

Fraud Intelligence

For the prevention, detection and control of fraud in all its guises

Going the right way: the ethics and integrity trend

Do companies really mean what they are saying this time? ask Richard Minogue and Nigel Iyer.

Business Principles and Codes of Conduct have been in fashion for many years. These high-brow documents are meant to convey either 'how our whole company is behaving today as one cohesive body', or at least 'how we aspire to act in the future'. However, few will forget the 65-page Enron Ethics Code from July 2000. This work of fiction has been compared to the mythical Titanic's "Safety at Sea Manual" and it offered enough "Principles of Human Rights" to keep Bono – lead singer of rock band U2 and social justice campaigner – quiet for a week. [1] We believe that the world has moved on a bit since Enron. Although we are not quite there yet, Business Principles and Codes of Conduct will soon become real tools, which can drive organizations forward, both in terms of integrity and effectiveness. In a well publicised article, Professor Michael Porter claimed quite emphatically that "Corporate Social Responsibility can be much more than a cost, a constraint or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage." [2] We agree with this common sense statement. If you do the right things, you often do things right.

Based on our own recent experiences, when Codes of Conduct, Ethics Policies and Business Principles are carefully prepared, every word and phrase is carefully examined, often re-written many times so that it conveys the intended message and the right nuance. The Legal or Compliance Department has to go over everything with a fine toothcomb.

In some cases, fine sounding but vague statements may have been deliberately designed to leave wiggle room for the grey areas.

"We respect the integrity of public servants".

Why not just say "We don't pay bribes to public officials"? Because sometimes we might, and it's not nice to tell lies in the Code of Conduct! The finished document is the product of great effort, deserving hours of study and admiration by each employee.

Of course, the great majority of employees only read (or rather browse) the documents when required to do so, finishing in seconds. The meanings and nuances are wasted, left to gather intranet dust on forgotten web

pages. Employees do not follow the Code, they follow the example of their managers and their peers. Top management are the internal celebrities, the trend-setters. If they really intend to implement a company culture based on integrity, then they should follow Gandhi's advice: "You must be the change."

That is not to say that Business Principles and Codes of Conduct are unimportant. On the contrary, they are essential. But for them to work, managers must lead by example and teach by example. Issuing the Code and then waiting for people to comply is a recipe for disaster. It's like placing a "Water Safety" manual in one's child's room, expecting them to read it of their own free will, and then come fully equipped with a life jacket on your next family boating outing even though none of the adults has bothered to wear one...

Through their own actions and through practical training managers can bring Codes of Conduct to life.

CR > PR (Corporate Responsibility is much more than just Public Relations!)

Let's not mince words, top management have a lot of operating issues on their plate without having to spend massive amounts of time on Corporate Responsibility (CR). Other senior managers, including CR professionals and Compliance experts, are likely to exercise much more influence over the structure, content and communication of ethical principles and the Code of Conduct policies. That should not mean top management are disinterested, simply that they rely on their internal experts to do the job.

Originally, CR was a vague concept and not spelled with capital letters. Many referred to it as corporate social responsibility (CSR). Today the word "social" is probably implicit in being responsible. Companies wished to be seen as "good corporate citizens", but did not have concrete objectives or a systematic approach towards responsible behavior. Good corporate citizenship meant paying local taxes and promoting a positive brand image. Since the advent of the United Nations Global Compact [3] in July 2000, however, CR has in some companies evolved from an externally focused public relations exercise to an internal change programme.

Through Code of Conduct policies, CR managers have the opportunity to ask hard questions about how

operations really work and by bringing transparency to the grey zone, they have the opportunity to achieve real improvement.

Does every company need its own Code of Conduct?

Considering that a Code of Conduct has become almost a standard requirement, one might think that a generic version would be available. Anyway, why should each company waste time and resources reinventing the wheel? Does it not just make sense to use the 10 principles of the Global Compact in Code of Conduct form?

Unfortunately, a Code of Conduct is no use if employees do not know how to apply it in practice. Take, for example, the 10th principle, which was added in June 2004 to address corruption: "Businesses should work against corruption in all its forms, including extortion and bribery."

Put yourself in the shoes of an employee trying to apply it. Does that mean he can or cannot accept a supplier's dinner invitation?

The Code of Conduct must not be too general – companies need to tailor it to their particular business and provide sufficient guidance for employees to decide the proper course of action in specific situations. On the other hand, the Code of Conduct cannot provide specific guidance for every possible circumstance. Real life is infinitely complicated, every situation is different. The challenge is to cover all the key areas, to apply them to the business and to provide useful guidance that is short enough to read in five minutes and that will not be out of date as soon as it is issued.

Why cultural differences are so important

Another challenge that companies face is achieving consistent standards that will make sense in different countries or even different organizational divisions.

Consider a gifts policy which states: "Gifts of nominal value, such as a bottle of wine or a promotional item showing company logo may be offered or accepted. Gifts with a value greater than US\$20 may never be offered or accepted."

In Saudi Arabia, a gift of wine would be illegal. In Norway, a bottle of wine costing less than US\$20 would be cheap wine indeed, hardly an appropriate gift. In Nepal, a gift worth US\$20 would be far more than nominal. In China, refusing a gift would be a grave social insult.

Different cultures have different understandings of conflict of interest, nepotism, discrimination, and other Code of Conduct subjects. A participant in a Code of

Conduct training session in Eastern Europe once asked us, "What is the difference between a bribe and a tip? Is it against company policy to leave a tip in a New York restaurant?"

Be truthful about grey zones

It is important to ensure that the Code of Conduct is aligned with the reality on the ground. It is easy to write lofty principles, more difficult to live up to them. Facilitation payments are one area where many companies have trouble distinguishing between fact and fiction.

If management has, after a careful study of the facts on the ground, decided it will never pay bribes or make facilitation payments, it should state the rule clearly in the Code of Conduct. If management decides that in certain circumstances bribes or facilitation payments are unavoidable then they should describe those circumstances in the Code without apology.

Just tell it as it is

We never offer or pay bribes to obtain business. We only reluctantly make facilitation payments, and only to obtain a service to which we are rightfully entitled and when not doing so would cause a disproportionate and unfair loss to the company. Such payments shall be transparently accounted for as such, and treated in accordance with local law and custom.

The authors do not advocate allowing facilitation payments – the point is that companies should not undermine credibility by publishing fictitious policies they do not intend to enforce or vague policies that are unenforceable. If the company cannot live with an accurate description of its de facto procedures, it should change the procedures, however difficult that might be.

Why what you tell people and how you behave is so much more important than what you write

After conducting training sessions in more than 25 countries, we have come to a realisation: Code of Conduct training is more important than the Code of Conduct itself. Company policies and business principles are undeniably important; they establish a point of reference and framework. But they are necessarily general, and leave much room for interpretation. The common sense and good judgment of managers and line employees determine how business principles are applied in practice. Getting

employees to understand the spirit of company policy is far more important than their memorising the specific policy texts.

A second conclusion – the comments made by line employees during Code of Conduct training are a gold mine of insight into local risks and realities. Encouraging dialogue and systematically recording and considering employees' suggestions is the true path towards continuous improvement.

"Training" does not just mean classroom lectures, memorising rules, or signing "I have read the Code of Conduct" statements. Such legally binding, "cover your ass" declarations are really pretty useless when it comes to motivating employees.

Code of Conduct training should be entertaining, inspiring, uplifting, fun and great! And why not? We are talking about values, personal behaviour, good versus evil, fighting corruption, contributing to a better world. Code of Conduct training can be and should be inspirational.

Resources are always limited but effective and entertaining training can be carried out in a cost-effective manner and the potential savings resulting from improved compliance are huge. Code of Conduct issues are not boring. Fraud & corruption, sexual misconduct, illegal acts and other Code of Conduct issues are all relevant – and interesting.

By acting as a facilitator, rather than a teacher, the person conducting training sessions in a workshop setting can get the participants to talk about the things they have seen or heard. When discussing what is or is not acceptable, the facilitator can move in and out of the grey zone using questions that start with "What if?" Training can include ethics games, case studies, innovative group work, and role playing to capture participants' interest, get them thinking about the issues and improve their ability to apply common sense to new situations.

Multimedia training that combines key messages, interactivity and entertaining techniques, such as video examples using internal company celebrities in cameo roles, can be extremely powerful. In one major company, employees found the video clips so interesting that organisers hardly needed to roll out the training. Knowledge of it spread through the grapevine, and everybody wanted to see it.

A well designed brochure with cartoons that satirise various examples of misbehaviour creates a permanently available training tool for employees, suppliers, customers and other stakeholders. Or instead of hiring a singer or magician to entertain at the

A success story

The Board of a major international company found in a survey that less than 10% of employees had any significant awareness of the company Code of Conduct. Corporate Responsibility responded by rolling out 30-minute, multi-language, multimedia training, including short film clips featuring top managers in dilemma situations. In the subsequent survey, over 90% of employees had a high level of Code of Conduct awareness.

employees' party, why not incorporate a theatrical sketch based on a fraud or corruption dilemma. It works!

Many companies, faced with the impossibility of providing sufficient guidance in a brief document include a general provision, "When in doubt, ask your manager." Whilst that may be good advice, companies had better ensure that managers respond in a correct and consistent manner.

When in doubt, ask your manager

Danielle and Miranda worked side by side but reported to different line managers. A supplier invited both of them to a Christmas dinner event and they each asked their manager's permission to attend as required by company policy. As usual, only Danielle received permission from her easy going manager.

Managers need to do much more than read the Code of Conduct. Companies should ensure that managers receive adequate training to understand the issues and background, and are given their own guidance so that they apply the Code in a consistent manner. The Code of Conduct is intended to encourage a uniform and healthy internal culture – inconsistent managerial interpretations can have the opposite effect.

Leading by example

The heads of General Motors, Ford and Chrysler, in a much criticised demonstration of poor judgment, in November 2008 flew separately in private jets from Detroit to Washington to beg the US government for money. "Couldn't you at least have shared a jet?" asked a senator. In profitable times, setting the right tone is an investment. In hard times, it might be necessary for survival.

Google's co-founders take US\$1 a year in salary. Probably they don't need the money, considering the fortune they have already earned. But they surely

understand the symbolic value of the gesture, and how it increases the value of the company and their shares.

Getting the perks

A middle manager with a tendency to self-indulgence circumvented travel policy by delaying his booking to the last minute when only business class tickets remained. As he sipped his Champagne waiting for take-off, the manager was greatly embarrassed when the company president greeted him by name on the way to her own seat in the back. The use of business class was never questioned but word of the incident spread like wildfire and business class travel dropped to near zero.

The company president was allowed by company policy to travel business or first class. But she understood that travelling economy, when a higher level of service was not important, was an opportunity to advertise appropriate behaviour.

Not every company president can afford to work for free or should travel tourist class. But managers should take every opportunity to lead by example. For starters, they should:

- Pay for their own vacation
- Turn up to meetings on time
- Travel responsibly
- Respect the speed limit
- Hire the best assistant, not just the best looking one
- Avoid conflict of interest situations
- Follow rules such as procurement procedures
- Avoid preferential treatment and nepotism.

Employees who are not managers may also be internal trend-setters, due to their age, seniority, competence or other reasons. Expatriate employees, for example, may set the standard in local companies. If expatriate employees behave as and are treated like an aristocratic class in their host country, local employees are less likely to develop company loyalty or respect the code of conduct.

Summary

Code of Conduct, Business Principles or Integrity training might sound boring or, worse still, be seen as “more corporate propaganda” but, done right, it does not have to be either. Once employees get past the text to discover the real issues they confront in their own jobs, it becomes interesting. With a little imagination, organisers can build the interest using engaging and entertaining techniques. That is when it becomes ‘engaging’.

Integrity, in an organisational ethics context, is about consistency between business principles and conducting business, between policy and practice. A successful integrity programme is the way to identify and eliminate the inconsistencies. It is important. It is the key to compliance. It builds pride in the organisation, increases loyalty and employee retention. And, not to be forgotten, it is a source of competitive advantage, delivering real value in financial terms.

While innovative training is the lifeblood of any integrity programme, there are other important elements to consider as well. Training is a valuable complement to internal control but it does not replace it. It is basic management responsibility to maintain a system of internal control that protects company assets, supports achievement of company objectives *and* avoids placing employees under unnecessary temptation.

So, with a strong integrity programme and an effective system of internal control, are we safe? No, in spite of our best efforts, people will still find ways to evade the rules. But companies can take a proactive stance even here, by monitoring the risks and actively looking for anomalies or acts of non-compliance. Early detection of non-compliance and consistent disciplinary action complete the circle of protection necessary to achieve an organisation that is truly resistant to inappropriate behavior.

Notes

1. Business First, 29 March 2002
2. Harvard Business Review, The link between Competitive Advantage and Corporate Social Responsibility, Michael E Porter and Mr Mark R Kramer, December 2006
3. www.unglobalcompact.org The Global Compact invites companies to commit to aligning their businesses to ten universally accepted principles of Human Rights, Labour, Environment and Anti-Corruption. Over 6000 organisations from 120 countries have joined so far.

Richard Minogue and Nigel Iyer have over 40 years' combined experience dealing with corporate ethics, including a long stretch investigating and detecting incidents of fraud and corruption. For the past 5 years they have focused their efforts on making sure corporate Codes of Conduct really live in practice and that there is consistency between principles and actions. They welcome comments and criticisms on richard.minogue@septiagroup.com and nigel.iyer@septiagroup.com. Their second article in this mini series will deal with how to ensure proper adherence to the Business Principles/Code of Conduct.