourage employees to ask questions and leave time for discussion

- Deliver specific examples and scenarios that challenge employees to consider how they would behave in certain situations

Reporting and Enforcement

An unfortunate by-product of establishing core values and ethical expectations is that eventually, someone will violate them.

Employees must have a method of reporting violations and suspicions of unethical conduct, such as an **Ethics Hotline**

- Reward employees that report true issues
- Educate employees that the hotline is not intended for reporting non-ethical issues and petty indifferences
- Ensure that submissions are routed to appropriate individuals based on the nature of the claim

- Be timely with contacting individuals that submit a report
    - Urgency of action will reinforce the importance of the organization's values and ethical expectations

Reporting and Enforcement

Unethical conduct and violations of the organization's code of conduct, values, and policies must be addressed swiftly and appropriately.

- Each issue should be thoroughly documented and evaluated

- Consider whether the employee has violated expectations previously and may have established a pattern

- Evaluate the significance of the issue and respond appropriately

- Failure to adequately respond to violations sends the message that the values are not important

Summary

- Organizations must emphasize ethical behavior and define expectations for employees

- Sincere core values that are modeled by management can shape the culture and ethical behavior within an organization

- Develop monitoring activities to identify and assess compliance with expectations

- Senior and middle management must be on the same page in communicating and living-out ethical behaviors and core values

Questions?

Alyssa Martin, CPA
Executive Partner, Advisory Services
alyssa.martin@weaver.com
972-448-6975

John Wauson, CPA
Partner, Advisory Services
john.wauson@weaver.com
972-448-9239