STEVE GILES

THE BUSINESS ETHICS TWIN-TRACK

COMBINING CONTROLS AND CULTURE TO MINIMISE REPUTATIONAL RISK

WILEY

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This edition first published 2015

Registered office
John Wiley and Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

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Library of Congress Cataloging-in-Publication Data is Available

ISBN 978-1-118-78537-9 (hardback)
ISBN 978-1-118-78534-8 (epub) ISBN 978-1-118-78536-2 (epdf)

Cover design: Wiley

[Alternatively, this can appear on an acknowledgements page]

Set in 9/12pt Photina MT Std by Laserwords Private Limited, Chennai, India
Printed in Great Britain by CPI Group (UK) Ltd, Croydon, CR0 4YY / TJ International Ltd, Padstow, Cornwall, UK

To the three people without whom I could never have written this book: my parents, Hilda and Norman Giles; and my wife Val, the love of my life

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Acknowledgements

There are many people to whom I owe a sincere debt of gratitude for their time, ideas, insights, help and support during the writing of this book.

First and most importantly I want to thank my wife, Val Giles. I depend on Val totally and have done so ever since we were married. As with so much else that I have tried to do, I know that this book would never have been written without her steadfast support, advice and encouragement.

I also want to thank the various people at the publisher, John Wiley & Sons, who were instrumental in pulling this book together. The commissioning editors Stephen Mullaly and Gemma Valler helped to shape the initial concepts, whilst Wendy Alexander, business development manager, gave the project the go-ahead. I am particularly grateful to Gemma for her good advice and support throughout and for showing continued faith in me by agreeing to extend the original timescale to enable the book to be completed despite the pressures of work. My thanks also go to Wiley's marketing professionals, especially to Ben Hall for his positive attitude, understanding and gentle coaxing of promotional paragraphs out of me when required and to Jennie Kitchen for coordinating the artwork for the book cover with the design team.

Next, I would like to thank my interviewees – the business men and women who agreed to be interviewed by me as part of my research for this book and who gave up their valuable time in order to do so. They are drawn from different industry sectors and were chosen for their business experience and specialist expertise. These interviews provide important practical insights into some of the key issues discussed in the book and, from my point of view at least, they were great fun to conduct. So, I want to say a big 'thank you' to: Annabel Parsons, one of the partners at Heidrick & Struggles; Bernard Briggs and David Grew, respectively Managing Director and Finance Director of West Leigh Ltd; Cathy James, Chief Executive of the whistle-blowing charity Public Concern at Work; James Featherby, Chairman of the Church of England's investment advisory committee; Lis Batteson, ex-Managing Director of Quorum Training Ltd; Mike Meldrum, formerly of Cranfield School of Management and now an independent business leadership consultant; Peter Hanlon, senior executive at the Westpac banking group in Australia; Peter Jones, experienced businessman and chairman of the audit committees of the United Kingdom Atomic Energy Authority and the National Nuclear Laboratory; Peter Walshe, a director of Millward Brown, the brand consultancy; and Sandro Boeri, Managing Director of Risk Audit Professional Development Ltd.

Each of these 10 interviews lasted for between 45 minutes and 1 hour. I recorded them using a small digital voice recorder, a very efficient piece of technology but one that would have been no use to me for practical purposes had it not been for the time and effort put in by my friend and (for these purposes) audio typist, the splendid Julie Collins. I have been fortunate to know Julie for many years now. She agreed to type up all 10 of the interviews for me, which she did with her usual blend of patience and efficiency. This typing was all done in her spare time and doubtless took a significant number of hours to complete. Many, many thanks Julie – I am enormously grateful to you once again.

I wish to thank three individuals who each contributed to the book in different but significant ways. My thanks go to Charles Kingsmill, the business strategy consultant who helped me to pull various disparate thoughts and ideas together at the start of the writing process and for his friendship and encouragement throughout. Thanks also to Louise, the Ethics Officer at one of my clients. Louise did not wish to be identified in the book but she was kind enough to spend time with me discussing some of the day to day difficulties involved in trying to manage ethics and behaviour in the workplace. Many thanks also to Philip Weston, director at Kelso Place Asset Management Ltd, the London-based private equity firm, for providing his thoughts and insights into some of the important factors that have influenced his decision-making process when considering potential investment opportunities and when managing the companies subsequently acquired.

Finally, I want to thank the numerous business people who have assisted in the writing of this book, albeit unknowingly, through their contributions to the lectures, conference sessions, workshops and training courses that I have run. Almost every time that I speak at an event I learn something new from the various comments, questions, observations and stories of the people in the audience. I hope very much that all those who have listened to my talks have enjoyed them as much as I have enjoyed presenting and delivering them over the years.

Ultimately of course this book is my own. I take full responsibility for my writing – all of the judgements expressed, the recommendations put forward, the conclusions arrived at and the mistakes made are mine alone.

Prologue

OPENING

Corporate values: an old story

'RICE'

In the mid 1990s a company in the United States attracted much acclaim for the innovative way that it talked about itself and what it stood for. This company developed a 'vision and values' platform to demonstrate to investors and employees (and also to third-party stakeholders such as customers, suppliers and the local communities where its operations were based) that it was committed to good business ethics. This commitment was most memorably summarised in the pithy and catchy acronym 'RICE'. Each letter in the acronym stood for one of the four core values that the organisation claimed underpinned its entire approach to business: respect, integrity, communication and excellence.

This was an impressive message, delivered in a highly innovative way. The company would respect everybody that it did business with. It would carry out all of its activities in the 'right' way, abiding by the law, keeping its word and meeting all of its obligations. The company would not only talk to people, it would listen to them too. And finally its people and the products and services that it provided could be relied upon because they were all underpinned by the highest level of technical competence and proficiency that guaranteed consistency of performance.

What was not to like about this? The so-called 'RICE model' was both smart (the acronym was put together by clever people to be 'catchy' so that everyone would remember it easily) and powerful – the underlying message was overwhelmingly positive. The model was designed to signpost those behaviours and actions that the company most valued and thereby to generate feelings of confidence and trust in anyone who had dealings with the business. It was an inspirational message, one that combined competence with a positive corporate culture – people could rely on this company.

So, how did it all turn out? What actually happened in practice?

Well, the story ended in the worst possible way with a dramatic corporate collapse. The cause was far removed from the values set out in the 'RICE model' – the collapse was brought about by accounting fraud perpetrated by some top executives and senior managers in the business. The company filed for bankruptcy in 2001, resulting in financial hardship and misery for thousands of employees who lost their jobs and many of them their life savings too. Investors lost billions of dollars. Numerous executives were indicted, mainly from the accounting or trading functions within the company, and many have spent time in jail. There was personal tragedy in the case too: the ex-chief strategy officer committed suicide and the ex-chairman died of a heart attack whilst awaiting sentencing.

The company's name was Enron.[1]

The 'say-do' gap

Enron included a summary of the values of the RICE model in its Annual Report of 1999.[2] The Enron case provides a classic example of the 'say-do' gap. This is an issue that I often encounter when discussing business ethics – people can become angry when they read corporate statements that are not supported by actions and behaviour. I understand this – it smacks of hypocrisy. It is a relatively easy matter for executives to compile a list of admirable qualities and behaviours and then to talk about these as comprising the 'core values' of their organisation. But it is sometimes more difficult in practice for those same executives to conduct business according to their stated values, especially when under pressure in terms of their organisation's results and performance. Failure to act in accordance with values has consequences, all of them negative: disillusionment and disregard for formal rules by managers and staff; and a loss of trust by third-party stakeholders, to name just two.

Turning again to the Enron example, the RICE model was promoted in a 1998 corporate video featuring Ken Lay, Enron's Chairman and CEO at the time, together with Jeffrey Skilling, the company's Chief Operating Officer, entitled 'Enron Vision and Values'. The footage is still available on YouTube and one section in particular is significant. It shows Mr Lay looking earnestly into the camera, nodding his head and saying: 'We treat everyone with absolute integrity. We stand by our word; we play by all the rules; we really concentrate on doing our job right.'[3] These words carry heavy irony today, knowing with the benefit of hindsight how Mr Lay and some at least of his people actually behaved in practice. Given much of what has been written about the Enron case, however, Mr Ley's words would no doubt have seemed hypocritical, self-serving and cheap to many at the time (not to all, however, and later in the book I recount a meeting I had with an ex-Enron manager that taught me the dangers of relying on simplistic assumptions).

This 'say-do' gap is something that people recognise very quickly and they don't like it. It is responsible for a lot of the cynicism and unease that I sense sometimes when I work with groups on business ethics, whether as part of an in-house project team or when delivering talks, workshops or courses. The gap helps to promote the idea that there are no ethics in business and that time and effort spent discussing values, culture and behaviour achieves nothing because all that matters in the cut-throat world of business is results – profits, dividends and maximising shareholder value. According to this thinking, business ethics is a piece of window dressing, at best useful for PR purposes but in reality not central to organisations or to the people who work in them.

I do not subscribe to this point of view. Indeed, I try to confront it head on by referring to the Enron case at the outset of any ethics session that I run and then drawing out the lessons in this example. My point is simple – there should be no 'say-do' gap. Nobody forces any organisation or any CEO to talk about their ethics or their values, what to say, what words to use. To the extent that they choose to do so, two things are vital in terms of the actual words that are used: first they must be authentic and be rooted in the culture of the organisation; and second they must be reflected in all the actions, behaviour and decision-making of those working in the organisation, both in good times and in bad. Consistency of performance is as critical here as it is in any other area of business. As always the key to this is leadership and tone at the top, two of the main themes of this book.

ABOUT THE BOOK

Original idea

The book has its origins in a meeting that I held with Gemma Valler and Stephen Mullaly of John Wiley & Sons in London in early 2013. Gemma was keen to publish a work around the themes of business ethics, reputation and corporate culture and she wanted to know whether this was something that I might like to do. I was interested straight away. One reason was that I had spent the last 20 years or so working in precisely these areas in various capacities: as an investigator of fraud and financial crime; as an advisor to directors and senior managers on governance-related issues and operational risk; and as a lecturer and trainer on many connected topics – governance, risk and compliance, financial crime, audit and business ethics. I had written a book on corporate fraud two years previously and Gemma's proposal seemed like an extension of that which fitted very well with the way my own career had developed.

The other reason for my interest was simple – I felt that Gemma's suggestion was both important and highly topical. The global financial crisis of 2007–09 had seen sub-prime mortgage contagion spread from the USA to Europe and lead to a credit crunch and liquidity shortfalls. The result was the failure of a number of international financial institutions that either collapsed, such as Lehman Bros., or required bail-outs from governments in order to survive, like the Royal Bank of Scotland plc. Many economies in the Western world went into recession, with a wholesale loss of jobs, investment and confidence. Austerity became the political order of the day. Indicators like the 2012 Edelman Trust Barometer[4] pointed to a steep decline in trust in their governments by citizens and sharp drops in the credibility of political leaders. This was replicated by a credibility drop on the part of CEOs in business generally in a number of mature markets (e.g. the USA, the UK, France, Germany and South Korea).

These feelings were still very much alive at the beginning of 2013. The events of the previous year, rather than suggesting a re-building of trust, had if anything only increased the negativity. To me, an Englishman living in London, a number of events coalesced in the UK during 2012 that convinced me that this was a book that I wanted to write.

2012 effect

2012 was a remarkable year.

Most memorably from the UK perspective, 2102 was the year of the London Olympics. From the extraordinary opening ceremony of the Summer Olympic Games on 27 July, to the closing ceremony of the Paralympic Games on 9 September, the UK hosted a magnificent sporting spectacle that earned almost universal praise. There were stunning performances, most obviously from star athletes such as Usain Bolt, David Rudisha, Jessica Ennis, Michael Phelps, David Weir and Mo Farah but also from the many more medal winners and other competitors with 'personal bests' who took part in the Games. But the plaudits for the London Olympics were not reserved for the athletes alone. From the oversight of the planning and development of the Games carried out by the London Organising Committee of the Olympic and Paralympic Games, through to the construction of the new Games venues and infrastructure under the aegis of the Olympic Delivery Authority, to the people employed at the various stadia, to the 70,000 volunteers – people who committed to a minimum of 10 days volunteering – there was widespread recognition of jobs well done. The London Olympics generated intense interest and passionate support from the public, especially in the UK of course but also from people around the world. The Games were viewed as a huge success by virtually all stakeholders.

By way of complete contrast to the London Olympics, 2012 was also the year of corporate scandals and tarnished business reputations. Consider the following British organisations: Barclays Bank, the British Broadcasting Corporation (BBC), the Department for Transport, G4S, Royal Bank of Scotland, GlaxoSmithKline (GSK) and HSBC. Collectively, they attracted extremely negative headlines and commentaries in the media at various times during 2012, sometimes because of gross errors and incompetence but more often as a result of poor and unethical behaviour. Indeed, some of the allegations pointed to possible criminal conduct. Nor were British businesses unique in this regard. For example, the reputations of these well-known international organisations were all damaged during 2012: News Corporation, Olympus, the Galleon family of hedge funds; the Stanford Group, UBS and JP Morgan.

I watched each of these stories develop during 2012 with a mixture of emotions. Like many people, no doubt, I was fascinated by the detail as each scandal unfolded, but I was also dismayed to learn of the inadequacies of often very highly paid senior managers, many of whom simply seemed not to be up to the job. I shared the sense of anger and outrage felt by large numbers of citizens all over the world at particularly egregious examples of greed, arrogance or complacency exhibited by people in positions of power. One emotion that I did not experience, however, was surprise – after all, there have been numerous examples of corporate scandals over the last 30 years, so why should 2012 be any different?

2012 did feel different somehow, however. To me this difference was expressed in another form of gap – this time a chasm in performance between those contributing to the success of the London Olympics and those who damaged the reputations of each of the organisations mentioned above through their actions and behaviours. This gap really caught my attention.

I also felt an enormous sense of frustration – people in business should know better and they should perform better. There is a template to promote the likelihood of successful outcomes, both on the athletics track and in the boardroom. This template is in two halves. First, the technical steps – the training schedules for the athletes, the systems, controls and procedures for directors and senior managers. These are necessary and must be calibrated correctly to suit each individual circumstance. They are not in themselves sufficient for success, however. The second component is critical and it involves personal commitment – hard work, consistency of performance and attitude, a focus on the long-term goals rather than on short term distractions. Both components are required for success, whether in sport or in business.

Something had clearly gone wrong with the business template in 2012. It is possible that some directors and senior managers were unaware of the series of policies and procedures developed in recent years that are designed to promote good business ethics, positive culture and consistent decision-making and thereby reduce the risk of reputational damage. Either that or else they were not prepared to contribute by setting the right example, the right tone at the top. Tone at the top is an often-quoted phrase today. It is easy to say but it is never easy to put into effect – effective tone at the top means that statements are translated into behaviour and actions. To do so involves the personal commitment of business leaders and the investment of time and resources over many years in order to embed a positive culture throughout their organisations. But it can be done.

My idea and objective was to articulate the template, or at least certain parts of it, in a way that would provide practical guidance for directors and managers on what they can do to make a difference in these areas. That was the key thought behind me writing this book.

Structure and methodology

Introduction

This is a business book, one that provides practical advice. It is not a theoretical treatise. So, I have written it based upon my own experience, supplemented throughout by three additional reference points: first, my research into some important headline scandals that I use from time to time to draw lessons from; second, the views of a number of experienced entrepreneurs and business men and women that I either know or have been introduced to, as expressed in interviews conducted for the purposes of the book; and third, the thoughts, opinions, concerns and suggestions that have been expressed to me during the course of my work over the years, whether in projects or in seminars or in workshops.

In order to facilitate the distillation of these ideas, I have written the book around a hypothetical project dealing with cultural change during which I advise a fictional client and facilitate a series of workshops with a senior executive project team. I describe this mechanism in more detail below, but before doing so I want to say a little about the interviews and the interviewees.

Interviews

I have included, at appropriate points throughout the book, extracts from 10 interviews that I carried out with business men and women to provide insights and comments based on their practical experience of the areas under discussion at the time. I am extremely grateful for their time and for enabling me to build this extra dimension into the book.

Taking them in the order in which they appear in the book (and with their positions stated as they appeared on the day of the interviews), the interviewees comprise: James Featherby, Chairman of the Ethical Advisory Group, which advises the Church of England on its investment portfolio; Bernard Briggs and David Grew, respectively the Managing Director and the Finance Director of West Leigh Ltd.; the leadership expert Mike Meldrum, formerly of Cranfield School of Management and now an independent consultant; Peter Walshe, Global Account Director at Millward Brown, the leading brand research consultancy firm; Annabel Parsons, a partner with Heidrick & Struggles, the worldwide executive search firm; Peter Hanlon, advisor to Gail Kelly the CEO of Westpac Banking Corporation, the first bank to be established in Australia; Peter Jones, experienced businessman and chairman of the audit committees of the United Kingdom Atomic Energy Authority and the National Nuclear Laboratory; Sandro Boeri, the founder of Risk Audit, a training firm specialising in running courses for internal auditors in the financial services industry; Lis Batteson, the ex-Managing Director of Quorum Training; and Cathy James, the Chief Executive of the whistle-blowing charity Public Concern at Work.

I want to extend a big 'thank you' to each of the interviewees.

The Stronach Group and workshops

When starting to write this book, I wanted it to be practical and relevant to those running organisations rather than simply a collection of theoretical essays. In order to promote this aim I decided to use a device, a mechanism that would enable me both to develop ideas and also to show how events might unfold in practice. This involved the creation of a fictional client whose chairman hires me to assist the organisation to develop a cultural change project through a series of workshops involving a small, high-powered executive team.

So, the ideas in the book, together with practical recommendations, are discussed and developed using the mechanism of a series of eight workshops that I facilitate on behalf of the fictional client, which I have chosen to call the Stronach Group. This Group is entirely made up, as are all the individuals and events that I describe in connection with it. Although necessarily artificial, the workshop mechanism enables me to connect the elements around the successful management of reputational risk (leadership and tone at the top, culture, behaviour and the modern business ethics toolkit) together in a logical way that also provides a sense of narrative flow.

The story begins in Chapter 1, which describes the sequence of events leading up to the meeting with the chairman of the Stronach Group and my subsequent hiring. Although these events are fictional they are not fanciful – I have obtained pieces of work through similar circumstances in the past. It is the same with the subsequent workshop programme. I have worked with organisations in this format before, although not in the structure that I have set out here in the book. One of the main differences is that, in reality, my workshops tend to be more discursive than those shown here with the Stronach characters. I am much more of a facilitator of discussion and a business advisor in real life than I am depicted in the workshop sections, where for the purposes of the book I am shown as taking the leading role throughout.

For the avoidance of doubt, it is important to state clearly that all the characters and events concerning the Stronach Group that feature in this book are fictitious. Any resemblance to real persons (whether living or dead) or to real corporations or to real events is entirely coincidental.

Workshop format and structure

For practicality and ease of use by the reader, each chapter after the first (which introduces the project) takes the form of a workshop and each workshop follows the same format. There are eight workshops in total and each has a three-part structure. The first part comprises a hypothetical discussion, with questions to and from the project team concerning the subject matter under discussion in that particular workshop. The second and major part of each workshop is then taken up with me addressing the subject matter itself, almost as a lecture and without reference back to the project team. The last stage sees the project team discussing the key lessons and learning points from the workshop and writing them up on a flipchart. In total there are over 40 of these 'key takeaways' spread throughout the book.

To conclude, I would say that this final part is something that I would always ask the participants to draw up at the end of a real-life workshop session. As well as being realistic, this method has an added benefit here. By having the fictional project team draw up their key takeaways at the end of each workshop, the reader is provided with a summary of the most important points arising – a series of practical recommendations that directors and senior managers can use to improve the business ethics framework in their own organisations.

MY EXPERIENCE

Audit, risk and forensics

I am a chartered accountant by profession, qualifying in 1983 with the leading professional services firm Touche Ross (now known as Deloitte) in London. I started out as an auditor and in time became group manager of one of the firm's large audit departments before specialising in forensic accounting and risk management work. During the 1990s I worked for the firm on a number of high profile assignments, including the investigation of the collapse of the international conglomerate Polly Peck International and the activities of its then chairman and chief executive Mr Asil Nadir.

I left Touche Ross in 1997, initially to set up a forensic accounting business. Working with partners, colleagues and associates I was engaged primarily on financial crime risk management projects for the next six years or so, on an investigative and consultancy basis, helping directors and senior managers to obtain the best solutions to the various business problems that they faced. We advised some of the largest companies in the UK during this time and worked on a wide range of assignments in the UK, the USA and in various countries in Continental Europe.

Governance

Increasingly, during the early years of this century, my project work became focused on wider governance issues and providing advice to directors and senior managers, especially in the areas of compliance and risk management. I gained experience of working with multi-disciplinary teams, comprising at various times internal auditors, in-house lawyers and compliance officers, risk officers, human resources managers and information technology specialists. Reporting lines were to either main board committees (typically the audit committee) or to the board itself.

Over the last 10 years or so I have worked with directors and senior managers on a variety of projects and also in two specific arenas that have helped me to gain expertise in corporate governance. First, I have worked frequently with the London Stock Exchange. I run regular workshops for executive and non-executive directors in their offices in London. I also advise boards of directors on governance issues. This could be advice to foreign companies seeking to list on the London Stock Exchange or more general consultancy aimed at improving board performance. Second, I have worked with Heidrick & Struggles as part of their leadership team that carries out performance appraisals for the boards of their client organisations around the world. As a result, I have gained wide experience of interacting with directors and senior managers from many different backgrounds and jurisdictions. I have worked at board level with organisations as far afield as Trinidad and Tobago, the Bahamas, Nigeria, Egypt, the UAE, Mauritius, India, Kazakhstan and Mongolia (in addition to the UK, the USA and Europe).

Business ethics

Good business ethics provide the entire context within which corporate governance is set – without them, no organisation can pretend to be operating with good governance. Accordingly, business ethics has always been an integral part of my governance work. My first specific ethics assignment was in Trinidad and Tobago in 2006 when I worked with the leaders of a large financial services company to raise awareness of its ethics charter and related policies and help to embed the messages contained therein throughout the organisation. Since then, I have worked with a number of organisations seeking to develop their business ethics in various roles: sometimes as consultant, advising on the design and implementation of specific policies, procedures and controls; sometimes as workshop facilitator; sometimes in a training capacity, whether delivering face-to-face courses or helping to design online training modules.

As an observation, the attention paid by organisations in the UK to business ethics has increased noticeably over the last five years. This is no doubt partly a response to the global financial crisis and the concerns of citizens regarding the standards and conduct of people working in organisations in all business sectors, not only in financial services. But in my view the change is also in part a response to developing laws and regulations, for example the new requirements introduced by the Bribery Act 2010. As a result, all commercial organisations carrying on at least part of their business in the UK now have to put in place adequate procedures to prevent bribery and corruption from occurring anywhere in their operations. The need to comply with the Bribery Act 2010 has resulted in a considerable amount of work for myself (and no doubt for others specialising in this area) providing advice on the necessary policies, risk assessment, due diligence and training.

Speaking and writing

As will be apparent in the comments above, I have lectured in the UK and around the world on the broad subject area of governance, risk and compliance for many years now. I have worked with many different organisations to put on events, conferences and training courses and it has been an absolute pleasure for me to do so. I began in the UK by joining the lecturing panel at Quorum Training, whilst the first courses that I ran abroad were as part of the lecturing faculty at Euromoney Training and DC Gardiner. Since then, I have worked with a variety of other professional organisations including:

the London Stock Exchange, the Association of Certified Chartered Accountants (ACCA), the Institute of Chartered Accountants in England and Wales (ICAEW), Risk Audit, the Institute of Chartered Secretaries and Administrators (ICSA) and Lessons Learned Ltd. When working abroad I have often done so at the invitation of dedicated local trade associations and professional bodies, such as the Gibraltar Association of Compliance Officers (GACO) and the Malta Institute of Accountants (MIA).

A big part of the enjoyment for me in these lecturing assignments is that they provide the opportunity to meet and discuss business-related issues with people from all over the world. To take the broad European context first, business men and women from the Continent, notably from Russia, the Ukraine, France and Switzerland, attend my courses in the UK as delegates from time to time. I run courses regularly in the Isle of Man, the Channel Islands and Gibraltar. But I also work further afield and it has been a huge privilege for me to lecture and run courses in many different jurisdictions around the world. In Europe I have spoken at events in France, Germany, Spain, Luxembourg, Iceland and Malta. I have run in-house courses for Greek, Swedish and Danish banks and for a large pharmaceutical company based in Switzerland. I have worked in the Middle East in Egypt and in Kuwait. I have also lectured in jurisdictions further east, providing different experiences to those in Europe, specifically in Mauritius, Kazakhstan, Mongolia and Singapore. Finally, I have spent some time lecturing and working in the Americas: I have run a number of courses in the United States based in New York and Miami; I have participated in a variety of events (speaking at conferences, running public courses and giving in-house training for financial institutions and corporations in the energy sector) in the Caribbean island of Trinidad and Tobago and in the Bahamas; and I have run in-house training for a large Brazilian multinational energy group based in Rio de Janeiro.

I have also written about my business experiences, trying always to draw out practical advice and the lessons learned for use by directors and managers who run businesses. My first book called *Managing Fraud Risk* was published by John Wiley & Sons in 2012.

THE BOOK: KEY MESSAGES

Overarching principles

The two fundamental principles of this book are very simple: the first principle is that good business ethics is a necessary component of good business; and the second principle is always to remember that the first principle is important.

Taken together, these principles mean that all organisations that conduct business – from the large multinationals to small and medium sized owner-managed businesses and including the public sector, private sector, charities and voluntary bodies too – should devote time and effort to their values, their culture and their behaviour. Doing so offers the prospect of better engagement with customers and employees alike. Not doing so in my view simply increases risk, whether from the conduct of managers and staff or from association with an inappropriate third party or from adverse commentary in the media. Any or all of these will damage reputation and erode value.

Twin-track approach

Throughout the book I advocate that organisations take a twin-track approach to business ethics. To help readers visualise what I mean by this, I use two metaphors when describing this: the ‘hardware’ components and the ‘software’ components. Think of a computer or any piece of modern information technology. The visible part of any piece of IT (whether a PC, a laptop, a tablet or an iPhone) is its hardware – there is value in this of course, as demonstrated consistently by Apple with its innovative designs.

However, no piece of IT can function without the accompanying software. There is value in the software too – just ask Bill Gates. Hardware and software combined lead to a piece of IT that works.

It is the same with business ethics.

Business ethics hardware

Today, there is a well-established toolbox available to those directors and managers who wish to manage the culture and behaviours in their business. My concept of the ethical hardware equates to the tools in the box: value statements; ethics charters; codes of conduct and staff handbooks; policies and procedures; remuneration policies, especially around bonuses; whistle-blowing hotlines; a monitoring and review process (whether via compliance, audit or through hands-on review by managers).

This hardware kit is relatively straightforward. In the book I set out the main features of each tool and then provide directors and managers with practical tips on how to make the tools work more efficiently. The discussion on whistle-blowing hotlines in Chapter 9 is something of an exception here. It is more detailed and instructive because, despite being one of the most important tools in the toolbox, in my experience it is also one of the least well used.

In my view it is necessary for every organisation to have some at least of this hardware in place (proportionate always to the needs of the business) if it is to achieve even a basic level of assurance around behaviour and conduct.

Business ethics software

The ethical hardware will not be sufficient by itself, however, to enable an organisation to have assurance that it has good business ethics embedded throughout its operations so that its reputational risk is minimised. To achieve this, the hardware (the tools) must be combined with the software (the culture). This is where leadership and tone at the top are crucial, in particular the decisions that directors and managers make day after day. These decisions will vary depending on the type of organisation and the particular business sector. Here are just some of the many questions that business leaders have to answer regularly: who to hire, who to promote, who to sack; which prospective customers to accept and which to turn away; what level of due diligence of potential new suppliers should be carried out; what compromises to accept, if any, on the quality of the goods or services provided; and does the message from the top vary depending on the audience or on whether the news is good or bad, or does it remain consistent?

Business failures and scandals are caused more through software failures (poor behaviours) than through hardware failures (poor processes). It is more difficult to address software issues within an organisation. To do so successfully will require above all a hard-headed commitment from those at the top that leads to consistent decision-making based upon the values of the business.

I make use of examples in the book (both from my own experience and from headline cases) and extracts from the interviews to provide directors and managers with indicators of which actions and strategies are most likely to produce positive results in practice.

Role of compliance

Importance

I need to say a word at the outset about the role of compliance – the department and officers that ensure that first, external laws and regulations are being followed and second, internal policies and procedures are being followed too. This function is increasing in importance as legal and regulatory risk increases. Many organisations today, especially financial services institutions around the world, are investing heavily in compliance. Indeed at the time of writing in 2014 compliance officers have become amongst the most sought after professionals in the City of London. This is in direct response to tougher laws and regulations following the global financial crisis of 2007–09.

The first thing to say here is that I agree that the compliance function is important. It forms part of a broader control environment which is strengthened when an organisation builds up a working culture where compliance is embedded in the actions and decisions of all managers and staff. I also believe that it is right that if people in business break the law, if they contravene regulations, if they fail to follow the organisation's own rules and policies then there should be consequences.

Values and the integrated approach

However, I do not believe that compliance is the same thing as good business ethics. Good business ethics provides the context in which compliance is set. It is a broader concept too because it embraces values. It seems to me that those directors and senior managers who prefer to concentrate heavily on compliance and do little to promote values are failing to maximise the true potential of their business. So, I advocate an integrated approach throughout the book, with a respect for policies and procedures being combined with a deep understanding of the values of the organisation and a commitment to use those values consistently to direct decision-making.

Reference points

There are three crucial reference points for the business ethics framework that I use throughout the book. These are as follows.

Business resource

First, the business resource reference point. Everything that directors and senior managers do should be proportionate and appropriate to the unique circumstances of their own organisation. This applies equally to the ethical framework as it does to any other area of business. So, for example, it may not be appropriate for a medium-sized business, employing less than 100 staff, to have a large employee handbook, supported by scores of detailed policies and procedures. But this does not mean that the business should pay no attention to business ethics, rather it needs to do so in a different way – through the example set, through the actions taken, through the support and advice provided and through the decisions made every day by the leaders of the business.

Business time-span

Second, the business time-span reference point – short-term and long-term business drivers. For each of us the great majority of events in and around the workplace will seem to operate in the short term: meeting a deadline, landing a new contract, securing a promotion. Businesses too face a continual battle to hit their targets. For example, companies listed on a public stock exchange are generally required to report their results to the market more frequently than annually – quarterly reporting has become standard practice. This short-term focus creates pressure. Pressure is one of the key influencers of behaviour, it serves to accentuate short-term imperatives and so it can lead to longer-term goals being overlooked or disregarded.

Sustainability, achieving success over the long term, is often put forward as the ultimate objective of all organisations. I agree with that – values and good business ethics support the long-term view. However, in practice it is often difficult to turn away business, to lose a high-net worth individual as a client, to stop pursuing a deal that, whilst not in the best interests of the customer, will help a manager to hit targets at a time when his or her job is under threat.

Fundamentally, managing business time-span issues successfully is about leadership. It is about directors and senior managers communicating the need for their people to take decisions consistently that are in the long term interests of the organisation – and then supporting and rewarding them for doing so.

Business risk

Third, the business risk reference point. I believe that having good business ethics is beneficial to all organisations because it is the right thing to do. However, I also believe that it is in the best interests of all organisations to do so. While many organisations have developed sophisticated risk management processes, relatively few look at risk in their stakeholder base in a systematic way – what do their key stakeholders expect? This is a mistake.

Ultimately, when stripped down to its essentials, the job of a CEO comes down to two things: the allocation of capital and the management of risk. Failure to recognise and manage ethical risk is a failure of leadership.

SUMMARY

Personal perspectives

I am a businessman, not a moral philosopher. I am not an environmentalist or a health and safety expert and my experience does not lie in areas such as logistics or quality control. I work with people and with procedures. To me business ethics equates to leadership and behaviour in the workplace. I have huge admiration for the great majority of directors and senior managers who run organisations in every sector of the economy. Their's is a tough job. My aim here is to help them by demonstrating ways for them to shape their organisations that will promote value and minimise the risk of reputational damage. To do so, I use the idea of the twin-track approach, the combination of controls and culture that I have seen work well in practice.

I firmly believe that the adoption of the twin-track approach has many benefits: the hardware components (the controls) provide rigour, discipline and assurance around compliance with the law and regulations; the software components (the culture) lead to a closer connection with stakeholders, in particular with staff and with customers. Taken together, they increase the likelihood that an organisation will maximise its potential and so be able to add value over the long term. The twin-track can be applied to all organisations, large and small, in the public and private sectors, though the precise calibration will vary according to the circumstances of each individual enterprise.

Results are always important of course – it is crucial for organisations and individuals alike to hit their targets consistently if success is to be achieved and sustained. However, I do not believe that results should be looked at in isolation or that the methods used to obtain them are irrelevant – I do not agree with Niccolo Machiavelli that the ends justify the means. On the contrary, I feel strongly that this type of thinking can lead sometimes to big problems. I find it remarkable how often poor results are combined with poor behaviour in headline crises and scandals – we will see exactly this in a number of the examples used in this book. In my view the two are often intertwined: profit shortfalls lead to pressure to improve performance which in turn can often produce a short-term outlook that condones the bending of the rules. One obvious measure of leadership is in achieving impressive results. But the quality of that leadership is only truly tested when circumstances are tough. The acid test question for business leaders remains: 'How good are you at dealing with bad news?'

I am not naïve, however. I have not met any saints in business – on the contrary my experience in forensics has brought me into contact with a good many sinners! Malign intent, duplicity, self-serving actions, greed and entitlement, bullying and arrogant behaviour exist in every area of life including the workplace. But this has always been the reality – it is not unique to twenty-first-century business or to the world of sub-prime mortgage brokers and derivative traders. To take one example, Bernie Madoff is infamous today as the gigantic swindler of our times, a man who defrauded numerous investors and institutions over many years as part of his $65bn Ponzi scheme. Where Mr Madoff is unusual is in the size and longevity of his fraud, not in the fraud itself. The clue is in the description. The term 'Ponzi scheme' originates in the activities of Charles Ponzi, an Italian businessman and fraudster who operated in the US and Canada in the 1920s when his bogus schemes cost those investing in them some $20m.

It is perhaps counter-intuitive to say so, given the outcry over the behaviours that caused the global financial crisis and that do not seem to have changed much since, but I have experienced various indicators that suggest to me that ethics in the workplace have improved in recent years at least in certain respects. The attitude of the authorities in the UK to bribery and corruption, to tax evasion and to insider dealing have all hardened in recent years, no doubt prompted by media exposures and the campaigns of pressure groups, but this has had a marked impact on behaviours.

To take a specific example relating to bribery and corruption, a friend of mine at my local golf club used to work as a sales executive for a large British company. He had responsibility for developing business in various overseas markets during the 1970s and 1980s. He has long since retired but it is clear from the stories that he recounts of business life during this period that bribery was a relatively standard procedure to win contracts abroad, one used frequently by my friend's company and by their competitors – and not only in West Africa either. I simply do not come across this mindset when working with directors and managers today.

So, despite the frustrations of 2012, I see evidence of progress and believe that the twin-track approach can, if adopted, improve performance.

Before writing this book, I decided to road-test my ideas with various friends and colleagues from the business world, quite informally over lunch and coffee. The results were encouraging but there were some surprises too.

Road-test

Generally, people liked the idea of the twin-track approach. They could see the importance of both the hardware and the software components and they generally agreed that the latter would be more difficult to establish in practice.

Importance of trust

One of these discussions was held over lunch with Philip Weston, an ex-colleague of mine from Deloitte who now runs a private equity firm. I was interested in what are the main influences on his investment decisions – was it an analysis of the numbers or a judgement of the calibre of the people