Institute of Business Ethics board guidance for developing an ethical business culture

An ethical business culture that goes **beyond compliance** represents a source of competitive advantage, building trust, loyalty and advocacy among employees, customers, suppliers, regulators and other stakeholders. The purpose of this guidance note is to set out a concise summary of areas for consideration by Boards as they seek to promote an ethical business culture within their companies.

1. Board members and senior management should **lead by example**, acting with integrity and treating all stakeholders with decency and respect. In seeking to promote an ethical business culture, **authenticity** is essential. The Board should be alert to any mismatch between words and deeds, particularly when things go wrong.

2. When **recruiting** Board members and senior managers, the Board and management should seek evidence that successful candidates understand the importance of being role models for the desired values and behaviours and should act decisively when senior leaders fail to uphold the standards of behaviour expected of them. Management may choose to adopt ethical behaviour as a specific criterion when evaluating performance and considering **promotions**.

3. Management and the Board may produce a statement of the **purpose** and **values** of the company, in consultation with employees and other stakeholders. Purpose describes *why* the company does what it does. Values describe *how*; they are the shared beliefs and behaviours that enable the company to achieve its long term strategic objectives. The Board should ensure that the purpose and values are reflected in the strategy of the company and use multiple touch points to check that they are understood and embraced by employees, and consistent with the experience of stakeholders.

4. When reviewing the business model or making strategic or operational decisions, Board members and management should seek to identify, mitigate and monitor **ethical risks** that have the potential to cause harm or offence to others, undermine trust, damage the reputation or otherwise impair the ability of the company to achieve its objectives.

5. The Board should **monitor** both leading and lagging indicators of ethical risks. Lagging indicators might track actual or potential ethical breaches. Leading indicators might measure stakeholder satisfaction, including complaints and grievances; weak signals or proxies, such as staff turnover or absenteeism, that may indicate a heightened risk of misconduct; or the implementation of mitigation measures. Where possible, both internal and external **benchmarking** should be used to recognise best practice and identify areas requiring remediation.

6. Companies may choose to adopt a formal **code of conduct/ethics** that defines how the purpose and values of the company are put into effect and the standards of behaviour expected of employees and leaders. Such codes should provide practical guidance to assist decision-making at all levels of the organisation and be regularly updated to take account of changing regulatory requirements and societal expectations. Codes of conduct may also be required for contractors, suppliers, vendors or other stakeholders.

7. **Openness** and effective **communication** are essential to identify, monitor and mitigate ethical risks. The Board should promote an inclusive culture that empowers employees and other stakeholders, including customers, suppliers, local communities and civil society, to raise questions or concerns without fear of retaliation. The Board should ensure that appropriate, easily-accessible '**speak-up**' channels exist for stakeholders to raise and, if necessary, escalate concerns or grievances, and that such reports are investigated, remedial action taken as required, and feedback provided to the complainant.

8. The Board should ensure that management have put in place appropriate **induction** programmes for new employees and **training** for existing employees to ensure familiarity with the purpose, values and code of conduct. Employees performing roles with a high exposure to particular ethical risks might require bespoke training on the identification and management of risk and the appropriate channel to report and, if necessary, escalate concerns about potential misconduct.

9. The Board should satisfy itself that the company's **remuneration** policies and practices, including performance related pay, are consistent with its purpose and values and do not inadvertently create incentives for unethical behaviour. Similar considerations may apply to the incentivisation of contractors, vendors and other business partners.

10. All human organisations are fallible. When material ethical lapses occur, the Board should ensure that they are investigated, the root causes are identified, and measures are put in place to prevent a recurrence. Failures should be treated as **learning** opportunities, to strengthen systems, processes and training.

11. All misconduct should result in appropriate consequence management. Disciplinary action in response to egregious misconduct can send a powerful signal about the importance of an ethical business culture, but the Board should be alert to the potential impact of punitive measures on the future ability of the company to share information, understand root causes, and learn from mistakes. An ethical business culture is best sustained and strengthened by **recognising, rewarding** and **promoting** individuals who consistently display integrity, respect and moral decency in their behaviour and business judgement.

12. The Board should ensure that management have the necessary **resources** to undertake the activities described above and that the individuals responsible for monitoring and overseeing business ethics are independent and objective. The senior responsible manager(s) should regularly report to the Board or a sub-committee of the Board and have regular informal contact with the chair or a designated non-executive director.

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