CREATING AN ETHICAL CULTURE

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DeKalb County Board of Ethics
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Ethics is knowing the difference between what you have the right to do and what is right to do.

- Chief Justice Edward Potter

Greek word “Ethos”: Fundamental character or spirit of a culture; underlying sentiment that informs the beliefs, customs, practices of a group.
Culture consists of **deeply embedded** habits and practices.

Culture **evolves slowly** and over a long period of time.

Culture is **difficult to influence** and even more **difficult to change**.

“*Ethos*”: Fundamental character or spirit of a culture; the underlying sentiment that informs the beliefs, customs, practices of a group.
“Culture is another way of saying ‘this is the way we do things around here.’”

-National Business Ethics Survey, 2013
ETHICAL CULTURE = ETHICS IN ACTION

Ethics is what we know to do. Culture is what we do.
ASSESSING ETHICAL CULTURE
"The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics related objectives, programs, and activities."


Red Book standards require ethics audits. The IIA Practice Guide lists “culture and consistency” among the factors to be assessed.
Culture Metrics

Is there an environment that values the importance of ethical behavior?

Is there an environment where concerns can be reported without fear of reprisal or retaliation?

Is there an ability to identify and address ethical issues when they occur?

Is there an appropriate reporting process in place to address ethical lapses?
IMPEDIMENTS TO EXAMINING ETHICAL CULTURE

• Culture issues are not in the comfort zone of many decision makers:
  • “Too subjective.”
  • “Touchy feely stuff.”
  • “Can’t see it on a balance sheet or in a financial statement.”

• Outright Resistance:
  “Nothing to see here.”

• Fear of Unknown:
  “How will the results make us look?”

• Power Dynamic:
  “We are in charge here.”

• Lack of Trust:
  “We don’t trust the process.”

• Financial Concerns:
  “We don’t have money for this type of thing.”
MANY ORGANIZATIONS WAIT UNTIL A CRISIS HITS
“Frenzied Culture Analysis”
MOVING FROM A REACTIVE CULTURE TO A PROACTIVE CULTURE

**Reactive Mindset**
- Focuses on remediation.
- Responds to misconduct.
- Investigates misconduct.
- Conducts post hoc root cause analysis.
- Creates “after the fact” rules and modifications.

**Proactive Mindset**
- Focuses on culture.
- Identifies risk factors.
- Mitigates risk.
- Intervenes early and often.
- Monitors trends, reporting and internal controls.
• Decision makers should be educated on the relationship between culture and conduct.

• In organizations with strong ethical cultures, workplace misconduct is substantially reduced.
“Ethical culture continues to have a profound impact on pressure [to engage in misconduct], observed misconduct, reporting of observed misconduct and rates of retaliation against reporters.”

National Business Ethics Survey: The Importance of Ethical Culture: Increasing Trust and Driving Down Risks
Ethical Culture Drives Conduct

- Pressured to Compromise: 4% Weak or Weak Leaning, 15% Strong or Strong Leaning
- Observed Misconduct: 4% Weak or Weak Leaning, 39% Strong or Strong Leaning, 76% Total
- Failed to Report Misconduct: 4% Weak or Weak Leaning, 28% Strong or Strong Leaning, 43% Total
- Retaliated for Reporting Misconduct: 4% Weak or Weak Leaning, 24% Strong or Strong Leaning, 28% Total
<table>
<thead>
<tr>
<th>OBSERVED MISCONDUCT (12 months)</th>
<th>STRONG/STRONG LEANING CULTURE</th>
<th>WEAK/WEAK LEANING CULTURE</th>
<th>DIFFERENCE</th>
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<tbody>
<tr>
<td>Financial Misreporting</td>
<td>1%</td>
<td>10%</td>
<td>849%</td>
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<tr>
<td>Lying to Employees</td>
<td>6%</td>
<td>40%</td>
<td>513%</td>
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<tr>
<td>Discrimination</td>
<td>5%</td>
<td>30%</td>
<td>500%</td>
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<tr>
<td>Improper Hiring Practices</td>
<td>4%</td>
<td>20%</td>
<td>460%</td>
</tr>
<tr>
<td>Employee Benefits Violations</td>
<td>4%</td>
<td>23%</td>
<td>460%</td>
</tr>
<tr>
<td>Accepting Bribes or Kickbacks</td>
<td>1%</td>
<td>7%</td>
<td>415%</td>
</tr>
<tr>
<td>Improper Alteration of Documents</td>
<td>2%</td>
<td>12%</td>
<td>397%</td>
</tr>
<tr>
<td>Falsifying Time/Expense Reports</td>
<td>5%</td>
<td>19%</td>
<td>271%</td>
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<tr>
<td>Stealing</td>
<td>5%</td>
<td>15%</td>
<td>215%</td>
</tr>
<tr>
<td>Conflicts of Interest</td>
<td>10%</td>
<td>26%</td>
<td>164%</td>
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Weak ethical cultures have higher rates of ongoing, repeated acts of misconduct.

- Single Incident: 33%
- Multiple Incidents: 26%
- Ongoing Pattern: 41%

2013 National Business Ethics Survey
MISCONDUCT “DEEPLY ROOTED” IN ORGANIZATIONS WITH WEAK ETHICAL CULTURES

- Single Person: 46%
- Multiple People: 41%
- Organization-wide: 12%

2013 National Business Ethics Survey
<table>
<thead>
<tr>
<th>Consequences of Weak Ethical Cultures</th>
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<tbody>
<tr>
<td>-Internal investigations</td>
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<tr>
<td>-Employee discipline</td>
</tr>
<tr>
<td>-Remediation costs</td>
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<tr>
<td>-Excessive turnover</td>
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<td>-Civil liability</td>
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<td>-Litigation expenses</td>
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<td>-Money judgments</td>
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<tr>
<td>-Administrative fines</td>
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<td>-Criminal charges or convictions</td>
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<td>-Criminal Investigations</td>
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<td>-Negative Press and publicity</td>
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WEAK ETHICAL CULTURES RESULT IN LOSS OF PUBLIC TRUST

“The foundation of good government is the trust and confidence of the people.”

-Federal Judge
Atlanta, GA
• Leaders must actively promote a strong ethical culture by demonstrating high standards of honesty, transparency and trustworthiness.

• These values must become a part of the organization’s DNA. They must be infused into the organization’s daily operations, interpersonal interactions and reflected in service delivery.
“Leaders who demonstrate they are ethical people with strong character have a much greater impact on worker behavior than deliberate and visible efforts to promote ethics.”

National Business Ethics Survey: Ethical Leadership, 2014

In a recent Gallup study of 18,000 U.S. employees, only 34% said their ethics training had inspired them or was particularly motivating. Suggests a lack of effort on the part of many organizations to imbue such programs with meaning beyond legal or regulatory implications.
BUILDING A TOP-DOWN ETHICAL CULTURE

- **Board + Executives**: Build buy-in amongst senior leaders so they can set the tone by modeling desired behavior and enforcing ethical standards.

- **Middle Management**: Give managers tools and training so they can demonstrate values and spread the cultural tone.

- **General Workforce**: Raise employee awareness of cultural tone in organization.
SETTING THE TONE FROM THE TOP: Important Queries for Decision Makers

• Board set good examples of ethical behavior? [words and deeds]

• Unethical behavior tolerated by Board and senior management?

• Board speak as “one voice” regarding ethics related issues?

• Clear guidance regarding expected ethical conduct?
  • [policies and resolutions]

• Employees encouraged to report unethical conduct?

• Employees praised for reporting unethical conduct?

• Top performers equally punished for engaging in ethical conduct?
  • [Organizational Justice]

• Ethical conduct a performance metric in personnel evaluations?
ENGAGING LEADERSHIP

The Psychology of Change
“People will forget what you said. People will forget what you did. But people will never forget how you make them feel.”

-Maya Angelou

Decision makers must feel they have a vested interested in promoting culture. They must not feel as if their personal integrity is under attack.
GAINING THE ‘BUY-IN’ OF LEADERSHIP

• What are your views on the current ethical culture?
• Are there specific areas that you feel need to be strengthened?
• Are there specific areas that are strong and should be replicated?
• What do you think are the weak links in the organization?
• What can the board do to influence the culture of the organization?

• What are the good things that you want me to know?
• What are the most challenging ethical issues in your view?
• What do you think are the organization’s cultural weak links?
• What things are you most proud of about the current culture?
• What are your biggest frustrations about the current culture?
EFFECTIVE COMMUNICATION INSPIRES CULTURAL CHANGE

• Do not lecture. Do not judge. They won’t hear you.

• The goal is to inspire organizational change through engagement, not condemnation.

• Remember, leaders are the most effective tool to create meaningful change.

• It can be done even in very weak cultures.
Retired Navy Captain L. David Marquet
Author of “Turn The Ship Around”
LEADERS CAN INSPIRE CULTURAL CHANGE

• David Marquet had lifelong dream of commanding a nuclear submarine ship.
• Graduated first in his class from the U.S. Naval Academy.
• By 1998, he was set to take command of the USS *Olympia*.
• Prepared for 12-months learning all about USS *Olympia*.
• At last minute, he was assigned to USS *Santa Fe*.
• USS *Santa Fe* was the worst submarine in submarine force
• Used in training as a model of how “not to be”. Butt of jokes.
• *Worst retention rate*. *Never on time. Poor morale. Poor evaluations.*