

Sustained Ethical Business Performance is a Game of “Follow the Leader”

Corporate, Securities, and Governance





In 2008, I was assigned the task of developing and implementing an ethical leadership workshop for Bausch & Lomb's Advanced Management Development Program (AMDP). The AMDP comprised a series of week-long courses to teach young leaders new skills and prepare them for positions of greater responsibility in the company. After months of research, I determined that my AMDP workshop should comprise three components:

- Making the business case for building and sustaining a strong ethical culture;
- Education on key social dynamics that drive behavior in organizations (conformity to social norms, obedience to authority, and the passive bystander effect); and
- A session in which workshop participants collaborate to identify specific actions they could take to exploit the power of social dynamics in their spheres of influence to build and sustain a strong ethical culture.

The results of the Ethics and Compliance Initiative's (ECI's) recently released 2020 Global Business Ethics Survey entitled *Pressure* in the Workplace: Possible Risk Factors and Those at Risk – *A Global Look* (the 2020 GBES) validates the approach I took in my AMDP workshop.

The 2020 GBES observes that the pressure employees experience to compromise their organization's ethics standards, policies, or the law is linked to an increased likelihood of observed misconduct. With this in mind, it sets out to answer three important questions:

1. What contributes to employee pressure?
2. What factors help reduce pressure?
3. Are certain types of employees at higher risk of experiencing pressure?

To answer these questions, the ECI examined the 2019 GBES data to assess misconduct rates across the globe. Here are some of the ECI's key findings.

Observed misconduct rises with an increase in organizational change

Consistent with findings of past ECI surveys, the 2020 GBES observed that employees working in organizations with four to seven significant changes in 12 months were two times as likely to say they observed misconduct than employees working in an organization without any significant changes. The impact of the COVID-19 pandemic on misconduct rates was not captured in the 2019 GBES data. But given the changes the pandemic has necessitated in workplaces across the globe, there is a risk that these will result in increased observed misconduct rates. This is all the more reason business professionals should pay particularly close attention to factors driving ethical culture strength now and in the months to come as additional organizational changes will be required as the pandemic abates over time.

Leadership commitment to organizational values and ethical leadership

The 2020 GBES's central finding is that visible leadership commitment to organizational values has a profound effect on the degree to which employees feel pressure to bend the rules. Specifically, the 2020 GBES reports that 49 percent of employees who perceived their leaders as having a weak commitment to ethical values felt pressure to bend the rules as compared to 13 percent of employees with strong leadership commitment to ethical values. Disturbingly, the 2020 GBES found that employees in top management experienced pressure to bend the rules almost two times as high

compared with employees who self-identified as individual contributors (30 percent vs. 17 percent). This is a significant observation. It tells us that nearly one-third of top managers — who have an outsized impact on enterprise risks and organizational behavior — are themselves under pressure to act unethically or unlawfully at work. Notably, the 2020 GBES did not report any correlation between the number of policies, procedures, codes of conduct, 24/7 helplines, internal controls and other compliance and ethics program elements, and ethical performance.

Regular readers of this column and those in the compliance and ethics biz should not be surprised by these findings. For nearly two decades, in both my published works and in my advice to clients, I have delivered the same message: “I can help create the systems that enable compliance, but you cannot count on internal controls to drive ethical performance. Instead, you must exhibit consistent, visible ethical leadership to build and sustain a strong ethical culture.”

In my experience, the vast majority of senior corporate leaders have a genuine desire to run their businesses lawfully and ethically. Further, they all have some native capacity to set an appropriate tone at the top. But, this presents a significant challenge to inducing the changes in behavior necessary to improve performance. Because CEOs and senior corporate executives, like the rest of us, think they are more ethical than they really are, it is often “mission impossible” for compliance officers to persuade such highly intelligent, ambitious, often arrogant business leaders to candidly examine the degree to which they are projecting strong ethical leadership and to strive to improve their performance.

If you are in a position to take on this “mission impossible,” you might consider building on the approach I took in Bausch & Lomb’s AMDP workshop.

1. Gather and present to your leaders the data necessary to make the business case for building and sustaining a strong ethical culture. These data can be found in the Kotter Heskett study and on the ECI, the Great Place to Work Institute, and Conscious Capitalism websites. The happy coincidence is that ethical business practices drive superior and sustainable financial performance.
2. Deploy anonymous surveys to benchmark your organization’s ethical culture. Use these data to show your leaders your company’s baseline and persuade them to hold themselves accountable for improving performance with the goal of not just building a stronger ethical culture, but also driving business performance.
3. Help your leaders understand the power of social dynamics on them as well as on every employee. Share with them the mountains of research done in this area including the 2020 GBES. In so doing, drive home the point that policies, procedures, codes, and other compliance and ethics program elements can “enable” compliance, but they do not, by themselves, drive behavior.
4. Work with your leaders to develop and implement practical strategies to exploit the power of social dynamics to build a strong ethical culture. Conduct periodic ethical culture surveys to track progress and to determine whether these efforts are paying off.

Persuading your leadership team to take these steps will be challenging. But, as the 2020 GBES data shows, all of your other efforts to drive ethical performance are unlikely to yield the results you seek unless and until you can get your leaders engaged. Remember, effective enterprise risk management is not a game of “follow the policy”; it’s a game of “follow the leader.”

References

The ECI (the product of a merger between the Ethics Resource Center and the Ethics and Compliance Officers Association) is a best practice community of organizations that are committed to creating and sustaining high-quality ethics and compliance programs.

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