

CGMA<sup>®</sup> BRIEFING

ETHICAL  
PERFORMANCE

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Driving value from  
an ethical culture

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Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant® (CGMA®) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMA designation holders are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

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# INTRODUCTION

For businesses around the world, maintaining a constant focus on ethical performance is vital for success.

Reputation can be built or broken almost instantly in this age of increased transparency, government regulation, and public scrutiny. Digital communication and social media enable unhappy customers, employees or even competitors to reach a global audience instantly. Organisations are increasingly recognising that ethical practices impact the bottom line. However, the way in which these practices are embedded and implemented is critical to the organisations' ability to gain the most from an ethical performance culture.

## Feedback from the front line

In June 2014 we asked Chartered Global Management Accountant® (CGMA®) designation holders worldwide for their insight into issues regarding ethical performance in business. Indeed, we found that reputation management is already the primary motivation for embedding ethical standards into the organisation and its culture. When asked about how they embed these standards, the leading answer was “conforming to regulations”. However, compliance on its own is not enough. Deeply instilling an ethical culture instead demands committed leadership from the top.

We found that ethics is, and will continue to be, a growing priority for business leaders. Just over half (51%) stated that ethical performance is a bigger focus for senior management than it was three years ago, and 55% believe its importance will grow further in the next three years.

However, we also found striking gaps concerning engagement with ethics:

- **Communication deficit.** We found an imbalance between the prevalence of codes of ethics or conduct, policies or guidelines, and the corporate communications programmes and training needed to help implement them.
- **Leadership deficit.** CGMAs told us that their organisations are building an ethical culture primarily by conforming to relevant regulations. Leadership from senior management was rated only second, but given the importance of tone from the top in steering the organisation, this suggests a need for more senior managers to step up as a force behind embedding an ethical culture.
- **Training deficit.** Inadequate knowledge and ability to apply ethical performance in the day-to-day workplace, coupled with limited implementation of ethical practices, is a corporate risk. Two in five respondents told us their organisations have not yet created channels, such as training, to raise ethical standards, showing us that action is urgently needed in those organisations.

This briefing explores some of the key areas that organisations should consider when seeking to develop and then embed an appropriate and effective ethical culture across the enterprise, including anti-corruption measures. CGMAs have a critical role to play in achieving this increasingly important task.

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# ETHICAL PERFORMANCE: A GROWING CORPORATE PRIORITY

Companies are facing scrutiny over their ethical performance from a variety of stakeholders – the public, regulators and legislators, the media, governments and others. There’s no doubting the demand for greater transparency. Companies need to consider carefully the attributes of the people they hire and even the people they work with in extended supply chains.

CGMA respondents gave clear evidence that the issue of reputation is front of mind when a company analyses its ethical performance. They also told us that taking account of ethical performance can bring important financial benefits, whether directly or indirectly, through enhanced reputation and a strengthened brand image. This is supported by recent global research undertaken by Nielsen among 30,000 online consumers across 60 countries.<sup>1</sup> It showed that more than half of them are willing to pay more for products from companies they trust are committed to a positive social and environmental impact.

## The value of good ethical conduct

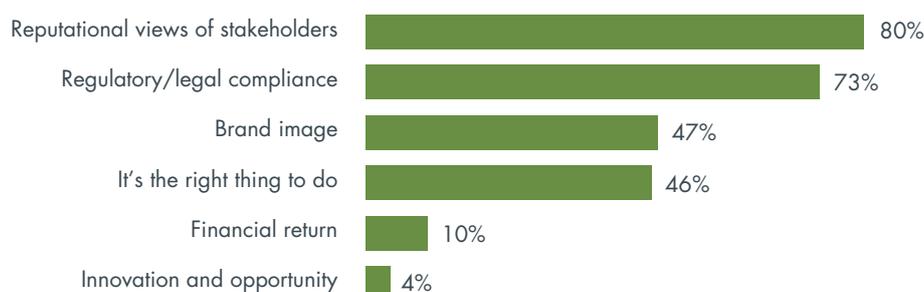
Our research shows that ethical performance is a more important focus for leadership teams than it was three years ago and will grow further in importance. Organisations also welcome new recruits that understand the issues surrounding ethical performance.

When we asked CGMAs what ultimately drives employers’ motivation to embed ethical standards, the reputational view of stakeholders was the most frequently selected value driver for ethical performance. Employers are influenced by how their stakeholders including customers, investors and staff see their organisation. This reputational concern held higher importance than the issue of compliance with regulations and legislation. This points to a growing recognition of the tangible business benefits of an ethical culture, and that ethics should not be “relegated” to mere compliance.

There was evidence that good ethical conduct has a payback and brings value across a variety of areas, highlighting why it needs to be prioritised to extract value. While the altruistic motivation for good ethical performance – “it’s the right thing to do” – was cited by close to half (46%) of the CGMA respondents in our study, a similar number (47%) cited brand image as a motivation and 10% reported a direct link to the bottom line, claiming financial return is a driver of ethical performance.

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FIGURE 1: Motivation to embed ethical standards



Source: CGMA ethics survey 2014.<sup>2</sup>

## The need to embed responsible behaviour

The other side of the coin is that perceived unethical performance can be a more powerful catalyst for reputational, and hence business damage, than ever before. The huge influence of social media and overall global connectivity means that the ability to deliver negative news and opinions takes just a few taps on a screen. By contrast, there is extreme difficulty and expense involved in restoring a damaged reputation, not to mention the potential impact on the organisation's customers, industry peers and other stakeholders. These are further economic fundamentals that are driving the need to embed responsible behaviour in the organisational culture higher and higher up the value chain.

So it is hardly surprising that ethical performance appears set to be a bigger focus for senior management than three years ago. The majority of CGMA respondents (51%) believe this is the case and 55% expect this issue to grow in significance.

There is also clear evidence that organisations actively prefer job candidates with a commitment to – or even better experience in – ethical performance. The responses of our CGMAs suggest that this is having a profound impact on organisations' recruitment policies, with 76% of them expressing the belief that their employers value or highly value their professional standing and commitment to a code of ethics.

## Ready for the next hire



7 in 10 CGMAs say employers value their professional standing and code of ethics.

## Embedding an ethical culture in the open workforce

Business leaders will have to pay more attention to embedding the right ethical culture beyond the boundaries of their own organisations. Organisations are increasingly finding themselves managing an 'open workforce' – one in which talent and resources are spread across a complex mix of in-house teams, freelancers, contractors and external business partners.

This will touch every aspect of the business and will demand a rethink as to how business leaders ensure that both internal and external talent is aligned to their organisation's ethics and values. Organisations will need to invest more resources and management time to unite diverse and disparate groups around a common ethical purpose.

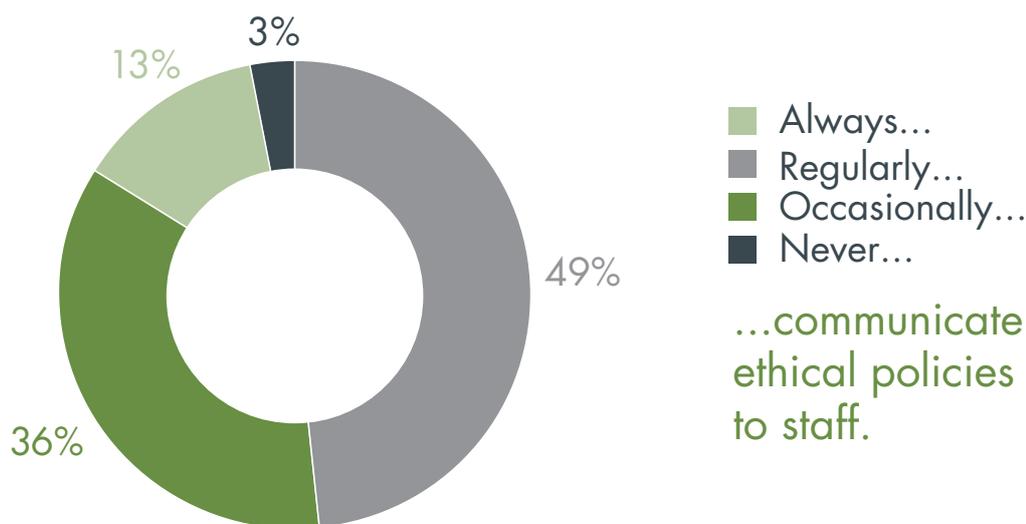
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## EMBEDDING AND COMMUNICATING ETHICS

According to our survey, the great majority of organisations (89%) do have a code of conduct, ethics or similar policy in place. However, a significant proportion of CGMA respondents (36%) described staff communications on their ethical policies as “occasional”, while a further 3% said it was non-existent.

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FIGURE 2: How frequently organisations communicate their ethical policies to staff



Source: CGMA ethics survey 2014.<sup>3</sup>

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While it is encouraging to see that so many have a policy in place, any organisation that then fails to ensure it resonates with its people due to irregular or poor communication is missing a vital step in improving ethical behaviour. Naturally, the first essential step for an organisation without a policy is to develop and implement one. The next is to communicate it effectively. Quality is key, as constant communication that lacks focus or relevance is more likely to irritate than persuade. The most successful ethical organisations instead embed high-quality communications across the business.

To do so, ensuring it becomes far more than a box-ticking exercise, it is essential to have:

- Strong backing and leadership from the top
- Effective and resilient two-way communication channels
- An open culture of reassurance that gives employees the confidence to raise concerns.

# LEADERSHIP AND TRAINING

While reputation is the strongest motivation for embedding ethical standards, organisations still seek to create an ethical culture first and foremost by prioritising regulatory compliance. But to truly embed an ethical culture, organisations must go further than a “check-box” approach to compliance, and embrace ethical behaviour as a corporate priority.

FIGURE 3: How CGMA’s organisations create the right ethical culture



Source: CGMA ethics survey 2014.<sup>4</sup>

When the leadership team adopts the right tone and truly sets ethical behaviour as a priority, then the organisation is seen to be living ethical values. Once that happens, employees can get in step.

While 76% of our CGMA respondents said the right ethical culture in their organisation is set by the tone from senior management, with the leadership team clearly establishing this behaviour as a priority, this suggests that close to a quarter of respondents do not see an appropriate level of support from the top. There is a clear deficit here. The perceived failure of senior management in every fourth organisation to establish a strong corporate culture through being seen to live their values is a major weakness that must be addressed. Leading by example, rather than solely relying on written policies and rules to check the compliance box, encourages employees across the organisation to internalise principles of integrity, and to act ethically and responsibly. The examples leaders set, the attitudes they display, their behaviour and actions are important building blocks.

Other factors are at play. More than six out of ten (63%) CGMA respondents said their organisation promoted an environment that instils confidence and trust, or that there was encouragement and support from a manager and the associated team.

About the same number (60%) said their organisation had created channels such as training in better ethical standards to help embed the right culture. But it’s not acceptable that four in ten organisations do not have a culture that instils confidence, trust and management support. Training and open discussion, likewise, are fundamentally important to every organisation that is serious about giving employees a supportive environment where they have the confidence to raise concerns. This has to be a priority for every organisation.

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Most people want to go to work and want to do the right thing. Genuine belief and understanding of the purpose of an organisation, not merely the assertion of such, creates an enabling culture for good behaviour and results. Setting the proper tone through aligning stated purpose with the internal operations and procedures of the business is a vital role of good leadership.

*Looking Beyond the Check-Box: Mitigating Risk, Maximising Performance,*  
CIMA and St Paul’s Institute, 2014

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# ERADICATING CORRUPTION

The World Bank estimates that worldwide bribery has an annual cost of about US \$1 trillion. Even this is considered to be a conservative number, as it does not cover every form of corruption.<sup>5</sup>

This stark fact only hints at the real scale of a massive global issue that every day delivers monumental damage to organisations across the world in all sectors and industries. Every organisation has a responsibility to tackle corruption in every way it can, through the right frameworks, processes and policies, all supported by constantly refined and updated security measures, training and communications. And in every country CGMAs' unique mix of financial and business experience, alongside their commitment to their codes of ethics and conduct, gives them a key role to play in putting these all-important frameworks and processes in place.

It's worth keeping in mind the wider developments concerning corruption. Treaties by the OECD and the UN, initiatives by the G20 and the FCPA, and the UK Bribery Act 2010 all underline the clear shift in awareness of corruption.

## The journey towards zero tolerance

Reporting on misconduct externally has also increased. Companies like Northrop Grumman, BP, Siemens and Diageo have recently reported on how they have addressed ethical challenges, dismissed staff or terminated suppliers' contracts over non-compliance. Institutional investors are making stronger demands for transparency too.<sup>6</sup>

Naturally, CGMAs are aware of the global demand for increased transparency which aims to prevent corruption and ensure that business is conducted fairly and competitively. We found over four in every five CGMA respondents (82%) said their organisation had policies for fighting conflict of interest, bribery and other forms of corruption. And 76% said there was a "zero tolerance policy" to corruption and fraud, while 81% claimed their organisation offered clear routes for reporting suspected fraud and violation of company policies

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Good reputation allows a company to attract high-quality human capital, charge premium prices, create customer loyalty, and expand geographically.

George Serafeim, *Competitiveness and detection of Bribery*, Harvard Business School

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on ethical behaviour. However, these proportions are clearly insufficient to provide the all-embracing protection against corruption that businesses across the world demand.

Less than half of CGMA respondents (46%) said their organisations provide anti-corruption training for all staff. As the World Bank's estimate of the global cost of corruption shows, this is a massive global problem that will only get worse if not addressed in a unified and determined manner. All organisations should therefore not only take a zero tolerance approach to corruption but must also provide channels for staff to raise issues whenever they need to. Training is an all-important step in this process that far too many organisations are neglecting. Raising awareness of these issues and the behaviours that are necessary to combat them is essential to fully implement an anti-corruption policy. In addition to all employees undertaking anti-corruption training, in-depth training also needs to be targeted at employees in high-risk positions. The CFO is clearly prominent among these, for a strong, ethically-focused CFO is key to safeguarding an organisation and instilling zero tolerance to irresponsible and unethical behaviour.

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Training is an obvious route to increasing the level of application of ethical performance and guidelines. When asked if their organisation provides anti-corruption training for all employees, a significant number (54%) of respondents told us they did not have this, and only 11% were planning to introduce such training. Implementing communication and training is a critical call to action. Without such investment, staff, and even partners and suppliers, will not be able to apply policy and safeguard the organisation's sustainability.

It is hard to imagine many more compelling reasons for businesses to take a united global stand than an annual US \$1 trillion loss. This is a monumental sum that is hindering global economic development and placing those organisations that operate honestly at a competitive disadvantage. Check-box compliance is not enough. Leaders need to take an approach that takes all reasonable precautions against all forms of corruption. Indeed, laws exist – such as the UK Bribery Act – that allow companies that have not been active enough in this area to be charged with failure to prevent bribery.<sup>7</sup>

## Understanding the ethical risks of the open workforce

The open workforce gives rise to a broader range of risks, which will need more attention by business leaders if they are to avoid loss and reputational damage. Fraud and corruption, for example, take on a potential new dimension when external talent is factored into the equation, but there are many

others, including information and data security breaches as well as a weakening of loyalty and engagement across the open workforce. These risks need far more attention across the board and potential responses need to factor in ethical policies.

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# DEFINING PROFESSIONALISM AND ITS VALUE

CGMAs have a clear role as professionals in influencing their organisation. Bound by their ethical code, CGMAs are committed to uphold high standards and to act ethically. This means they are well placed to influence others to do the right thing.

CGMAs balance the needs of both the business and wider society, and seek to build trust and confidence in the business among all stakeholders. They do this by upholding principles of integrity, independence, confidentiality, competence and overall professional behaviour.

We asked our CGMA respondents what it means to be a professional and found that this is clearly about personal integrity, maintaining high standards, having specific skills and winning the confidence and trust of peers. The three highest-ranking attributes that define “being a professional” are “performing to high standards”, being “regarded as an expert with specialised knowledge”, and “acting ethically and influencing others to do the right thing.” Our respondents also said professionalism was about “having the ability to instil confidence and trust.”

We also asked how organisations valued our CGMA respondents’ professional standing and their commitment to a code of ethics and professional standards. Three in four (76%) felt they were “extremely valued” or “valued”, with only a small minority (5%) saying they felt “not at all valued”.

CGMAs combine the skills of accountants in business with a commitment to a code of ethical conduct. This gives them a key role in supporting leadership and other colleagues in setting, communicating and embedding an ethical performance culture.

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FIGURE 4: What does being a professional mean to you? Top five responses:



Source: CGMA ethics survey 2014.<sup>8</sup>

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# CONCLUSION

There is a growing focus in business on the issue of ethical performance, and increased recognition of the value to be gained.

This perhaps comes as no surprise given the complexity of the global environment in which CGMAs work. CGMAs are impacted by a broad range of powerful trends: rapid economic development in emerging markets, differing rates of economic recovery in mature markets, complex political and environmental issues, and the challenges of changing regulatory regimes following the 2008 financial crisis. The requirement for responsible and ethical behaviour is growing and the role of the CGMA, backed by an ethical code and high level of professional standards, is well placed to address those needs and help create new solutions.

CGMAs bring core competencies in this space to organisations, together with a commitment to responsible and ethical business. They can act as partners and support the rest of the business in developing and integrating the right policies, and in communicating these so all staff can apply them for the benefit of the organisation. Employers must fully align with evolving ethical expectations and show leadership to embed ethical best practice. Governments too must create a climate that supports employers through measures such as creating a level playing field, enforcing legislation and actively working to combat corruption.

## Further resources

### **Combating corruption across the value chain**

An overview of key anti-corruption legislation, exploring how CGMAs can help counter the risk of bribery and corruption throughout the supply chain.

### **Embedding ethical values**

Guidance documents to help organisations embed ethical values and introduce a code of ethics.

For more on the new trends shaping the future of business visit [cgma.org/ready](https://www.cgma.org/ready)

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# HOW TO DRIVE VALUE FROM AN ETHICAL CULTURE

We believe there is a set of key actions required to help organisations maximise the value they derive from ethical performance within an ethical culture.

## Steps organisations should take

- **Make it a strategic priority.** Create a renewed focus on ethical performance and show how businesses can add value by embedding an ethical culture.
- **Set the tone from the top.** Senior management teams must show leadership and be seen to live the organisation's ethical values. Only once that happens can employees get in step and ensure the whole organisation lives those values.
- **Develop a code of ethics/conduct.**<sup>9</sup> A key requirement is for a relevant code of ethics or code of conduct or similar policy that sets clear objectives, standards and expectations.
- **Develop and support routes to report suspected violations.** Staff need to feel they can report violations and be clear on the process. Organisations need to develop clear routes for reporting suspected fraud and violation of company policies on ethical behaviour. Too many organisations are weak in this regard and must adopt a zero-tolerance approach.
- **Engage and communicate.** Engage staff and all other stakeholders such as suppliers, investors, regulators and consumer communities, through effective and informative communication. Good, regular and consistent communication about the policies, codes and routes and processes for reporting will help to embed an ethical culture.
- **Focus on training.** Provide training at different levels of the organisation. This will ensure staff and other stakeholders are aware of the policies and can understand and apply the key ethical objectives, so contributing towards achieving them.
- **Measure effectiveness and revisit regularly.** To ensure best practice, organisations need both to measure their ethical performance and to foster open discussion. The first need may be addressed by employee surveys (for quantitative data) or

via one-to-one or group discussions (qualitative). The second priority can be addressed via a “speak-up” or whistle-blowing service, that needs to be regularly reviewed and refined. When reviewing employee queries, either via speak-up or feedback to management, it's important to gain insight into what the number of queries received actually means.

## Steps CGMAs should take

CGMAs are ideally positioned to be key influencers within an organisation. Their abilities and experience, alongside their commitment to strong ethical codes, has accustomed senior management to listening to and acting on their advice. This places CGMAs well to help leadership understand the business benefits of ethical behaviour and identify priorities for action.

- CGMAs should lead by example and support colleagues to do the same because:
  - those in leadership positions have a particular opportunity to guide and influence others
  - those not yet in leadership positions can add value by helping leaders to develop, deliver and sustain a strong ethical culture and set the tone for all communication.
- They can help others gain insight and value from the globally applicable CIMA and AICPA codes of ethics and conduct, enabling colleagues to share and understand the true value of ethical standards.
- These factors all mean that CGMAs can influence, set and help to sustain ethical best practices in their organisations.

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- 7 *Combating corruption across the value chain*, 2014. CGMA and Transparency International UK
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## About this briefing

The content of this briefing is based on insights of 1,699 CGMA designation holders from a survey conducted in June 2014. The survey received responses from 1,699 CGMA designation holders and 1,498 CIMA students from 99 countries across the world. Survey results have been rounded to the nearest whole number.

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