



INSTILLING INTEGRITY IN ORGANISATIONS

MARKET FOUNDATIONS INITIATIVE



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Ethical behaviour is fundamental to an organisation's reputation, trustworthiness and long-term performance. Integrity is at the heart of ethical behaviour. This publication includes a number of suggested questions that directors could pose to determine the role of integrity in their organisation, and how it is assessed and instilled. Addressing these questions should enhance a board's understanding of how profits and cash are generated by the business which is an important part of the process.

ASSESSING

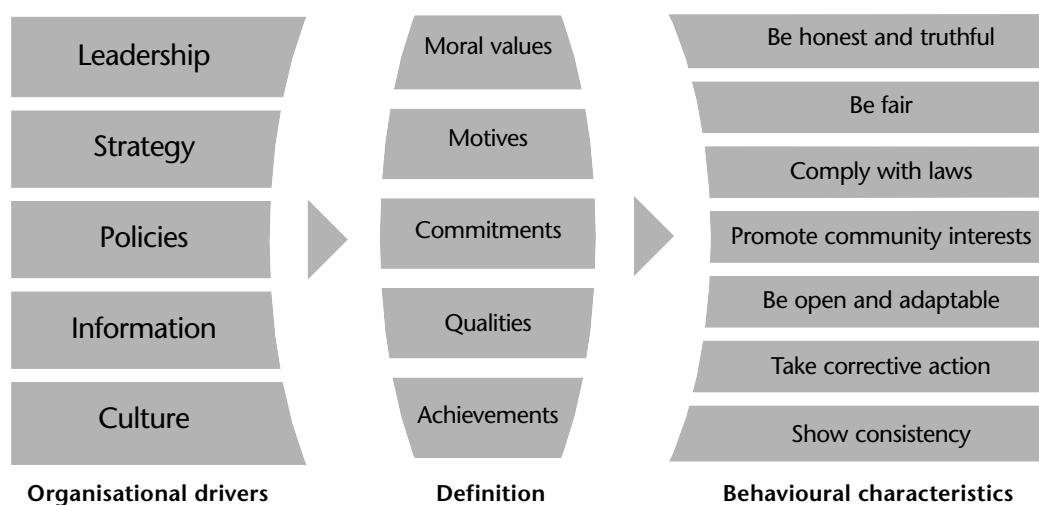
As part of their strategy, oversight and risk management responsibilities, directors increasingly need to assess an organisation's approach and commitment to integrity by asking:

- What approach does the organisation take to instilling ethical behaviour, given other short and long-term strategic and operational goals?
- Does the organisation clearly understand what behaving with integrity means, how it will be achieved and what success will look like in terms of profitability and other measures?
- Do organisational values, standards of behaviour and organisational support mechanisms reinforce and encourage integrity at all levels?

INSTALLING

To be successful in promoting integrity in business, the ICAEW's *Reporting with Integrity* publication suggests that directors need to clarify what integrity means, provide guidance on what standards of behaviour are associated with it, and develop and implement organisational drivers to promote and sustain a reputation for organisational integrity. Key questions relating to these five organisational drivers are detailed opposite.

FRAMEWORK FOR REPORTING WITH INTEGRITY



LEADERSHIP: SETTING THE TONE AT THE TOP

- Does the leadership of the organisation demonstrate high standards of integrity? Do they practice what they preach and set a good example?
- Do directors and senior management provide a clear signal to other employees and outside stakeholders that integrity is important to the performance and reputation of the organisation? Does adhering to the principle of integrity override short-term gain?
- Does the organisation's leadership ensure that strategy, policies, information and culture sustain a reputation for integrity?

STRATEGY: ALIGNING OBJECTIVES

- Is the promotion of integrity seen as an integral part of the organisation's strategy?
- Does the board devote resources and management time to it? Do directors discuss integrity issues at board meetings on a regular basis and act upon those discussions as appropriate? Are discussions on integrity on the risk agenda? Does the organisation have someone responsible for monitoring and promoting integrity?
- Are the organisation's objectives and strategy in line with its standards of business conduct? For example, does the strategy impose unrealistic short-term performance targets which may encourage behaviour which lacks integrity? Does the organisation openly encourage honesty?

POLICIES AND PROCEDURES: EMBEDDING THE STRATEGY

- Does the organisation have a code of conduct which defines integrity and outlines the behaviour it expects directors, employees and other stakeholders to uphold?
- Does the organisation provide effective training so that individuals understand organisational values and what these mean for their role?
- Does the appraisal process include a discussion of how individuals have upheld the organisation's values and standards of behaviour?

- Does the reward and performance policy take into account how these objectives are attained as well as whether they are met?
- Is support provided to employees on ethical matters? Does the organisation have guidance on how to resolve ethical problems such as conflicts of interest? Does it provide access to a confidential helpline?
- Do individuals who are responsible for dealing with ethical matters have the authority and back-up to be effective?

INFORMATION: MONITORING PERFORMANCE

- Do directors and management obtain feedback about the performance of the organisation and its leadership against its stated objectives in this area?
- Is there a process for gathering information on the organisation's commitment to integrity? Sources of information could include:
 - risk reporting;
 - team meetings;
 - employee or stakeholder surveys;
 - helplines;
 - breaches of the organisation's codes of conduct; and
 - ethical assurance reports.
- Is this information discussed and acted upon by the board?

CULTURE: SUPPORTING ETHICAL BEHAVIOUR

- Does the organisation's culture promote integrity and encourage individuals to speak up and voice their concerns, without fear of reprimand? Is it supported by openness, transparency and accountability?
- Does the leadership encourage and support individuals to make decisions aligned to the organisation's values?
- Does the organisation monitor and discipline individuals who behave without integrity?

SUMMARY

As leaders, directors are in a prime position to influence and help create an organisational environment which encourages integrity. Directors who are chartered accountants also have a professional obligation to encourage an ethics-based culture in an organisation. Instilling integrity in an organisation ultimately builds reputation and pays dividends in terms of employee, investor and customer loyalty, provided it is not just talked about. However, it has its challenges. Establishing integrity in an organisation is difficult because it calls for joined-up thinking by a collection of individuals who may have different interpretations of what integrity means.

It is important that leaders try to identify and evaluate factors which affect the integrity of the organisation and recommend and implement courses of action which safeguard the organisation's integrity. The genuine promotion of integrity in an organisation relies on having an appropriate framework. It also requires time, resources, energetic management, strong leadership and continued monitoring and oversight by the board.

ROLE OF ICAEW

This publication forms part of ICAEW's *Market Foundations* initiative, which explores the role of participants, mechanisms and behaviour in creating effective and efficient markets. ICAEW is well placed to advance the debate in this area due to its intellectual rigour, real-world experience and its ability to bring together a wide variety of relevant stakeholders to discuss matters of common interest. Our thought leadership involves organising and hosting debates, issuing publications, commissioning follow-up research and making properly grounded and practical proposals. Further information on ICAEW's wide-ranging thought leadership initiatives is available at icaew.com/thoughtleadership

NEXT STEPS

If you have any comments on this publication or other ethics-related ICAEW activities, please email ethicspolicy@icaew.com. Further information on the *Reporting with Integrity* publication, ethical behaviour in business and the profession is available at icaew.com/ethics



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