Embedding ethical values into the corporate culture

This paper summarises the discussions at the Malaysian Institute of Integrity and Chartered Institute of Management Accountants roundtable on corporate integrity. The roundtable focused on five areas of discussion on aspects of corporate operations and activity that lend themselves to good ethical practice. The key lessons from the companies present, as well as recommendations for companies in general, are compiled in this discussion paper to help other companies both reflect on their practices and consider how best they can strengthen integrity in their business.

Discussion paper – March 2013
DISCUSSION PAPER

Embedding ethical values into the corporate culture

Findings from the Malaysian Institute of Integrity (IIM) and the Chartered Institute of Management Accountants (CIMA) roundtable on Corporate Integrity

March 2013
About IIM

The Malaysian Institute of Integrity (IIM) is the brainchild of the 5th Prime Minister of Malaysia, Tun Abdullah Haji Ahmad Badawi, declared on 5 November 2003. It was established as a company limited by guarantee under the Companies Act 1965 on 4 March 2004. The Malaysian Institute of Integrity (IIM) was established as a coordinating agency for the implementation of the National Integrity Plan (NIP). The main objective of IIM is to develop a nation of high integrity that is resilient and embraces universal good values. The IIM works on the basis of strategic alliances and smart partnership with organizations in order to promote a culture of ethics, good governance and corporate integrity.

About CIMA

The Chartered Institute of Management Accountants, founded in 1919, is the world’s leading and largest professional body of Management Accountants, with 203,000 members and students operating in 173 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers’ choice when recruiting financially-trained business leaders.

Professionalism and ethics are at the core of CIMA’s activities with every member and student bound by rigorous standards so that integrity, expertise and vision are brought together.

CIMA has formed a joint venture with the American Institute of CPAs (AICPA) to establish the Chartered Global Management Accountant (CGMA) designation. CGMA is the global quality standard that further elevates the profession of management accounting.
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INTRODUCTION

In July 2012 CIMA and IIM signed a Memorandum of Understanding to collaborate on various initiatives to support the national agenda of fighting corruption under the Government Transformation Programme (GTP). A Roundtable on corporate integrity held on 15 October 2012 brought together representatives from various companies, both SMEs and multinationals, to discuss the issues of embedding ethical values into the corporate culture of an organisation. CIMA, as well as the companies represented, had all signed a Corporate Integrity Pledge (CIP) under the Corporate Integrity System™ Malaysia (CISM) framework initiated by the Malaysian Institute of Integrity and supported by the stakeholders of economic institutions, namely the Performance Management and Delivery Unit (PEMANDU) of the Prime Minister’s Department, Malaysian Anti-Corruption Commission, Securities Commission Malaysia, Bursa Malaysia Berhad, Companies Commission of Malaysia and Transparency International Malaysia Chapter (TI-M). The CISM framework is modeled to support the corporate integrity initiatives under the directions of the New Economic Model Malaysia, Economic Transformation Programme and Target 3 of the National Integrity Plan (NIP), namely to enhance corporate governance, business ethics and corporate responsibility. The CIP is an initiative that engages companies in Malaysia to commit to uphold the Anti-Corruption Principles. CIP is not a legally binding document and is signed in good faith. The pledge is an option open to all corporations for the purposes of volunteering initiatives undertaken by all corporate players to the Government of Malaysia. This initiative is to strengthen trust, accountability, public-private partnerships, self-regulation, advocacy and joint-efforts without fear or favour on anti-corruption initiatives. The pledge signifies joint commitment towards creating a business environment within each organisation that is fair, transparent and free from corruption.

Global research by CIMA of its membership has shown that despite an increase in codes of ethics and related initiatives in setting an ethical tone, there has been a reported increase in pressures to compromise standards of ethical business conduct. In CIMA’s recent report Acting Under Pressure1, findings affirmed that a transparent operating culture, support from management and compliance with both local and international regulations and norms, are necessary for effective business reputation. With the potential for unethical business practice, the reputational and operations costs of “being caught out” can be high around how ethics are played out and supported within organisations. We wanted to understand what companies are doing to safeguard themselves, identify risks and work towards creating an open and fair corporate culture. Growing research around the topic shows that ethical practice makes a difference in supporting long term success of companies, particularly in relation to risk. From a public perception view point, politically and socially, it is seen as increasingly important, as events playing out globally in the last few years have shown backed by the rise of influence on wider society via social media and web channels.

Accountability and transparency have become key issues for companies of all sizes as they recognise that they must take risks to their reputation very seriously to prevent potential crises turning into catastrophes. The potential negative consequences such as declining share price and loss of customers should not be underestimated and there are many examples of companies paying the price for ethical failings once in the public domain. Risk assessment needs to include areas such as ethos, culture and behaviours within an organisation.2

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1 Acting under pressure –how management accountants manage ethical issues, CIMA, 2012
The roundtable focused on five areas of discussion on aspects of corporate operations and activity that lend themselves to good ethical practice. Summaries of these discussions, together with key lessons from the companies present, as well as recommendations for companies in general, are compiled in this discussion paper to help other companies both reflect on their practices and consider how best they can reinforce integrity in their business. As more companies embed good practice, the wider business environment will ultimately improve.

**DISCUSSION SUMMARIES**

1. **Who is responsible for ethical conduct and how is it embedded?**

   For the companies around the table, most agreed that higher management personnel such as Chief Executive officers and Managing Directors, should be responsible for setting the tone for ethical conduct for the company and ethical conduct should be made known to all employees. They also believed that ultimately higher management should lead in embedding ethical conduct in the organisation thereby ensuring that business practices and behaviours reflect not only regulations and law but the company’s stated values and policies. There were others who emphasised the responsibility of the Chief Compliance Officer in ensuring good practice. Ultimately all staff have responsibility and should be accountable for their actions, but it is the leadership that needs to constantly reinforce this through different interventions and to support those throughout the organisation to do the right thing.

   **Key lessons**

   Most participants found that it was useful to carry out one-to-one sessions for new employees so that they have a clear understanding of the business and ethics. Some companies advocated ongoing training throughout the year as essential for employees at all levels and across departments - be it in face-to-face form or even small focus groups. This should be above and beyond any online training. Content could include giving case studies of dilemmas which staff would need to solve. It was important to discuss how individuals felt their roles contributed in upholding the ethical process within the company, as well as particular challenges they may face. Such discussions can flag up any key issues of concern and assists in risk assessment and mitigation. One company in particular found that it was good to constantly remind their employees by having banners and posters (in different languages) around the company premises as a constant reminder to all the employees on the ethical code of conduct that they needed to uphold. This company also decided to simplify the scenario in which their employees would be pressured to act unethically through a simple animation. This animation proved to be an effective method to disseminate the message as opposed to talks and training.

   Most companies also said that they provided ample platforms for employees to make complaints by providing forms and helpline numbers. Tools and support were also given to employees in an effort to reassure the employees that the management supported ethical actions. The bigger companies that operated on an international level revealed that they also conducted ‘Global engagement surveys’ from time to time. Analysis of findings helped identify specific issues within the company, which needed further investigation and action. All agreed that after implementing such processes in ensuring ethical values in business conduct were communicated to the employees, there was a substantial improvement on the standards and values in the work culture for all the companies.
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Recommendations:

- Top management need to consistently set the tone as they will be held accountable when something goes wrong but all staff need to know their responsibilities and to be ethical in their conduct.
- Communicate, communicate, communicate. Communication is key and discussions are better than one way directives.
- Confidence and assurance must be given to employees by providing sufficient support and training to make it easier for the employees to embrace ethics in their day to day work processes.
- Provide whistle blowing/speak up platforms for employees and create an environment where employees feel comfortable in speaking up.
- Help lines – internal and external - are also a good way to encourage employees to voice their concerns and to address the problems at hand promptly.

How can the external environment be influenced?

Most companies agreed that the ‘accepted’ business climate in Malaysia is perceived as rather challenging for all businesses to prosper fairly. The SMEs found it more challenging than multinational companies when it came to sustaining their business as they encountered more pressure to act unethically. It was also a general view that shortage or lack of funds and resources made the odds of competing and successfully gaining new business opportunities harder, and many competitors may be using unethical practices to win. Larger global corporations generally have more resources, and therefore influence, in the market to act correctly. Most companies highlighted that they would appreciate that regulatory bodies take the lead in advocating and upholding ethical business practices “to level the playing field”. The companies generally agreed that it would help maintain the overall business landscape in Malaysia healthy for good economic growth, particularly if action was taken against those who fell foul of the law.

Key lessons

Companies found it easier to do business with organisations that share similar ethical values on business practices. This was done by carrying out thorough due diligence including background checks on potential suppliers/clients and also observing their track records in their past dealings. It was a view of a company that they avoided conflict by simply not succumbing to unethical ways and would report such actions to regulatory bodies and enforcement. However they were of the opinion that this method can be costly and time consuming at times. Thus the best option was to undertake safeguard measures before engaging in any business dealings with external parties. It was understood that once you compromised the standards in a business relationship, it would become increasingly difficult to say ‘no’ later on, and short-term gain could become a long term cost and threat.

Recommendations

- Be strong and say ‘no’ to unethical practices. Stand firm on your values and act according to best practices.
- Be known as a clean operator. Maintain and build your reputation as an organisation that champions ethical business practices. Actively engage and work with organisations with similar values and practices.
- Be sure to undertake safeguards and company checks before engaging with companies that you intend to do dealings with.
3 Can sectors and companies work together to combat corrupt practices?

More companies nowadays have started to build a support network for themselves. These networks are not only limited to large multinational organisations but also to SMEs. These companies felt that the network created would be a good platform for them to discuss and compare issues, challenges and also to share best practices. The networks that larger organisations form are slightly different in nature as with more resources and much stronger position in the market, they have more opportunity to influence change. They can influence by setting standards, advocating best practices, liaising at international and national levels in relation to policy, and can give guidance and support to other organisations in their supply chain and others. Many align with initiatives that promote good business practices, for example through the World Bank, Siemens has a global integrity initiative that “focuses on supporting projects that have a clear impact on the business environment, can demonstrate objective and measurable results and have the potential to be scaled up and replicated”. It was generally agreed that by working together, they found it easier to stand up to poor ethical business conduct or ethical challenges externally and further their businesses activities in a responsible way. Working together can be more effective in encouraging fair and equal market conditions – a “level playing field” – for all market players.

Key lessons

Companies were in favour of forming networks as a means to support each other and as a platform to learn and share best business ethics. These companies generally agreed that they found it useful and to their advantage to engage with companies which shared similar practices. For the smaller organisations this could be more difficult but there are growing networks that would enable sharing and learning. Although many SMEs recognise the threats and the issues that come with unethical behaviour, it was commented upon that alone they felt it was difficult to act differently. However, by increasingly trading with others that share similar values and creating alliances can over time make a difference and empower smaller organisations. They need clear support from regulatory authorities. Collective action as a response to poor ethical practices in specific markets is growing, and raising awareness and advocating business that operates according to national and international regulations is key to this. United Nations Global Compact, the World Bank and OECD all have guidance and initiatives to promote collective action.

Recommendations

- Work closely with other companies and sectors that practise the best ethical business practices.
- Share and discuss challenges faced between companies to get the best outcome and solutions.
- Keep abreast with current trends and information on ethical procedures and guides by connecting with these networks.
- Seek active support from regulatory authorities and the law.

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1 Siemens Integrity Initiative

4 Examples of Collective Action Information and resources:
What would be the most useful ethical information to gather and how would it be used?

Ethical information is useful for companies in a number of ways and being able to collect and analyse ethical information is also critical for well run companies. Some companies at the roundtable document ethical issues that staff are likely to face in the course of their work and provide the appropriate responses. This information is then used during staff training, often supported by role play so that the staff will have a better understanding of specific ethical issues and how to respond to the issues. For bigger companies, their findings or case studies on ethical issues are shared among sister companies in the group. The work of the compliance team, as well as audit (both internal and external), and key HR information (such as employee engagement surveys) are also used to better understand ethical risk and should be regularly reviewed to flag up any concern and action taken. Sharing information enables the companies to tackle ethical issues more efficiently.

**Key lessons:**

Qualitative auditing can provide information as to whether there are any ethical issues in the workplace so that action can be taken. A grievance mechanism will provide an avenue for regular monitoring of ethical issues in the workplace. Focus group training through role play by using properly documented ethical information can help staff to better understand and respond to ethical issues and dilemmas. One company used external audit to examine their internal processes for reassurance and quality improvement. Setting up a grievance mechanism for staff and stakeholders was also another way that a company collects information so that it can act and take steps to overcome any ethical issues that may arise. A qualitative audit is undertaken by one company where annually staff are required to sign a form as to whether they have faced an ethical issue in the workplace. If there is something of concern, it can be discussed with management and appropriate steps can be taken to resolve the issue and offer support, thus mitigating risk.

**Recommendations**

- Set up focus group training for staff to help them understand and respond to ethical issues as well as highlight pressures they may face. Role play can be valuable.
- Document ethical issues and provide the appropriate responses and disseminate this information to the staff.
- Set up a grievance mechanism for staff and customers.
- Implement a qualitative audit to monitor ethical issues faced by staff and draw information from other datasets collected: e.g. HR surveys, compliance, sales agreements, third party and supply contracts.
- Always act on information and increase trust with key stakeholders.
What is the role of finance and are they objective in an ethical role?

The finance role in safeguarding ethics is not so well defined in SMEs as in larger companies. For smaller companies, accountants mainly have a gatekeeper role for accounts payable and account receivables rather than a wider advisory/strategic role. In larger companies, finance staff have a clearer responsibility for ethics where they manage risks, input into key decisions and have a monitoring function. In one company, finance personnel are also subject to audit so that ethical conduct is strictly monitored up the management line. In larger companies it is also common to appoint compliance officers who previously held a finance function in the company, whose role will be in encouraging and monitoring ethical conduct and being alert to risks. They will have strong insight into financial practices. Also common in larger companies is the way that finance is structured to ensure it has a separate reporting line, even when finance staff work within business units such as marketing, sales and procurement. This is to reinforce the importance of the independence of the finance function, and to support individuals to play an advisory role when ethical issues arise. When they feel concerned about any activity within a division or department and are unable to resolve themselves, they can seek support through their financial managers and directors. Dealing daily with the numbers means that finance are most likely to identify discrepancies and threats to integrity so their role in upholding integrity is central.

Key lessons

In large companies, finance personnel are more likely to be recognised as having an ethical role. Compliance officers can play a key role in maintaining ethical conduct in the workplace and having a finance background strengthens their work. It is critical to maintain the independence of finance personnel so that they can act in an advisory role for the business units, and ultimately the management team. Offering constructive challenge and having an objective view of the organisation as a whole is an example of this. In smaller firms recognising the wider role of finance personnel can, with the right training and knowledge, add value to the business. A qualified and experienced finance professional can help guide and steer the organisation for the longer term, assessing risk, and safeguarding the reputation of the organisation.

Recommendations

- Company structures should maintain the independence and objectivity of the finance personnel so that they can safeguard the wider interests of the business, particularly in corporate ethics. The leadership team should promote this.
- Finance should also be subject to regular audit to maintain its integrity. Ensuring that those in the finance function are working to both company and regulatory standards is key.
- Any discrepancies identified by finance staff in relation to compromising standards should be highlighted and acted upon quickly, first via their colleagues, and escalated up the finance line if necessary.
- Finance staff in SMEs should have a wider role in safeguarding the business and should develop the skills to advise management when necessary regarding risk.
CONCLUSION

To embed ethics into the corporate culture, the leadership team should set the tone for ethical values, behaviours and practices throughout the company. Companies should ensure that sufficient interaction and communication is initiated between the management and employees on best ethical practice, the safeguards to be put in place, and the consequences of ethical malpractice. All employees should be encouraged to speak up on ethical issues faced in the workplace and the management should ease this process by providing grievance platforms or helplines for employees. It was agreed that companies should reflect ethics in their day to day dealings with suppliers and stakeholders, and have responsibility for third parties acting for them. This will help build a positive reputation by setting standards and a good example as a company that practises good business ethics.

Companies are encouraged to join networks or to form networks that have the same ethical values so that they can support one another to ensure growth and sustainability whilst championing ethical business practices. Companies should also share information on safeguards and current best practices in order to keep up to date and deal with ethical issues. By increasingly doing business and working with other organisations with similar standards and values, clear messages will be given to those who do not have high integrity.

Finance personnel should be given the responsibility and support in contributing to promoting and maintaining ethical conduct in the workplace. The independence and objectivity of finance personnel should be protected so that they can safeguard the wider interests of the business, for the long term success of the business.

Globally the conduct of businesses and the markets they operate in are increasingly under the spotlight. Therefore organisations everywhere, of whatever size, are advised to put in place good structures and processes which can help drive behaviours and embed an ethical culture into their operations and in the wider business environment. Ultimately this is not only good for business, but good for wider society.
REFERENCES AND RESOURCES

*Acting under pressure – how management accountants manage ethical issues*, CIMA, 2012

*Collective Action Information and resources:*

Siemens Integrity Initiative

IIM’s range of resources
http://www.iim.org.my
http://cism.my
http://www.pemandu.gov.my
http://www.sprm.gov.my/

CIMA has a range of resources on ethics and responsible business at www.cimaglobal.com/ethics