

Article by Prof Deon Rossouw: Culture and Tone at the Top

The emphasis on ethical culture in organisations has become much more pronounced in recent years. There seems to be a realisation that regulations, and compliance to regulations - important as they may be – simply are not sufficient to ensure sustained ethical conduct in organisations. In fact, a too strong emphasis on regulation and compliance might become counterproductive and undermine ethical conduct in organisations.

The shift towards an emphasis on ethical culture is part of a worldwide recognition that ethical culture is a precondition for sustained ethical conduct of organisations. Recent international examples of the emphasis on corporate ethical culture can be found in the 'Salz Review' (2013) on the business practices of Barclays Bank, the G30 report on 'Banking Conduct and Culture' (2013), and the guidance published in the United Kingdom by the Financial Reporting Council under the title of 'Corporate Culture and the role of Boards' (2016).

Why the shift to ethical culture?

The shift to an emphasis on ethical culture can be best explained with reference to two factors. The first one has to do with the limitations of rules and regulations. Rules and regulations are attempts to codify what conduct is acceptable or unacceptable. Even the best-intentioned and finest-articulated rules and regulations eventually are mere words on paper, that cannot in themselves ensure that persons will in fact follow such prescriptions and prohibitions. Furthermore, even the best rules and regulations can never exhaustively address all misdemeanors that possibly can occur in organisations. And then we are only too painfully aware that important aspects of organisational success, such as trust and integrity can never be regulated or captured in rules or policies. They crucially depend on the character, conduct and discretion of persons.

The second factor that contributed to the shift towards ethical culture is the limitations of compliance. In an attempt to ensure that the prescriptions and prohibitions found in regulations, rules, and policies are being adhered to, organisations typically rely on fear-based compliance, often articulated in a 'zero tolerance' approach. The problem with fear-based compliance is that it crucially relies on extrinsic motivation to be effective. It only works if and when people are continuously being surveyed and observed, transgressors being caught, and then being dealt with decisively. In other words, it only works 'as long as somebody is watching'.

There are, however, two problems with such a fear-based compliance approach. Firstly, it is simply not possible to watch all of the people all of the time in all possible functions and at all possible places where they conduct their work in the name of the organisation. Secondly, and more importantly, fear-based compliance undermines the will and instinct of people to act in an ethical manner. Instead of being intrinsically motivated to do the right thing, they abide by the rule of: 'Thou shalt not be caught out'. It is exactly these limitations of regulations and compliance respectively and in combination that prompted the need - not to abandon regulations and compliance – but to complement both by emphasising

the need for the cultivation of ethical culture in organisations.

The power of a strong ethical culture lies therein that it has become a habit or second nature to do the right thing – ‘even when no-one is watching’. Thus, in organisations with strong ethical cultures, there is less need for monitoring the conduct of people to ensure that they abide by ethical standards, regulations, and rules. Instead, people adhere to ethical standards because it has become a habit to do so – ‘simply the way we do things here’.

The anatomy of ethical culture

Governance standards that emphasise the importance of ethical culture, implicitly assumes that one should be able to assess the strength or maturity of ethical culture. To govern or manage ethics in a manner that results in the strengthening of organisational ethical culture, some yardstick or measure of ethical culture is required to gauge the strength or maturity of ethical culture. Indicators for the health of an organisation’s ethical culture thus need to be identified and tracked over time to detect declining or inclining ethical cultures.

Research conducted by The Ethics Institute, indicate that there are a number of indicators that can be tracked over time to determine the maturity or strength of ethical culture in organisations. These indicators relate to the commitment to ethical standards found at top management, middle management, and non-managerial levels in an organisation. Further indicators are whether there are positive and negative consequences for ethical and unethical behaviour respectively, whether internal and external stakeholders are treated fairly, the prevalence of ethics talk in the organisation, and the levels of awareness of ethical standards in an organisation. The combination of these indicators provides a view of the maturity of the ethical culture of an organisation that can be tracked over time. Such an assessment also enables the management of an organisation to report on the ethical culture maturity of the organisation to the governing body of the organisation.

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