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**Speech to the Worshipful Company of World Traders**

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Good afternoon. It's a great pleasure to be able to join you today to talk to you about the world of business ethics and particularly about what makes an ethical business. Now I really don't need to tell you how the world has become a smaller place. Business is increasingly global and interconnected and what happens in one part of the world can have an immediate knock-on effect on the other side of the world.

There are many examples of the international impact of unethical business behaviour.

Demand for low price fashion clothing in our throwaway society, can result in the use of sweatshop labour not just in India, Pakistan and other developing economies but even closer to home in and around Leicester. Exploitation of labour is a major human rights issue. Poor, sometimes dangerous working conditions, use of child labour, people trafficking, and modern slavery are all characteristics of unscrupulous business behaviour.

Back in 2008 the financial crisis grew out of a number of unethical and unwise business practises including the growth

of sub-prime lending in the USA and scandals such as the manipulation of Libor, the London interbank lending rate.

And, of course, there are many examples of bribery and corruption in international trade. We can think of recent examples in the aerospace sector with, for example, Rolls Royce and Bae Systems being sanctioned for such behaviour.

So, there are many examples where unethical decisions made in business can have a significant impact across the world and on many people's lives. But what is to be done about it?

The UN Guiding Principles on Business and Human Rights sets out a framework to guide business behaviour. The OECD also provides Guidelines for Responsible Business conduct in multinational enterprises. And increasingly legislation has become established in many jurisdictions including the US Foreign Corrupt Practises Act, the European Convention on Human Rights and the UK Bribery and Modern Slavery Acts. Whilst business is expected to comply with legislation the rules can only take us so far. We believe that ultimately underlying values and principles are necessary to guide behaviour.

But what about individual businesses? What should they do to ensure their behaviour stays the right side of ethical boundaries? Well, that's where we come in at the Institute of Business Ethics.

We were established in 1986 by a group of business leaders to champion the highest standards of ethical behaviour in business. We do this in a number of ways:

- we undertake research and provide thought leadership
- we provide guidance through our online knowledge hub
- we provide advisory services and consultancy on a range of ethics related subjects
- we offer networking and events to share best practice
- and we provide training on practical issues

Much of this is based around the IBE Business Ethics Framework and I will say a little more about this in a moment. But first, let me address a fundamental question: what is an ethical organisation?

There is no right or wrong answer to this question, but I would suggest that there are five important elements that combine to help define what an ethical organisation is.

- First, it has a defined purpose which goes beyond profit
- Second, it has a set of values that reflect that purpose and help to create an ethical culture, which in turn supports ethical behaviour
- Third, it considers its impact and demonstrates a duty of care to its employees, customers, the community, and the environment
- Fourth, it strives to be genuinely diverse and actively listens to its employees and other stakeholders

- And fifth, it encourages people to speak up when they feel something is wrong. And when they do, it does not tolerate retaliation

This definition combines the key elements of purpose, values, impact, diversity and the need above all to listen.

So, as I have said, the IBE has created a Business Ethics Framework which sets out what companies need to do to promote ethical behaviour and, indeed, to create an ethical culture.

The framework begins with leadership. If leadership doesn't show commitment, then it is unlikely an organisation will develop an ethical culture. So what is ethical leadership? There are five key features of ethical leadership that we identify:

- first ethical leadership is values driven. Reflecting the characteristics of an ethical organisation, ethical leadership must have a defined, shared purpose that goes beyond profit; it is based on a set of shared values to shape and support an ethical culture and drive ethical behaviour
- Second, it promotes openness. It strives to achieve an open culture, welcomes challenge and encourages diversity of thought
- Third it is fair-minded. It nurtures relationships based on mutual trust with all stakeholders and treats everyone with fairness and respect

- Fourth, it always demonstrates honesty and integrity and sets the example for ethical behaviour. It provides the right tone from the top
- And fifth, it has the courage to do the right thing especially in difficult situations and to challenge behaviours not in line with values, at all levels and even if this means a potential financial loss in the short term

Effective ethical leadership will deliver consistent ethical culture, the right tone from above, confidence that the right decisions are being made and an environment where people can speak up freely, knowing that they will be listened to and that their concerns will be addressed.

Next in the framework, there is a number of key elements that, together, enable an organisation to create and support ethical behaviour and an ethical culture.

First of all, it is essential to undertake a full risk assessment of the ethical risks the organisation faces. Only by having a thorough understanding of these risks and their likelihood and impact can leadership set out a programme of activities to provide mitigation.

Secondly, all organisations that are serious about ethics should have a Code of Ethics or a Code of Conduct. The code is essential to set out the expected behaviours in the organisation. It should extend beyond the workforce to suppliers and other partner organisations. A good code will set the tone for what the organisation expects of its people. It will be values-based, not rules-based and, as such, it will

help guide people to make the right choices and the right decisions. Organisations that expect decisions always to be based on a set of rules will come unstuck when there is an ethical dilemma but no rule to answer it. But if people understand the values of the organisation and the principles that are set out to underpin behaviour then a values-based culture, an ethical culture, is more likely to follow.

Most codes include a decision-making guide. When faced with a difficult decision ask yourself the following questions:

- Is it in line with our values?
- Would I be comfortable explaining my decision to my family?
- Would it be acceptable if everyone in my organisation did it?
- Have I considered the impact of my decision on others?
- And, is it legal?

Now you might expect most companies would have a code of ethics but in research we did last year we found that 19 FTSE 100 companies had no published code available and of those that did have a code we assessed that only around half came up to scratch and met our standards. This is quite a depressing finding given how long organisations have been working on ethics.

Codes of ethics are important but what really matters of course is what you do with them. So, the other aspect that we emphasise in the Business Ethics Framework is the

importance of communication and engagement, and of training, and reinforcing the messages in the code. The most effective codes are the ones that have a well thought through programme of engagement, often involving town hall meetings, workshops, team-based training, regular discussion of ethical dilemmas faced in everyday work, and the establishment of ethics champions or ambassadors across the organisation. Volkswagen, for example, have a major engagement programme called 'Together for Integrity'. This aims to reach 670,000 people in 47 countries across 850 entities and 12 different brands. It is a major exercise which is planned to run until 2025.

The final key element of the framework I'd like to mention is speak-up. Many of you may know this as 'whistleblowing' but we prefer the term speak up which helps to avoid the 'them and us' aspect. Having an effective speak up programme is critical to building trust in an organisation. The process must be confidential, and people must have no fear of retaliation or victimisation. Speak up can provide a valuable early warning system of things going wrong in the organisation. It is a sign of an organisation which is listening to its people. Indeed, listen up is just as important as speak up. Last year we carried out a survey of 10,000 employees across 13 countries – our 'Ethics at Work' survey. 57% said their organisation had a speak up mechanism to report misconduct confidentially. But only slightly more than half of employees who were aware of misconduct said that they did speak up (57%). And of those who did, a shocking 43% said they experienced retaliation as a result.

So, it's probably not surprising that many people don't speak up. When we asked why, 34% said they were worried it would jeopardise their job, 34% also felt but nothing would be done about it, 25% didn't want to be seen as a troublemaker, 21% were worried it might alienate them from their work colleagues and 21% felt that it was none of their business.

Speak up is a core element of any ethical business programme but our research sadly shows that it is far from established across all organisations and too often, even where there is a programme, people are afraid to speak up for fear of retaliation.

So, we can see there are number of things that organisations can do to foster an ethical culture and promote ethical behaviour. Establishing a comprehensive ethics programme can have real benefits. In our employee survey we found that employees in organisations with a comprehensive programme were more likely than those in organisations without, to say that honesty is practised always or frequently at work and that senior management takes ethics seriously in their organisation. They are also more likely to have raised their concerns about misconduct and be satisfied with the outcome after doing so.

And the benefits of behaving ethically? We would argue that ethical behaviour creates greater trust and a better reputation with investors, customers, suppliers, and the wider community. It creates a better relationship with employees, promoting employee commitment and motivation. An ethical company is more likely to be able to



recruit the talent it needs and retain it. A values-based company with an established shared purpose and values will be conducive to better and more consistent decision-making. And an organisation with an effective speak up process will gain early warning of things going wrong and thereby support better risk management.

In conclusion, ethical business makes for Better Business. It requires ethical leadership, the right tone at the top, a clear purpose and shared values established in discussion with the organisation's employees. And it needs true investment and sustained effort to support it.

Thank you.