

integrity

culture

behaviour

# Ethical culture: Building a culture of integrity

The right thing to do by definition

CII guidance series on ethical culture

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This is the first of a series of guidance documents prepared by the Chartered Insurance Institute. The CII is grateful to Jim Baxter of the Inter-Disciplinary Ethics Applied (IDEA) Centre at Leeds University who drafted the content. As well as teaching in applied ethics, the IDEA centre works with professional bodies and other organisations to help professionals with the ethical issues they face in their working lives.

### **Disclaimer**

The guidance set out within this paper is meant to support the thinking of individuals and their firms, and nothing in the guidance should be used by firms to achieve compliance with any statutory and/or regulatory obligations.

## Foreword

Ethical conduct and integrity are central to how a good professional should conduct him or herself. It must be in the DNA of each reputable individual and firm operating in the market place.

In the public mind this issue is of rising importance and concern, and particularly so in relation to financial services. The banking crisis has greatly damaged public confidence in the banking sector and to an extent, in the wider family of financial services as well. In truth though, financial services has had an enduring issue with securing public trust that has predated recent crises.

There are clear signs that, alongside public pressure for reform, these next few years will see a much greater focus by regulators on the conduct and behaviour of individuals and firms. The regulators are starting to address issues in advance of consumer detriment, rather than after the damage has been done. And they will put the culture of regulated firms and how they conduct their business firmly in the spotlight.

So while there is a clear understanding of the need for change, many individuals and firms could struggle to find a practical way of articulating, incentivising and demonstrating how they pursue high standards of conduct. This is not an easy area for those who are used to working with clear cut compliance rules. That is where professional bodies like the Chartered Insurance Institute can play a vital role. As the independent chairman of the CII's Professional Standards Board I think the work of the CII in recent years to promote high standards of conduct is just as important as their work to promote high standards of technical competence.

That is why I welcome this CII series of ethical guidance, of which this publication is the first, as another practical tool to help guide the profession – whether for individuals on their own or through their firm – and to drive a step-change in the culture of financial services for the long-term benefit of the public.



**David Macintosh QC (Hon)**

Chair of the CII Professional Standards Board

## Executive summary

This paper is aimed at helping CII members to embed a culture of integrity within their organisations. To do so, it builds on a substantial piece of research conducted by the authors – the *Real Integrity* research project – and on other research.

Integrity is a word which is widely used but infrequently understood. It is distinct from legal and regulatory compliance, and from ethical behaviour, though it has a key role in ensuring all of these. Integrity is an aspect of character that leads people to behave ethically even when it is not in their interests to do so. The idea of ethical culture is also widely referred to, though difficult to grasp. A lack of ethical culture has been blamed for many scandals that have hit organisations in general, and financial services organisations in particular.

This document proposes a ten part framework for promoting integrity, which is built around the central principles of setting the right tone, supporting ethical decision-making, promoting openness and managing incentives. The following specific techniques are discussed in detail:

- Setting the right *tone from the top*
- Developing and embedding an effective *value statement*
- Promoting an *open culture* within the organisation
- Developing a *whistleblowing procedure*
- Providing impartial, confidential *advice on ethical issues* for employees
- Developing and embedding an *organisational code of conduct*
- *Training* staff in ethics
- *Rewarding* ethical behaviour
- Ensuring *disciplinary procedures* are effective
- *Monitoring* organisational integrity, and the effectiveness of techniques

An organisation which is serious about developing an ethical culture will need to pay attention to each of the above techniques, and to the way they potentially interact with each other. Responsibility for the implementation of the framework lies with the organisation's leadership primarily, though there is also a key role for Human Resources departments.

However, it should be noted that professionals, supported by a professional body, have both the resources and the responsibility to embed a process of change within the culture of their organisations. This document, therefore, also provides details of some of the specific pieces of support offered by the Chartered Insurance Institute, which can help members with this process.

## Introduction

This guidance document is intended to help CII members promote a culture of integrity within their organisation. At the IDEA Centre, we completed a major research project in 2012 for the Institute of Chartered Accountants in England and Wales, funded by ICAEW's charitable trusts. The resulting report *Real integrity: practical solutions for organisations seeking to promote and encourage integrity*, published by ICAEW, provides the basis for the framework described in this document.<sup>1</sup> The research included 92 semi-structured interviews with employees of a variety of sizes and types of organisation, and an online survey with 1,444 responses, comprising a very rich data-set on which to draw. This guidance document makes use of the *Real Integrity* research to a great extent, but also draws on other academic research into integrity and corporate culture. Our intention is to provide insights, supported by evidence, that can be of practical benefit to members who want to help their organisation to develop a stronger ethical culture. Of course, many members will consider that their organisation's culture is already ethical. This guidance is also aimed at those people. There can be very few, if any, organisations whose ethical culture could not be improved on at all. Like other aspects of organisational excellence, we suggest that ethical culture should be subject to a programme of continual improvement.

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<sup>1</sup> Baxter, et al. 2012. Download the full report, free of charge, at <http://www.icaew.com/en/products/accountancy-markets-and-ethics/real-integrity-report>

## Why should organisations care about integrity and ethical culture?

Integrity is an idea that already has great currency in the world of financial services. The Chartered Insurance Institute states in the 'About the CII' section of its website that it 'exists to promote higher standards of integrity, technical competence and business capability'.<sup>2</sup> In emphasising integrity alongside more technical virtues, the CII is far from unusual among professional bodies, or indeed among employing organisations. Integrity is the first 'fundamental principle' listed by the International Federation of Accountants (IFAC) in its Code of Ethics<sup>3</sup>, which has been adopted by a large number of national accountancy professional bodies, including the Institute of Chartered Accountants in England and Wales (ICAEW). In 1998, a study<sup>4</sup> found that integrity was the single most commonly cited virtue in corporate ethical codes, and it does not appear to have become less popular in recent years. In fact, since the financial crisis, the prevalence of integrity talk seems to have reached a new high. There is a widespread perception that a lack of integrity on the part of both individuals and organisations was among the root causes of the crisis.

Perceived problems of integrity and ethical culture are very common in other industries and sectors, too. The report of the Leveson Inquiry into the culture, practices and ethics of the press, which references our work on organisational integrity<sup>5</sup>, highlighted a failure of ethical culture in a number of newspapers, which led to unethical practices, including phone hacking, becoming an accepted behavioural norm. The problems at Mid-Staffordshire Foundation Trust, too, went beyond the failures of a few doctors, nurses and managers. The Francis report identified 'an engrained culture of tolerance of poor standards, a focus on finance and targets, denial of concerns... [and a] culture... of self-promotion rather than critical analysis and openness'.<sup>6</sup> When the culture of any organisation becomes dysfunctional in this way, even well-intentioned people can become deeply embroiled in unethical ways of working. No matter what our area of work is, if we are part of an organisation, the culture of that organisation can have a profound impact on our attitude, our relationships with colleagues, our willingness to stand for our values; every aspect of the way we approach our work.

There is, however, apparently a widespread perception that many financial services organisations in particular are lacking in the kind of culture that is conducive to behaviour with integrity. A recent international survey asked investment professionals to rate which factor they thought had contributed the most to 'the current lack of trust in the finance industry'.<sup>7</sup> By far the most popular response (56% compared to 16% for the second most popular) was a 'lack of ethical culture within financial firms'. Only 2% answered, 'I don't think there is a lack of trust in the finance industry'. High-profile cases including the rigging of LIBOR, as well as what many see as an unjust and unhealthy set of practices around bankers' bonuses, among other factors, contribute to a general perception that ethical culture in financial services is lacking. In a recent speech, the Financial Conduct Authority's (FCA) Director of Regulation, Clive Adamson, acknowledged that, 'to many in the outside world, the cultural approach of doing the right thing has been lost for financial services'.<sup>8</sup>

All businesses rely on the trust of their customers. The financial services industry will need to restore its reputation if it is to continue to thrive in the future, and being seen to have integrity is an essential element of a good reputation.

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2 The Chartered Insurance Institute n.d

3 International Federation of Accountants 2010

4 Murphy 1998

5 Leveson 2012. The references to the findings of *Real Integrity* are on pages 86–89 of Volume 1

6 Francis 2013, 43–44

7 CFA Institute 2013, 28

8 Adamson 2013

“ *As well as reputational concerns, a strong ethical culture is also essential to attracting, retaining and motivating the best employees in the right way.* ”

As well as reputational concerns, a strong ethical culture is also essential to attracting, retaining and motivating the best employees in the right way. Productive relationships between colleagues within organisations rely on trust, and a lack of trust can be poisonous to employee motivation. In 2009, the Ethics Resource Centre (a US organisation) released a research report on ‘Ethics and Employee Engagement’ which found that ‘positive perceptions of an organisation’s ethical culture are associated with higher levels of engagement,’ and that, ‘furthermore, management’s commitment to ethics is particularly important for employee engagement.’<sup>9</sup> Working for an organisation with a good ethical culture is motivating both at the level of day-to-day work (it feels good to work for an organisation which you know will treat you and your colleagues fairly, and will not pressure you to act unethically) and at the level of the wider context within which that work sits (it feels good to work for an organisation whose aims and values you endorse).

Perhaps the clearest reason for organisations to take ethics seriously, however, is that this is the right thing to do by definition. We are all concerned with ethics in the rest of our lives, so why should work be any different?

There are also a number of good reasons why integrity specifically, and not legal and regulatory compliance, is a useful focus for organisations. For one thing, laws and regulations often lag behind innovative financial products. It is, therefore, not possible to use the question of whether or not something is legal as a reliable indicator of whether or not it is ethical. Moreover, in the UK at least, regulation is largely principles-based rather than rules-based. All of this means that professionals must exercise their own judgement on many of the issues, and exercise integrity in following through on that judgement.

The payment protection insurance mis-selling scandal is a good example of ethical judgement going awry, and of corporate culture not supporting professionals in exercising judgement. Those who mis-sold PPI policies were not evil villains, and it was probably not clear to them, in most cases, that what they were doing was against regulations. However, they were perhaps not applying sound ethical judgement in all of their decisions. If they were uncomfortable with what they were being asked to do, they were not, in most cases, speaking out about it. To do this requires the kind of thoroughgoing ethical approach to one’s work that is characteristic of integrity. But it also requires the kind of corporate culture that supports ethical decision-making, and encourages people to speak out about ethical concerns they may have.

Integrity is distinct from ethical behaviour. There are many reasons why one might behave ethically. For example, there might be a threat of punishment, or a promise of a reward, to keep one in line. But following one’s self-interest in this way, even if it results in ethical behaviour, is not integrity. Integrity is an aspect of character that leads us to develop deeply-held ethical commitments and to act on them consistently. People with integrity will, therefore, tend to behave ethically not only when it is in their own interest, narrowly construed, to do so, but also when it is not.

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<sup>9</sup> Ethics Resource Centre 2009, 1

Building on this distinction, efforts to promote integrity should be distinguished from efforts to promote ethical behaviour more generally. A common approach in management is to decide what forms of behaviour are desirable, and then to try to set incentives (particularly financial incentives) that will tend to lead to those forms of behaviour. In fact as Stout (Stout 2012) suggests, there is good evidence to suggest that this approach might have unintended consequences that are actually damaging to ethical culture. He argues that too much emphasis on financial incentives leads to organisations attracting people who are naturally self-interested, and sending a message to others that they too should purely follow their own self-interest. Emphasising integrity, by contrast, encourages people's inclination to act on principle, and to take others' interests into account.

For example, imagine someone whose job mainly involves selling insurance policies. Rather than trying to devise incentives such that it will be in this person's own financial interest to act ethically within every possible financial transaction, it is likely to be more effective to create an organisational culture in which professionals are encouraged to approach their work with integrity, and supported in using their own judgement, guided by conscience. This is not to say, of course, that disciplinary procedures are not needed in order to deal with deliberate or particularly serious misbehaviours. It is also very important that people are not perversely incentivised – that is, there should not be incentives in place which unintentionally work against ethical behaviour. But the flexibility to deal with the full range of ethical decisions faced by financial professionals requires a focus not only on the alignment of individuals' self-interest with behavioural requirements, but also on their character, judgement and integrity.

Integrity is an aspect of character that leads us to behave ethically even when this would not be in our own interest. It, therefore, has the potential to fill the inevitable gaps left by aspects of our environment such as the regulatory and legislative frameworks defining the organisations in which we operate, and the efforts of organisational leaders to incentivise ethical behaviour. When we are confident that we could escape detection for our transgressions, integrity is a quality that can lead us to act ethically anyway.



## Fostering integrity

Integrity, then, is distinct from ethical behaviour and compliance, and it is an essential part of any organisation's strategy for achieving ethical behaviour and compliance. But how can organisations go about creating the kind of culture and environment that is conducive to acting with integrity?

This paper describes a framework, supported by our research, which organisations can use to promote and encourage integrity among their employees. The framework consists of four high-level objectives, and ten individual techniques, or aspects of the organisational environment, to which attention needs to be paid. Practical suggestions are given as to the detail of how to implement each element of the framework. It is important to bear in mind that the elements described are part of a complete whole. The evidence suggests that there is a great deal of interaction between them, so that they may not work if applied in isolation. Another key point is that what is being recommended here is not a quick fix. Rather, it is a long-term process of change.

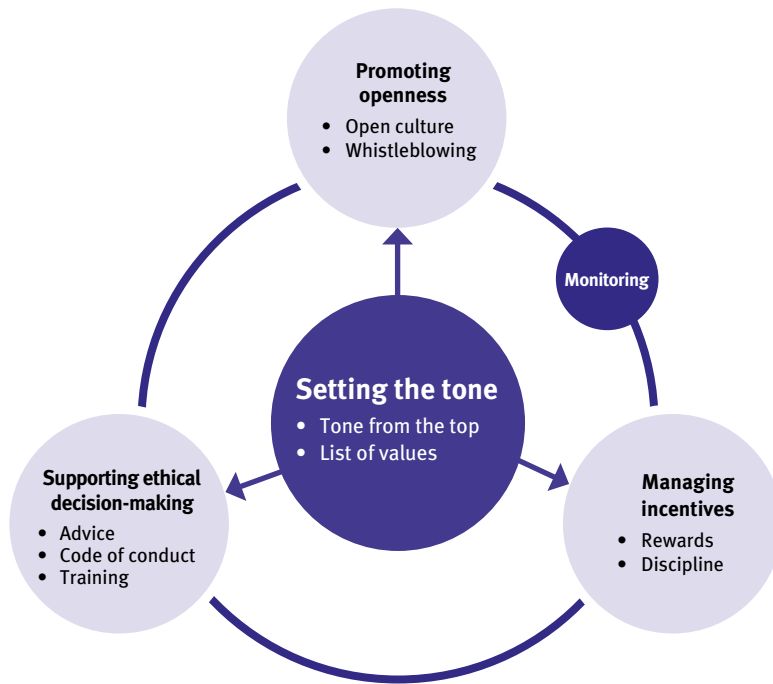
“ *It should also be noted that professionals have a potentially crucial role in determining the culture of their employing organisation.* ”

It should also be noted that *professionals* have a potentially crucial role in determining the culture of their employing organisation. Through the efforts of professional bodies, they are often more comfortable talking about ethical issues and raising concerns, and thinking about responsibilities outside of the purely commercial, including a duty to the wider public interest. Several of the techniques which we will go on to describe below – including codes of conduct, ethics training, guidance, etc. – are features of the way many professional bodies interact with their members. Therefore, if you are a member of a professional body, you are likely to be more used to thinking in these terms than many of your colleagues. By standing up for ethical ways of thinking within your employing organisation, professionals have the opportunity to be a force for positive cultural change.

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Perhaps the most important point to emphasise about fostering integrity is that *integrity breeds integrity*. If organisational leaders approach ethics in a way that does not demonstrate integrity – for example, if it is seen as a box-ticking exercise or subordinated to public relations – then it will not be taken seriously by staff and it will fail. On the other hand, a leadership that is seen to own up to its mistakes, and that genuinely wants to make improvements, will encourage the same attitude among employees, creating a virtuous circle that strengthens and reinforces ethical culture.

The diagram below summarises the elements of the framework for integrity, and shows how the framework fits together:



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## Setting the tone

Setting the correct ethical tone for the whole organisation is pictured as central in the overall framework, reflecting its central importance in promoting integrity. In our *Real Integrity* research, both survey respondents and interviewees cited the tone from the top of the organisation as being the single most important thing that leaders could get right in order to promote and encourage integrity. However, good behaviour by executives and directors is not enough: the ethos of the organisation needs to be made explicit so that it can inform decision-making at all levels. Having a well thought-out set of organisational values is a particularly effective way of achieving this.

### Tone from the top

It will come as no surprise that the demonstration of good ethical values, and of integrity, by the organisation's leaders, is essential to the effective promotion of integrity within that organisation. ninety-two percent of our interviewees rated it as effective, making it the second most highly rated technique.<sup>10</sup> It received the highest score from survey respondents.

“*Tone from the top helps to ensure a consistent message across the organisation by communicating exactly what forms of behaviour are valued.*”

Tone from the top helps to ensure a consistent message across the organisation by communicating exactly what forms of behaviour are valued. It also gives individuals within the organisation an example to follow on an individual level. ‘When you have people in responsibility at the top of an organisation then people aspire to be like them,’ as one *Real Integrity* interviewee noted.<sup>11</sup> If leaders demonstrate integrity, this will inspire integrity among employees at all levels.

By contrast, the negative effect of leaders not being seen to demonstrate integrity can be considerable. We spoke to people in some organisations where leaders were perceived to have acted unethically or even illegally. In these organisations, morale among employees was low, and there was a perception that trust too might be lacking. As one of our interviewees put it, ‘if the leaders aren’t showing integrity then I’m not sure I would expect anyone else to.’<sup>12</sup>

To some extent, the data bears out the idea that tone from the top is even more important in smaller organisations. This makes sense, if you think about the power of a single individual to set the tone in an organisation with a small number of employees. The owner of a small business is much more likely to be involved in hiring and firing employees, and in making everyday decisions, so that their values very quickly become the values of the business. On the other hand, it is clear that the values and behaviour of the directors and executive team, even in a very large organisation, still form one of the central factors in determining the integrity of the organisation.

Not only is tone from the top important in itself, it is also a very effective catalyst for the other aspects of the framework. More than this, it is perhaps a necessary condition of many of the other techniques having much effect at all. For example, a code of conduct which is not followed by the organisation's leaders is far less likely to be taken seriously by employees. Still worse is the situation in which an organisation uses disciplinary procedures harshly when dealing with subordinates, but leaders are seen to get away with unethical behaviour. When this is the situation, employee motivation drops very quickly.

<sup>10</sup> Baxter, et al. 2012, 37

<sup>11</sup> Baxter, et al. 2012, 37

<sup>12</sup> Baxter, et al. 2012, 37

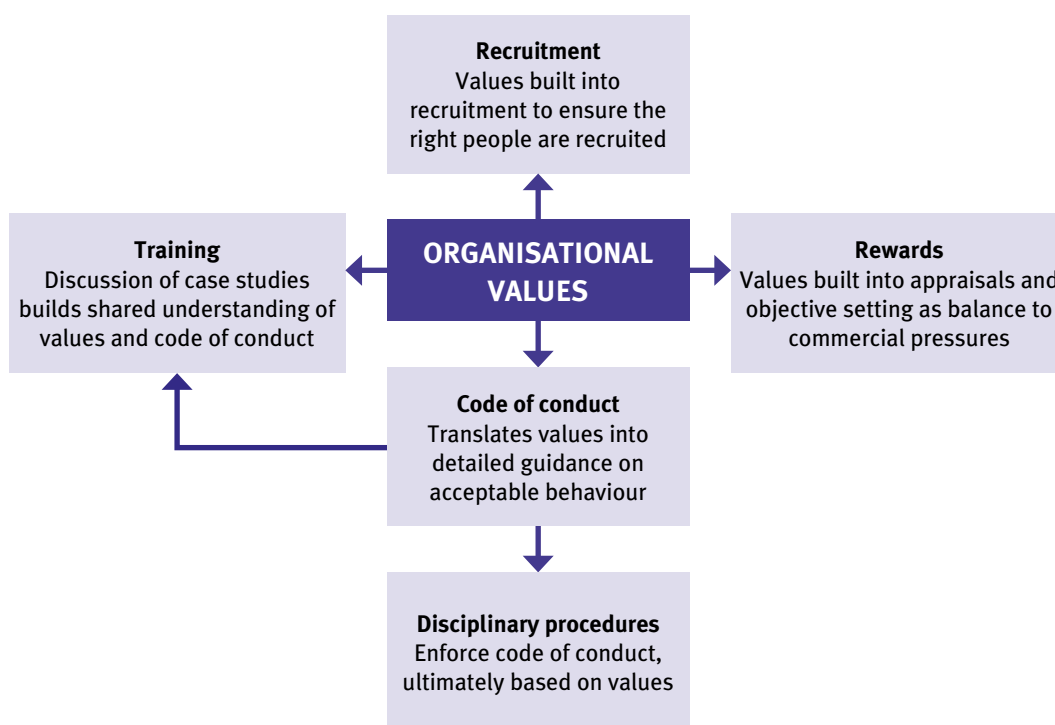
“ As well as leaders *having* integrity, however, tone from the top is also a matter of leaders being *seen* to demonstrate integrity. ”

As well as leaders *having* integrity, however, tone from the top is also a matter of leaders being *seen* to demonstrate integrity. This means that channels of communication within the organisation have to be as open as possible. The temptation can be for leadership teams to co-ordinate their message very carefully. However, while it is important for a consistent tone to be communicated, care should be taken not to cover up mistakes or mask the difficulty of some ethical decisions taken at the top of the organisation. Integrity is better served by leadership owning up to mistakes that have been made in the past and talking about how they intend to address problems in the future. Case studies illustrating difficult strategic decisions in which the organisation’s values played a part are an excellent way of setting an example. Integrity is partly a matter of openness, so demonstrating integrity is partly a matter of communicating openly.

### Organisational values

Developing a list of values is one way that leaders might try to embed ethical ways of thinking into the culture of the organisation. It is worth saying at the outset that there was considerable variation in how useful the interviewees in the *Real Integrity* research thought this was as an approach. While some interviewees believed that a well thought-out set of values was an essential part of an organisation’s ethical strategy, others thought the exercise was a waste of time and unlikely to make any difference. However, when we looked at the organisations which *did* seem to be having success with this technique, we saw that they had some features in common in terms of the way they had approached the list of values.

When lists of this kind are used intelligently, they can have a far reaching effect. The diagram below shows how a list of values can be embedded throughout the organisation through other processes and elements of the framework:



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The aim of the list of values should be both descriptive and prescriptive. Descriptively, part of the purpose is to bring out and make explicit the values that are already implicit within the organisation. The implicit values of an organisation are what is actually valued within that organisation: if an attitude or a form of behaviour is likely to earn recognition, praise and advancement for employees, then that attitude or form of behaviour represents one of the implicit values of the organisation. Part of what it means for an organisation to have integrity is for its implicit values to match up to its explicit values.

Prescriptively, the values also need to reflect the particular ethical challenges facing the organisation; they need to show what attitudes and forms of behaviour are required in order for the organisation to meet those challenges. Because of this dual role, it is essential that the list of values is developed through a careful process of consultation with staff, and also a careful consideration of the ethical and professional landscape in which the organisation operates.

### Giving life to values statements

The following tips are intended to help organisations get the most out of their values statement. These approaches were used in the organisations we spoke to where the values were seen to be effective:

1. Help staff to memorise and internalise the values. This means expressing the values as single words or short phrases rather than long, elaborate formulations. It also means not having too many values. Innovative approaches can also be used to help with this. One of the organisations involved in our research used a ‘story’, which linked each value to the next, and showed how each was supposed to inform the day-to-day work of its employees. In the research as a whole, almost nobody was able to recite the full list of their organisation’s values. By contrast, the interviewees in this organisation were consistently able to do so, and many were able to talk at length around the list of values, giving illustrations from their own experience of the values applied in practice.
2. Make efforts to demonstrate how values affect decision-making and organisational strategy. Case studies illustrating difficult decisions from the organisation’s history which have been made on the basis of the organisation’s values, and not just on short-term financial grounds, are an excellent way of communicating tone from the top as discussed above. They set an example of values as a practical decision-making tool, and not just an empty public relations exercise.
3. Values on their own are not enough: help employees to interpret and apply them in practice, by using training sessions which explore the values through the use of challenging case studies. See the section on ‘Training’ for further discussion of this approach.
4. Build values into policies, procedures and initiatives wherever possible. In many organisations, the value statement is kept ‘somewhere on the website’, but employees do not have much contact with it from day to day. If the values are genuinely supposed to represent what is important within the organisation, then they should shape recruitment procedures, codes of conduct, disciplinary procedures, etc, and employees should be aware of them as part of the background to their work.

The aim is for staff to be able to memorise and, ultimately, *internalise* the list of values. Using the above approaches will lead to an organisational culture which encourages staff to take on the values as an aspirational, living document that informs their work every day. While values should also play a part in policing behaviour through disciplinary procedures, the emphasis should be on the values as a *positive* influence.

## Promoting openness

The importance of openness to the integrity of an organisation is a counterbalance to the idea that consistency is all that matters. If consistency means using heavy-handed enforcement to keep people in line, and especially if it means silencing dissenting voices, then it does not serve integrity.

“Promoting openness not only promotes integrity, it *is* integrity.”

Promoting openness not only promotes integrity, it *is* integrity. An organisation with integrity is one that tries to be honest about itself and to identify problems where they arise. The first step to doing this is to promote the kind of culture which encourages people to voice concerns, and in which ethical matters form part of the everyday conversation. However, it is also possible that employees may not always feel comfortable about coming forward with concerns openly. A clear whistleblowing procedure is, therefore, an essential safety net to catch issues of this kind.

### Open culture

Ninety-three per cent of the *Real Integrity* interviewees agreed that developing an open culture was a particularly effective way of promoting and encouraging integrity, making it the most popular technique among this group.<sup>13</sup> It was also the third most popular technique with survey respondents.

Of course, it is easier said than done to create a culture of openness. What practical steps can leaders take to achieve this aim?

An important general point about openness is that openness works both ways. Leaders who try to encourage their employees to be open about their work, while not being open about their own, are unlikely to have much success. In organisations which interviewees thought had an open culture, those interviewees were very often able to point to examples where leaders had talked openly to staff about, for example, strategic difficulties the organisation was facing.

Interviewees were also able to give examples of issues which had been raised by people lower down in the organisation, who had then been listened to, with action being taken as a result. This leads us to another important point about open cultures: some efforts to encourage openness can appear tokenistic and insincere, unless they are backed up by a genuine willingness to listen and to take action if necessary. A manager saying, ‘my door is always open’ is not enough, if employees do not feel that issues will be taken seriously by that manager. It is also not enough to provide opportunities for employees to raise issues in team meetings or company briefings – many people will not feel comfortable raising sensitive issues in forums like these.

Paradoxically, promoting openness may require privacy and even secrecy at times. One manager we spoke to had wanted, in the spirit of openness, to sit with her team in an open-plan office. However, she found that people were not speaking to her openly. Only after moving into her own office with a door that could be closed did she find that people felt comfortable about raising issues with her. In an ideal world, people would be happy to speak openly in front of their colleagues, but this is not always possible. There needs to be an opportunity for confidential advice if it is needed, something to which we will return in the section on supporting ethical decision-making.

<sup>13</sup> Baxter, et al. 2012, 44

As with the list of values, this is an area in which innovative approaches can be fruitful. In one organisation we spoke to, the Chief Executive had introduced a staff forum with a rotating membership which met once a month – everyone would get an opportunity to attend these meetings at least once a year. Breakfast was provided and the tone was informal; employees valued the opportunity to raise issues openly, but not in their regular teams and, crucially in some cases, not with their line managers present. These meetings also met two other objectives: they brought together people from different areas of the organisation and encouraged communication between teams, and they also demonstrated that the leadership of the organisation was genuinely interested in what employees had to say, to the point where leaders were willing to be proactive in setting up a forum, and even to pay for breakfast! All of this contributed to the creation of an atmosphere in which people genuinely felt able to air concerns.

## **Whistleblowing**

Part of the rationale for creating an open culture is that concerns can then be identified and dealt with before they turn into major issues for the organisation. The aim is to create an environment in which open discussion of issues is encouraged. However open the culture of the organisation becomes there will always be situations in which people do not feel able to raise issues openly. Particularly where the issue involves specific people, there can be the fear of reprisals or more subtle negative repercussions for speaking out. A clear whistleblowing policy means that employees know what to do in such situations.

## Supporting ethical decision-making

The degree to which we, as individuals, show integrity, is the result of a series of decisions that we make. It is neither possible, nor desirable, to take the responsibility for ethical decision-making away from individuals. In practice, any organisation will have individuals at all levels making decisions with ethical dimensions on a regular basis. In many cases, the right thing to do will not be obvious. Organisations that take integrity seriously will take steps to help individuals with the process of ethical decision-making, and seek to support employees in acting on their decisions.

### Advice for employees

A note for the sake of clarity: in this section we will be referring to the provision of ‘advice’. This should be understood as referring specifically to advice provided (either internally or through an external agency) to the organisation’s employees in order to support them in making ethical decisions, following through on those decisions and raising issues and concerns. This is distinct from regulated advice on financial matters offered to clients and customers, which falls outside the scope of this paper.

Having somewhere to go for advice is key to people’s ability to make good ethical decisions. While we might naturally think of the purpose of advice as being about getting *guidance* on what one’s course of action should be in a particular situation, interviews conducted as part of the *Real Integrity* research suggested that, just as often, what people are looking for is an opportunity to discuss an issue in order to clarify that issue in their own mind. This is particularly true where advice is accessed as a precursor to a potential reporting or whistleblowing case. It can be difficult to know whether something which looks a little worrying is actually a cause for concern or not. Just by having the opportunity to describe the situation, and see the other person’s reaction, progress can be made on deciding whether or not things should be taken further.

Making the initial step of accessing official channels in order to talk to someone about a potential concern can be intimidating. This is probably why most people tend to access informal channels – a trusted colleague, or even friends and family – as initial sources of advice. Nonetheless, there is a role for advice from someone who has the right knowledge, particularly of relevant laws but also of the organisation itself, and preferably enough distance from the specific issue to see that issue clearly. Depending on the organisation, it might be best for this resource to be provided by the human resources department, a specialist ethics and compliance function, or even an external agency. As with whistleblowing, it is essential to the success of advice services that they are genuinely confidential, and clearly advertised as such. Again, any exceptions to confidentiality should also be made clear.

There are a number of organisations that offer advice on work-related issues, and which can be accessed by employees whose organisations do not offer advice, or who would rather get advice from someone external to the organisation. The agencies listed on next page are based in the UK.



### Some sources of advice on work-related issues

**The Citizens' Advice Bureau** offers advice on a range of issues, including rights and problems at work, discrimination and health and safety. [www.adviceguide.org.uk](http://www.adviceguide.org.uk)

**Public Concern at Work** provides advice for employees who are considering blowing the whistle on illegal or unethical practice. It also supports organisations with their whistleblowing arrangements. [www.pcaw.org.uk](http://www.pcaw.org.uk)

**The Advisory, Conciliation and Arbitration Service (ACAS)** provides free, confidential advice on a wide range of workplace issues. [www.acas.org.uk](http://www.acas.org.uk)

**Worksmart** is a website run by the Trades Union Congress which provides help and information on workplace issues for union and non-union members. [www.worksmart.org.uk](http://www.worksmart.org.uk)

**The Equality and Human Rights Commission** provides advice on equality and discrimination issues for both employees and employers. [www.equalityhumanrights.com](http://www.equalityhumanrights.com)

**The UK Government** provides information on employment-related legal issues, rights and public services. [www.gov.uk](http://www.gov.uk)

## Code of conduct

The CII has its own Code of Ethics, which can be downloaded at <https://www.cii.co.uk/code>

This sets out principles which all members of the CII should follow in the course of their professional duties. In addition, the CII has developed a practical guide to the Code – which can also be used as part of a member's CPD activity – to demystify ethical issues with case studies and a simple guide to understanding the five principles which underpin the Code.

This can be found at <https://www.cii.co.uk/code>

As well as professional codes, however, some employing organisations will have their own code of conduct. An organisational code can take account of the specific aims, ethical challenges and industry context in which the organisation operates. It can bridge the gap between the organisation's values and specific behavioural requirements. It can serve at least three distinct purposes, all of which have the potential to contribute to a culture of integrity.

First, it can act as a reference tool and provide guidance to individuals on specific cases. This is the way we tend traditionally to think of the role of the code of conduct. In fact, our research suggested that people tend not to go to the code of conduct when they are unsure what they should do in a given situation. Nonetheless, there are certainly cases in which codes of conduct are useful as a decision-making tool.

Secondly, a code of conduct can act as a reference when handling behavioural issues. Those of our interviewees who claimed to have referred to the code of conduct tended to have done so either because they were involved in handling disciplinary cases (perhaps as an HR professional), or because they had an issue with someone under their supervision which they wanted to resolve before it reached the stage of invoking the disciplinary process. In these cases, codes of conduct set out behavioural requirements to which people can be held.

Finally, a code of conduct can provide support for those who wish to act on ethical decisions. This is a role of codes of conduct that is often neglected, particularly by those who think of them as merely 'common sense'. The suggestion here is that, when asked to do something which we feel is unethical, we can point to the code of conduct as evidence to support our view. The dispute then moves away from being simply a clash of personal opinion, which means that resisting pressure to act unethically is somewhat easier. 'What you are asking me to do is against the code of conduct' might carry more weight than 'I don't agree with what you are asking me to do'.

## Ethics training

In common with many professional bodies, the CII provides training and CPD for its members. Details of face-to-face courses can be found at <http://www.cii.co.uk/training/> The CII also provides an online ethics course at [http://www.ed.cii.co.uk/courseware/CII\\_Content/Ethics/main.html](http://www.ed.cii.co.uk/courseware/CII_Content/Ethics/main.html) and a course specific to Financial Advisers.

When we asked the interviewees in the *Real Integrity* research about training in ethics, we often found that they were unenthusiastic. In our view this reflects the fact that ethics training is often poorly handled, rather than anything inherently wrong with the provision of training in ethics in itself. The research highlighted a number of principles which can be used to create more effective training sessions. The following principles describe approaches to training that were thought to be more effective by our interviewees.

Training should make use of real or realistic case studies to help employees to interpret and apply the values of the organisation and the principles embodied in the code of conduct. Training employees to memorise the values or code of conduct is not enough to develop the ethical awareness and reasoning skills which employees need in order to deal with the multiplicity of ethical decisions which they will face. Employees can tell when training is a 'box-ticking exercise' or merely a device to ensure compliance, and they will be unmotivated by this kind of training.

Using the organisation's value statement as the basis of training is an excellent way of providing structure to the training session, while refreshing the value statement in the minds of employees and helping to make it a living document. Start with a case study and then ask which of the organisation's values are relevant to the case, and what they mean in the context of the case. For example, what does it mean to show openness in the context of the case? If the cases are challenging enough, employees will come to a better, more sophisticated, more participative understanding of the organisation's values through this process.

Ethics training should not be a single, one-off intervention but part of a longer-term programme. The aim of ethics training should be to foster awareness and reasoning skills, which can only be achieved through repeated practice. It is also important that people revisit ethics and the values of the organisation at different stages of their career, in order to reinforce the message that ethical ways of working are valued within the organisation, but also to reflect the different types of decision that face employees at different points in their career.

As well as traditional classroom-based sessions, there is great value in providing a structured mentoring or coaching programme for employees. The value of this is not restricted to its relevance to ethics, but having a trusted, experienced colleague with whom to discuss ethical issues in confidence can be an extremely effective approach, combining the training and advice elements of the framework.

## Managing incentives

As we have already seen, integrity is distinct from ethical behaviour. Measures that focus exclusively on financial incentives as guarantors of ethical behaviour can unintentionally send the message that financial incentives are the factors that are, and that should be, valued within the organisation. This is not a message that is conducive to fostering integrity. Further to this, measures aimed at enforcing ethical behaviour through discipline can sometimes work against integrity because they tend to disempower the individual.

Despite these points, there is a role within the framework for measures aimed at managing the way individuals within the organisation are incentivised. Instead of levers to directly influence behaviour, however, these should be seen primarily as methods of creating an environment in which integrity is seen to be valued. The aim here should be twofold: firstly, to ensure that employees are not unintentionally incentivised in a way which counts against integrity; secondly, to act as a counterbalance to commercial pressures in demonstrating the values of the organisation as implicit as well as explicit. The key is to think about what message is being sent to employees about what is valued by the organisation: simply profit at all costs, or more responsible, sustainable and constructive attitudes and forms of behaviour?

## Rewards

Research by Leeds University suggested that the kinds of rewards that really motivate people to behave ethically are often not financial rewards, but less tangible rewards such as the approval of peers and the feeling that one works for an organisation with a healthy ethical culture. If an organisation gets the culture and values right, then individuals who act on their conscience and in line with the organisation's values will be looked upon favourably; if not, they may be seen as awkward or 'not team players'.

Our suggestion to organisations who wish to build in more concrete rewards for ethical behaviour is to approach this with care. Several of our interviewees reported scenarios in which an organisation had attempted to build ethical values into their appraisal schemes but had not handled this as well as they could, with the unfortunate consequence of adversely affecting morale within the organisation, and causing resentment in some cases. One problem is that such schemes rely on implementation by managers to make them effective, and this can be quite inconsistent. The effect is that your ability to secure rewards can be affected as much by who your manager is, as by the nature and quality of your work. If reward schemes are not implemented in a way that is seen to be fair and just, then they can have the opposite effect to what is intended, demonstrating that the organisation does not live by its own values.

On the other hand, if these interventions can be handled effectively, they can have a positive effect in counter-balancing the effect of commercial pressures on individuals. Organisations might want to consider, therefore, whether rewarding ethical behaviour might have a role to play in areas of the organisation where commercial pressures are felt most keenly. An example would be a salesperson who is set the objective of demonstrating not only that they have brought revenue into the organisation, but that they have done so while continuing to treat customers fairly.

## Disciplinary procedures

Part of the purpose of disciplinary procedures is to correct the behaviour of those who persist in acting unethically, and perhaps ultimately to remove these people from the organisation if they refuse to change. In this way disciplinary procedures have an effect on the culture of the organisation by changing the behaviour or, ultimately removing those who would affect it negatively. They also have a potential deterrent effect: people may be dissuaded from acting unethically by the fear that they will be disciplined for it, though this was not demonstrated unambiguously by our research.

Despite this, and despite being viewed generally favourably by our interviewees, it is interesting to note that the results from the survey used in the *Real Integrity* research showed a significant *negative* correlation between the use of disciplinary procedures and the perceived integrity of the organisation. That is, in organisations where employees were more likely to report the use of disciplinary procedures, they were *less* likely to perceive their organisation as having integrity.

The first thing to make clear about this result is that it should certainly not be taken as an argument against the use of disciplinary procedures *per se*. Clearly, there will always be a need for disciplinary procedures to deal with behaviour that is sharply or persistently in conflict with the organisation's values or its code of conduct. Rather, the result says something about the relationship between some ways of implementing disciplinary procedures, and integrity specifically.

## Monitoring

The final element in our framework for integrity is the practice of monitoring the culture of the organisation. This element is crucial, for obvious reasons. Without it, there is no way of knowing with any certainty what effect the techniques employed are having. As noted under several of the elements discussed above, techniques which are not effectively implemented can not only be ineffectual, but in some cases actually counterproductive, increasing the importance of effective monitoring. Despite this, it was surprisingly uncommon for the organisations in our research to take an active approach to monitoring their culture in this way.

Methods of monitoring could include dedicated surveys of staff, or questions relating to ethics and integrity inserted into existing surveys. Even more effective would be to carry out interviews or focus groups with staff or, better, to commission an impartial external agency to do this. The aims here are twofold: first, to get a picture of the culture operating within the organisation, and secondly, to evaluate the effectiveness of individual techniques in positively influencing this culture. With regard to this second aim, it is important to ask staff how they see the techniques in the framework operating. How often, and to what purpose, do they refer to the code of conduct? If there is a reward scheme for ethical behaviour, do they think this is fair and consistent, and is it effective? Monitoring in this way is a method of demonstrating progress and of fine-tuning the techniques that are in place.

The CII provides a self-assessment ethics toolkit for Chartered Firms, which can help with monitoring some aspects of the organisation's ethical culture: <http://www.cii.co.uk/about/news-and-insight/articles/cii-launches-online-ethics-toolkit-for-chartered-firms/17281>

## Applying the framework

What we have recommended in this document is a framework for organisations to apply in order to develop a culture of integrity. As we stressed at the beginning, this should not be thought of as a set of discrete tools, but as a complete set of building blocks which fit together and make up an effective structure. Attention should, therefore, be paid to ensuring that the message about ethics being sent by the organisation to its employees is consistent, and as we have noted the list of organisational values can go a long way to ensuring this, if it is used effectively. Weaving the organisation's values through the framework strengthens it, making each technique more effective.

**“ What we have recommended in this document is a framework for organisations to apply in order to develop a culture of integrity. As we stressed at the beginning, this should not be thought of as a set of discrete tools, but as a complete set of building blocks which fit together and make up an effective structure. ”**

The detail of how some of these techniques should be used will vary depending on the size of the organisation, and on its core activities. Careful judgement should be exercised in deciding exactly how to approach each of these elements of the framework in your organisation. Nonetheless, each element of the framework should yield useful results in some form in any organisation, even the smallest. For example, even in an organisation with three employees, there is a benefit to each of those employees to have some route through which to access confidential advice. This might not be within the organisation but through an external agency such as a dedicated advice line or, if available, through a professional body.

Responsibility for application of the framework lies with the organisation's leaders primarily, though of course responsibility for making decisions with integrity and for behaving ethically also lies with each individual employee. It is worth noting, however, that in organisations which are large enough to have a dedicated human resources function, there is a key role for this department in implementing many of the elements of the framework. HR departments are typically involved in implementing disciplinary procedures, in organising employee appraisals and reward schemes, in giving advice, in arranging training, and they may also have responsibility for the code of conduct. All of these require great sensitivity to their potential effect on the culture of the organisation. We would therefore recommend that the HR department be involved from the start in the organisation's efforts to implement the framework.

**“ As a final thought, it is worth reiterating what we said at the beginning of this paper – that professionals, and particularly members of a professional body, have a responsibility when it comes to creating a culture of integrity. ”**

As a final thought, it is worth reiterating what we said at the beginning of this paper – that professionals, and particularly members of a professional body, have a responsibility when it comes to creating a culture of integrity. As we have seen in our discussion of several elements of the framework, simply talking about concerns and issues can be an important first step in developing a more robust and resilient ethical culture within the organisation. As members of the Chartered Insurance Institute, you have both the resources and the responsibility, supported by your professional body, to embed a process of cultural change.

## Key points to take away

- Building a culture of integrity can help an organisation to protect its reputation, and to avoid ethical and legal pitfalls. It can also help to attract, retain and motivate staff. Most importantly, however, it is the right thing to do by definition.
- Measures aimed at promoting a culture of integrity complement other measures aimed at producing legal compliance. It is impossible, as well as undesirable, to remove responsibility entirely from individuals. Integrity is essential to the proper exercise of individual responsibility.
- Professionals have a key role in promoting a culture of integrity within their organisation.
- Building a culture of integrity is a long-term process, and one that requires attention to the detail of how techniques are implemented. Organisations should pay attention to the individual techniques within their framework for integrity, but also to the framework as a whole and the way the techniques relate to one another.
- Probably the two most powerful tools at organisations' disposal are the tone from the top of the organisation, and efforts to promote an open culture. Getting these right makes it much more likely that the framework as a whole will be successful.
- Thinking carefully about the values statement, and ensuring that it forms the basis of the way other techniques are implemented, is key to ensuring coherence within the framework as a whole.
- Above all, *integrity breeds integrity*. An organisation which expects its employees to display integrity, must itself display integrity in its interactions with employees.

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The CII is the world's leading professional organisation for insurance and financial services, with over 112,000 members in 150 countries.

We are committed to maintaining the highest standards of technical expertise and ethical conduct in the profession through research, education and accreditation.

Our Charter remit is to protect the public by guiding the profession. For more information on the CII and its policy and public affairs function, including examples of the range of issues in financial services and insurance that we cover, please see:

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