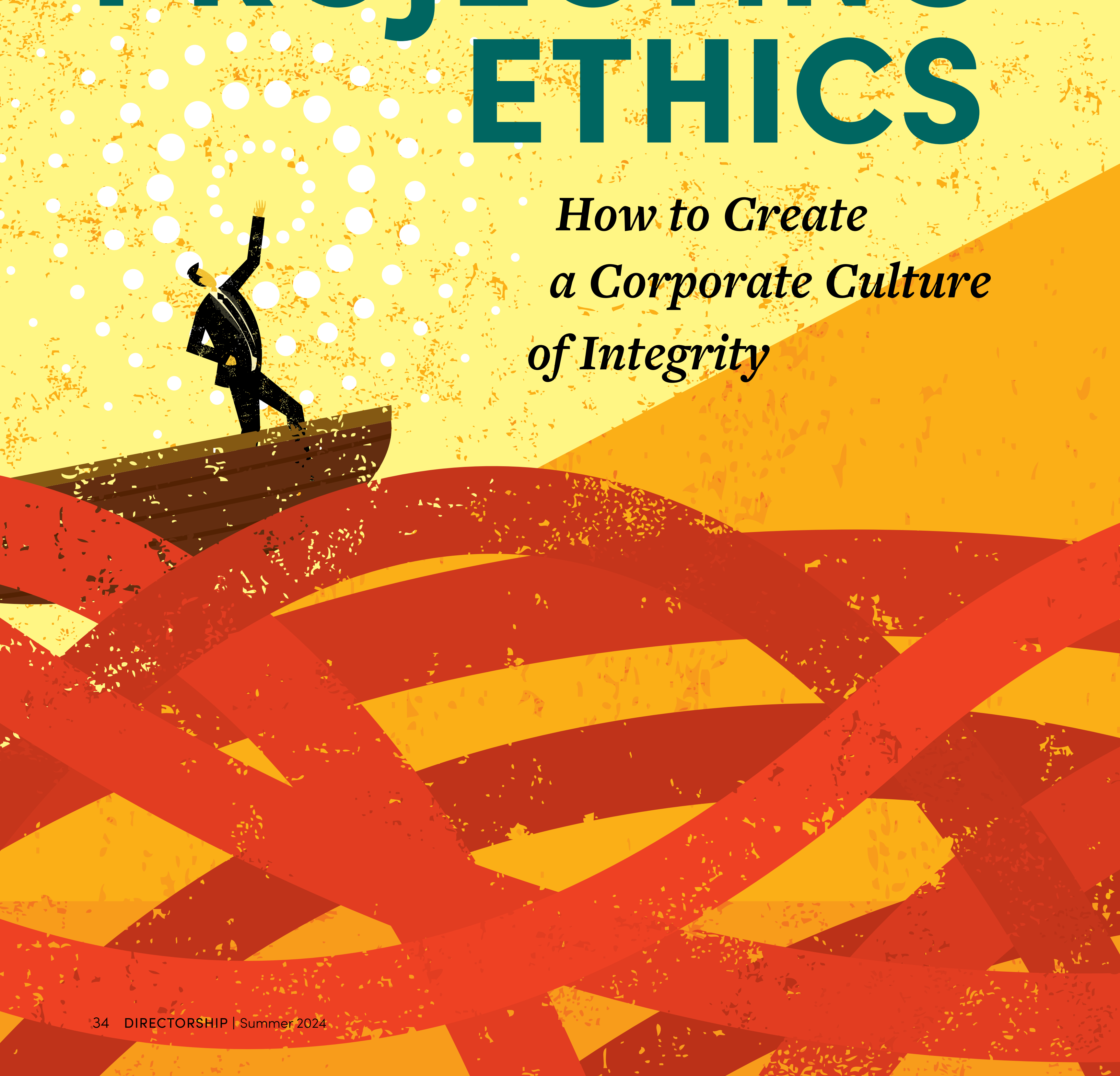
# PROJECTING ETHICS

## *How to Create a Corporate Culture of Integrity*



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**Ethical leaders know what it means to be ethical, but what should they do to create and maintain a culture of ethics and integrity in their organizations? These five practices offer a guide.**

By David W. Simon

**RECENTLY, I WAS ASKED BY A CLIENT TO DELIVER A SESSION ON ETHICS** for its board and executive leadership team. Despite decades of experience conducting various forms of compliance training, I found this assignment daunting. What exactly could I tell these seasoned business leaders about ethics and integrity? Isn't it a bit presumptuous—and a bit condescending—to even suggest that this group of quality high-achievers needs training on something so fundamental?

I eventually concluded that the training shouldn't focus on "being ethical." If this audience missed that day in kindergarten, it's too late for them to learn. Upon reflection, it became clear that the real issue for leaders is not *being* ethical, but rather *projecting* ethics throughout an organization. That is where the action is and, frankly, where the gap lies.

This is not a minor matter. A favorite hobby of lawyers with practices like mine is to catalog public examples of the catastrophic consequences for corporations that fail to create and maintain an ethical culture. A quick search of the business press would reveal dozens of previously well-respected companies that appear to have lost control of their culture. Prior examples of what appeared to the world as legitimate, respectable companies but whose boards and management failed to project ethics and integrity include Enron Corp., Theranos, and Volkswagen.

Directors have a significant impact on the culture of ethics at their companies. Directors are themselves corporate leaders and have the ability to project ethics and integrity throughout an organization. Just as important, directors must assess executive management as ethical leaders and should understand what is required to guide and evaluate those leaders.

Decades of work in behavioral psychology have shown the importance of the projection of ethics by organizational leaders. Robert Cialdini, in his 1984 book *Influence: The Psychology of Persuasion*, highlights the power of "social proof" and finds that human beings "view a behavior as more correct in a given situation to the degree we see others performing it." For employees, being part of what is perceived to be an ethical company will generate more ethical behavior and decision-making.

In *Virtue at Work*, author Geoff Moore discusses the concept of "crowding in virtue" and offers powerful insights for leaders seeking to build a culture of ethics in their respective companies. Moore surveyed the results of certain social dilemma experiments and concluded that the general population breaks down as follows:

- Just under one-seventh of people are "strong reciprocators" who work toward the common good and are thus the most likely group to behave ethically and in furtherance of a company's code of conduct and values.
- One-third of people are "free riders" who work for their own benefit and are thus likely to cause ethics and compliance issues.
- The remaining people—a little more than half of the population—are "conditional cooperators" who tend to follow whichever side they believe is "winning."

Conditional cooperators thus hold the key to an organization's culture. If business leaders from the board down can create the impression that the ethical strong reciprocators are "winning"—that the momentum is with the ethical—then most employees will come along with them. Ethics thus beget ethics.

## Set and Enforce the Right Ethical Tone

Over the course of a career assessing the state of ethics and compliance at various companies, I have learned that the tone set by directors and executive management matters when it comes to developing and maintaining an ethical culture. Make no mistake: people have an unerring sense of the ethics and integrity of their leaders. I've seen chairs and CEOs who talk the ethics talk but don't walk the walk. And their employees see it, too.

The US Department of Justice, which has developed significant practical experience assessing the effectiveness of corporate ethics and compliance programs, agrees in its Criminal Division's "Evaluation of Corporate Compliance Programs" document: "The effectiveness of a compliance program requires a high-level commitment by company leadership to implement a culture of compliance from the middle and the top. The company's top leaders—the board of directors and executives—set the tone for the rest of the company."

How can directors and other company leaders set the right ethical tone? They must believe in it first. There is no faking ethics and integrity. From that base, there are five practices that I've observed while advising organizations on ethics and compliance (and helping clean up messes created by unethical conduct) and through my research that board members can follow and encourage the C-suite to follow to project ethics and impact organizational culture.

## Five Practices for Projecting Ethics and Integrity

1 **Lead by example.** Follow the organization's compliance procedures all the time. Complete any ethics and compliance training on schedule and before your direct reports, if possible. Don't multitask during training; engage proactively and visibly. Never cut corners on controls procedures such as expense reimbursements or conflict of interest reporting requirements.

2 **Create the right incentives and disincentives.** Nothing discourages conditional cooperators more than seeing leaders tolerate unethical behavior. Leaders who tolerate bad behavior create the impression that the bad guys are winning, and the mass of Moore's "conditional cooperators" get the message and behave accordingly.

I've seen the pattern many times. The typical case involves a high-performer, often in sales, who has a close professional and personal relationship with the CEO. The high-performer is an envelope pusher; they have a history of minor expense report gaps, they fail to participate in compliance training, and they may even have caused minor issues around the timing of recognition of sales. The CEO cuts the salesperson some slack and never really deals with the pattern of arguably unethical behavior, perhaps out of fear of losing a major revenue producer or based on personal consideration. Guess what? A poor ethics and compliance culture inevitably develops, in some cases ripening into a significant bribery and kickback issue for the company. This often doesn't even involve the salesperson, but the leader's relaxed treatment of the salesperson arguably caused, or at least contributed to, the bigger problem.

3 **Talk about ethics, compliance, and integrity.** Don't just assume ethics and compliance. Talk about it publicly, loudly, and consistently.

The Justice Department understands the importance of this.

In assessing a company's performance in this sphere, federal prosecutors are instructed to "examine the extent to which senior management have clearly articulated the company's ethical standards, conveyed and disseminated them in clear and unambiguous terms, and demonstrated rigorous adherence by example," according to the "Evaluation of Corporate Compliance Programs" guidance.

Research in behavioral compliance confirms the importance of messaging. Experiments conducted by a leading scholar of behavioral psychology, Dan Ariely, has led him to conclude that timely reminders of ethical standards diminish our tendency to act dishonestly. In his book *The (Honest) Truth About Dishonesty*, Ariely describes an experiment where the rate of cheating in certain staged exercises dropped to zero when the subjects were asked to recall the biblical Ten Commandments prior to completing the exercise.

This research is consistent with my experience in practice. Quantity and frequency of compliance and ethics messaging

**Red flags that might indicate management is failing to project ethics:**

- Are management discussions focused solely on financial performance and are communications around ethics and integrity absent or rare?
- Is there excessive reliance by management on "our culture" in ensuring ethical and compliant behavior?
- Are compliance and ethical "misses" by high-performing employees tolerated by senior management?
- In management reports of ethics hotline activity, are the number of reports below benchmarks? Does management explain that this is attributable to "our open-door approach?"
- Is management failing to ask hard and probing questions about certain business relationships and arrangements? Is there a reliance on assumptions that "this is how business is done in country X?"


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matter, and the more the better. My best corporate clients integrate compliance minutes into company communications and regularly scheduled meetings, and provide just-in-time compliance messaging close to when ethics and compliance decisions might need to be made. For example, effectively ethical companies provide a reminder of the anti-bribery policy when an employee books travel to a high-corruption-risk jurisdiction, or offer an antitrust compliance reminder to employees who register to attend industry meetings or trade shows.

4 **Listen up to create a "speak up" culture.** Most leaders who care about projecting ethics know that a "speak up" organizational culture is critical. Companies that are serious about ethics and compliance focus intensely on encouraging employees and other stakeholders to raise their hands when they see something that doesn't seem right.

But a "speak up" culture doesn't manifest itself from nothing simply because a company installs a whistleblower hotline. First and foremost, leaders must listen up.

The research of professors Megan Reitz and John Higgins, of the Hult International Business School, shows this is easier said than done. Reitz is also an associate fellow at the University of Oxford's Saïd Business School. In their article "Speaking Truth to Power: Why Leaders Cannot Hear What They Need to Hear," Reitz and Higgins demonstrated that most senior leaders wrongly assume that because they feel comfortable speaking up, employees throughout their organization feel the same. That is simply not true. In a survey of UK health-care workers, Reitz and Higgins asked how often they felt that junior, middle-, and senior-level employees spoke up about issues of malpractice. They also asked the respondents how often they personally would speak up under similar circumstances. The results showed that junior employees were less likely to speak up than senior employees. The results also showed, importantly, that senior leaders think speaking up happens more frequently among each group of employees than it actually does.

Most leaders suffer from what Reitz and Higgins call "advantage blindness," assuming from a position of power that others with less power feel as comfortable speaking up as they do. To create a "listen up" culture critical to projecting ethics throughout the organization, leaders must encourage more active engagement and participation by team members, which requires leaders "to skillfully invite those silenced to speak up and then in turn to listen up." Reitz and Higgins, in their article as well as in their book, *Speak Up,* offer some practical tips for leaders to achieve this:

- Recognize advantage blindness, be mindful of power imbalances, and find different, less formal settings in which to listen.
- Be mindful of the signals you send when listening, and watch out for "shut up" signals, e.g., is your phone on the table during the listening session? Have you glanced at your watch or your computer screen?
- Broaden your list of "people who matter," i.e., those who warrant listening to. Make a concerted effort to expand the group of people from whom you seek opinions and perspectives. Make sure your organization has effective mechanisms in place to bypass corporate hierarchies, such as anonymous reporting hotlines, to expand and extend listening opportunities.
- Demonstrate respect by actively engaging with employees and valuing their perspectives to foster an inclusive culture.

5 **Think and act critically.** The final practice for projecting ethics involves effectively engaging with the messy facts and data that flood leaders daily to exercise and model critical thinking and analysis that promote an ethical and compliant culture. In their 1996 article "Ethical Leadership and the Psychology of Decision Making," David Messick and Max Bazerman argue that cognitive bias, which affects decision-making in general, also causes poor ethical decision-making. They note that "ethical decision-making may be improved the same way that general decision-making is improved"—by combating such biases to overcome "psychological tendencies that create undesirable behavior from both ethical and rational perspectives." Cognitive bias, broadly speaking, refers to the heuristics and intuitions upon which we necessarily rely to get through each day, but which also tend to lead us astray in our decision-making.

In my practice, I have observed that most major ethical and compliance problems could have been prevented, or at least identified and addressed earlier as much smaller problems, had a leader in the organization spent more time overcoming bias, digging into the underlying details, analyzing the data, and asking hard questions. Moving from what behavioral psychologist Daniel Kahneman identified in his book *Thinking, Fast and Slow* as "System 1 thinking"—fast and intuitive—to "System 2 thinking"—slow, effortful, and deliberative—always produces better ethical decisions and helps project ethics into the organization.

Specific critical thinking practices I have seen from effective ethical leaders include the following:

- Avoid rushing through approval processes. Read the material, ask questions, and identify and address red flags. Put yourself in the shoes of an auditor or regulator reviewing the proposed transaction or course of conduct after the fact.
- Probe deeply any issue that just seems off. Is the deal too good to be true? Are you being told that your questions stem from ignorance of how business is done in a certain country or that you don't understand the normal industry practices? Those are signals to slow down and dig deeper.
- Don't make assumptions based on the person seeking your approval or raising a question or concern. Avoid overreliance on trusted employees. Moreover, avoid discounting concerns raised by employees who may have been labeled "malcontents" or chronic complainers. Focus on the data and assess the circumstances with a critical eye, recognizing your potential biases.

Being ethical is a necessary but not sufficient condition for leaders seeking to create and maintain an ethical organization; this also requires that leaders project ethics. The five practices outlined above can help move the ethical culture needle in the right direction.

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