Key questions

1. What is ethical culture?

2. What are dimensions of ethical culture?
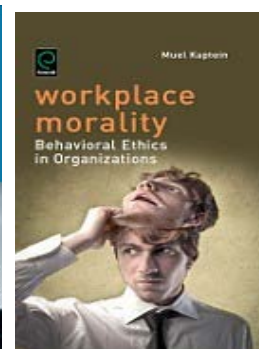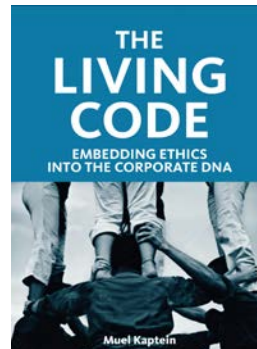
3. Why measuring ethical culture?

4. What are methods to measure ethical culture?

Introduction

• Professor Business Ethics & Integrity Management, RSM Erasmus University Rotterdam (since 1991)

• Partner and cofounder KPMG Ethics, Integrity & Compliance (since 1996)

• For more information:
http://www.linkedin.com/in/muelkaptein

ETHICISMS AND THEIR RISKS: 150 new cartoons about ethics at work

Muel Kaptein
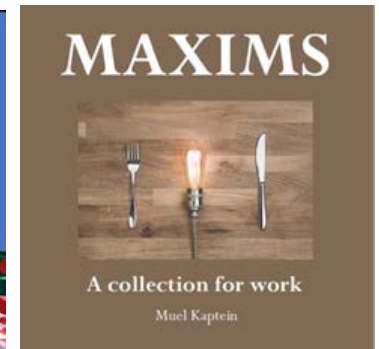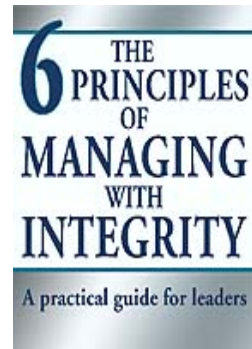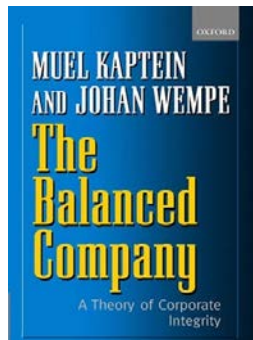
1. Ethical culture

- "Causes of unethical actions are not simply the result of rotten apples in the corporate barrel." (Hoffman, 1990)

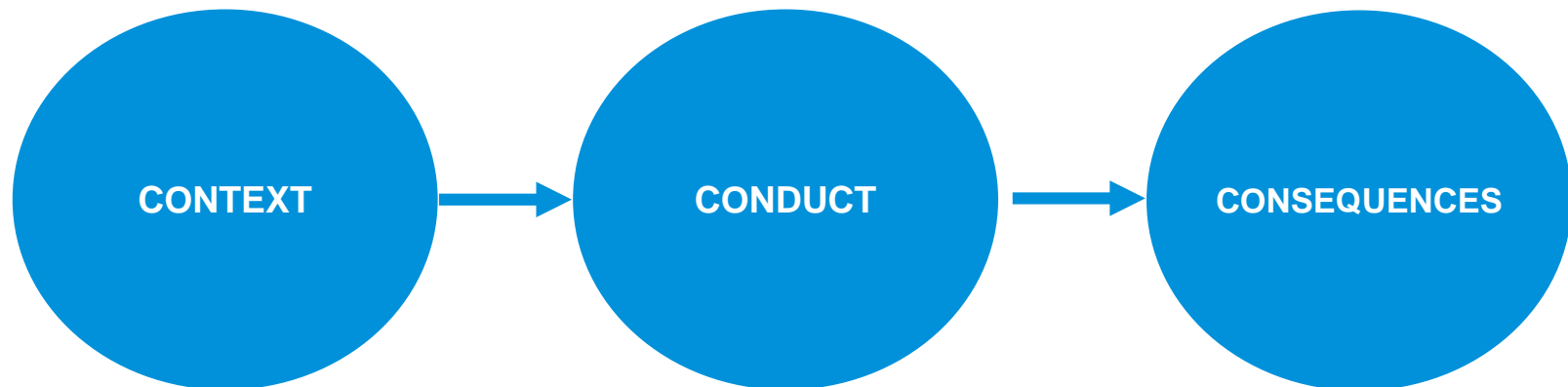- Organizational ethics is extent to which ethical behavior is encouraged and unethical behavior is discouraged.

- Ethical culture of an organization are the informal conditions in an organization that encourage ethical behavior and discourage unethical behavior.

CONTEXT → **CONDUCT** → **CONSEQUENCES**

2. Dimensions of ethical culture

3. Importance of measuring ethical culture

1. It should
2. It must
3. It helps
4. It benefits
5. It can

- Fraud and theft (Heeren, 2020) **-50%**

+ Ethical behavior (Kaptein, 2011; Zaal et al, 2017) **+35%**

+ Intention to report incidents internally (Kaptein, 2011) **+55%**

+ Employee engagement and retention (Huhtala, 2011; Kangas et ll, 2015) **+20%**

+ Innovation (Riivari, 2016) **+35%**

+ Reputation (Kaptein, 2008) **+25%**

+ Financial performance (Chun et al, 2013) **+13%**

73% 2013

76% 2015

81% 2017

83% 2019

KPMG
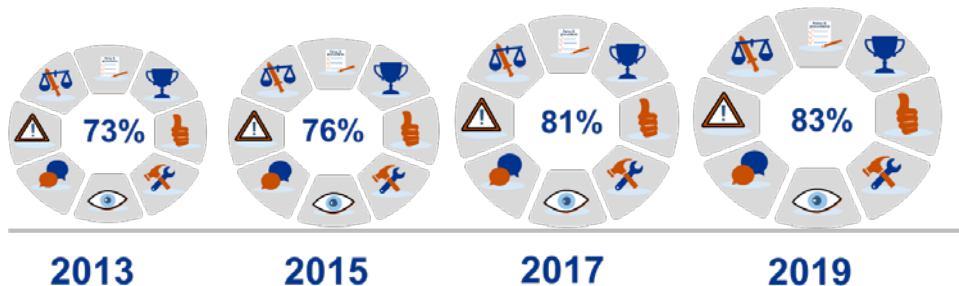
4. Methods of measuring ethical culture

- Interviews

- Desk research

- Survey

- Observations

- Root cause analysis

Take aways

- The ethical culture of your organization are the perceptions of your employees and patterns in their behavior

- Define dimensions of the ethical culture of your organization

- Build up business case of measuring ethical culture of your organization

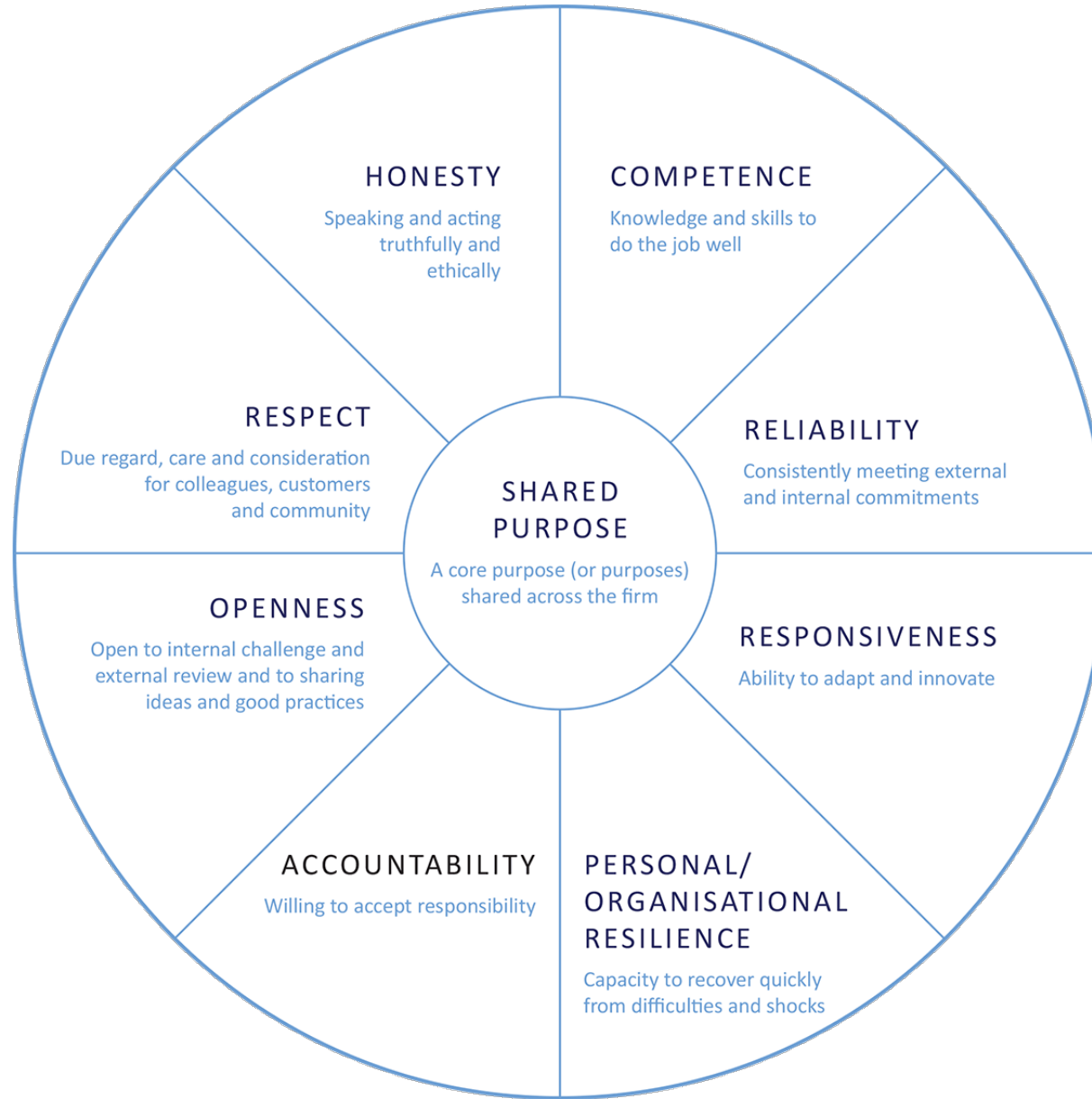- Have as organization a well-thought-out approach of measuring ethical culture

KPMG Ethics, Integrity & Compliance
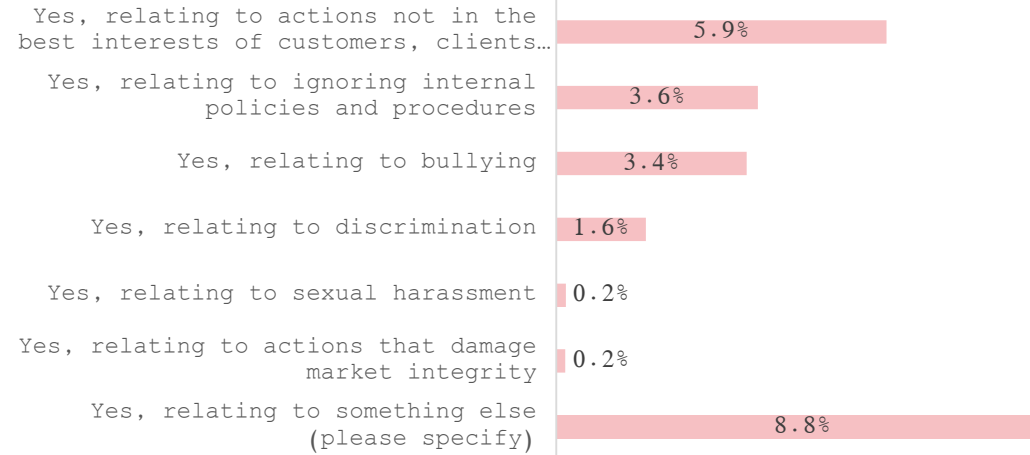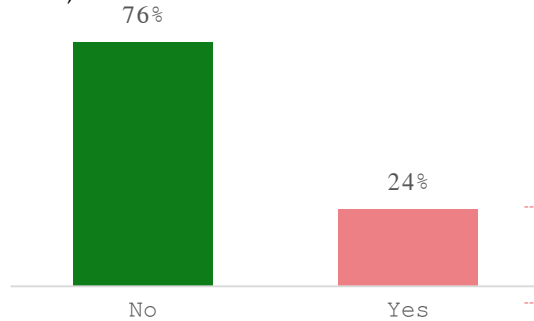
Muel Kaptein

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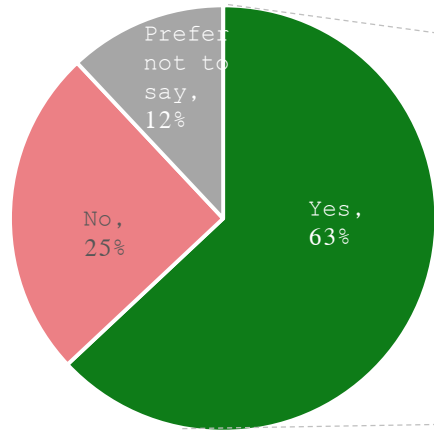**http://www.linkedin.com/in/muelkaptein**

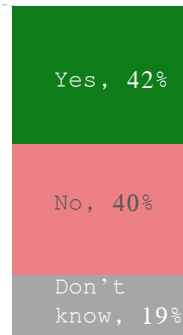# FSCB Culture Survey – speaking up additional question results (2018)

Have you wanted to raise concerns at your organisation over the last 12 months? (If yes, please select the one issue that concerned you most)

76% No
24% Yes

Yes, relating to actions not in the best interests of customers, clients… 5.9%
Yes, relating to ignoring internal policies and procedures 3.6%
Yes, relating to bullying 3.4%
Yes, relating to discrimination 1.6%
Yes, relating to sexual harassment 0.2%
Yes, relating to actions that damage market integrity 0.2%
Yes, relating to something else (please specify) 8.8%

[Asked of those who wanted to raise a concern] Did you raise your concerns about this issue?

Prefer not to say, 12%
No, 25%
Yes, 63%

[Asked of those who said that they had raised their concern] Do you feel your concerns were (or are being) listened to and taken seriously?

Yes, 42%
No, 40%
Don't know, 19%

[Asked of those who said that they had not raised their concern] What was it that stopped you from raising concerns about the issue? (Please select one or more of the statements below.)

I felt it would be held against me 62%
I felt that nothing would happen 59%
I felt it would make me look bad 41%
I did not trust the process to keep my concerns confidential 41%
I felt it would make my manager of team look bad 17%
I did not raise concerns as no one else does this in my organisation 10%
I did not know who to raise concerns to 9%
I did not raise concerns for other reasons (not covered above) 11%

FSCB Culture Survey – inclusion additional question results (2020)

Key:

	Do not feel that they can be themselves	Feel that they can be themselves [1]
Feel accepted	x%	x%
Do not feel accepted	x%	x%

All respondents

	Do not feel that they can be themselves	Feel that they can be themselves
Feel accepted	3%	88%
Do not feel accepted	2%	0%

Ethnicity

Asian / Asian British

	3%	83%
	3%	1%

Black / Black British

	5%	78%
	5%	1%

Mixed / Multiple ethnic groups

	5%	84%
	3%	1%

White British

	2%	91%
	2%	0%

All other White ethnic groups

	3%	87%
	2%	0%

All other ethnic groups

	4%	79%
	5%	0%

Gender

Men

	3%	88%
	2%	0%

Women

	2%	90%
	2%	0%

Disability

Has a disability

	6%	77%
	6%	1%

Does not have a disability

	2%	90%
	1%	0%

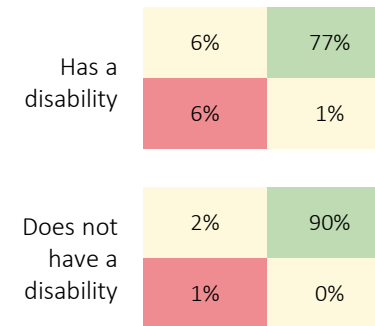[1] The total of all percentages in this visual do not add up to 100% because some employees answered neither agree nor disagree to the individual inclusion questions and these responses have not been included in these tables.

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FSCB.

Get in touch

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Financial
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Culture
Board

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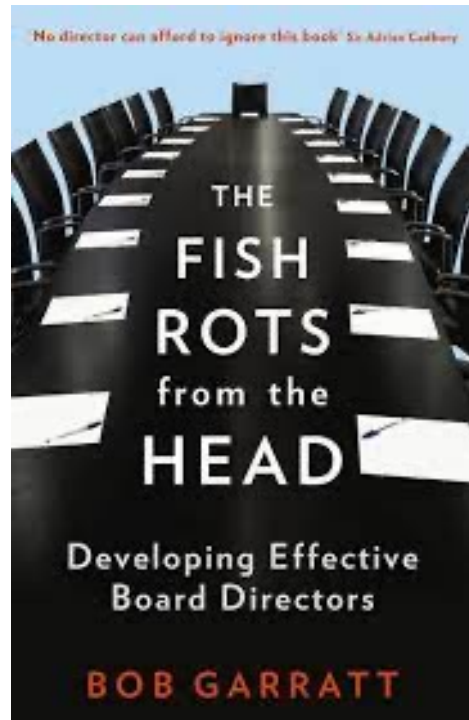# Measuring Culture for the board
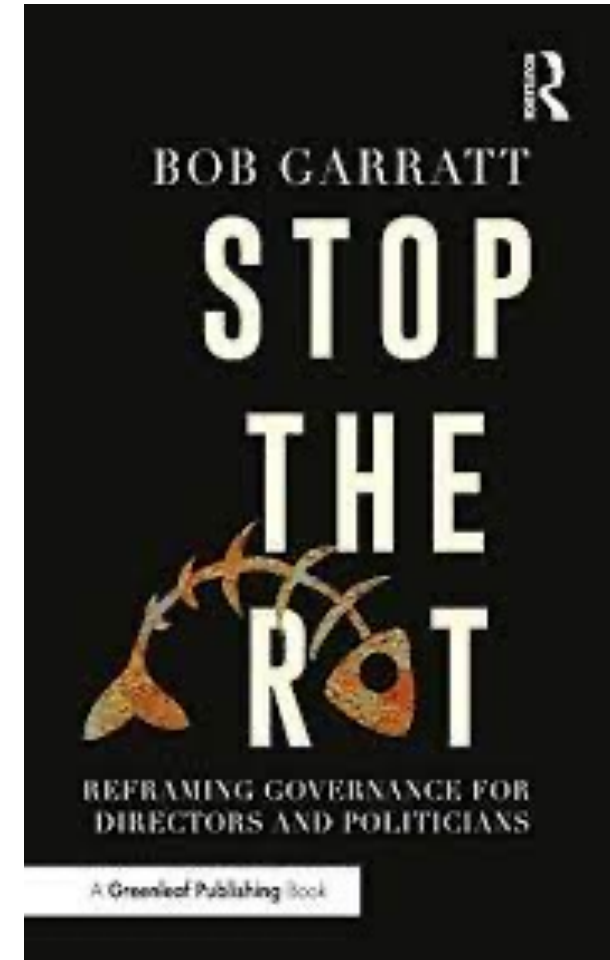
Institute of Business Ethics

17 May 2022

It starts in the Boardroom

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It's the Board's job to …

Measuring Culture for the board

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- How high performing boards govern culture

- What information boards need to govern culture better

- Conclusion

How high performing boards govern culture

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Promote the long-term success of the organisation:

- Stewardship:
  - Setting Purpose, values, culture and strategy

- Accountability:
  - Monitor and review performance against clear goals: financial, culture, risk
  - Make critical decisions e.g investments, mergers, closures, dividends, budgets, top team appointment, performance and reward
  - Commission and oversee the audit, reporting and compliance with laws and regulations

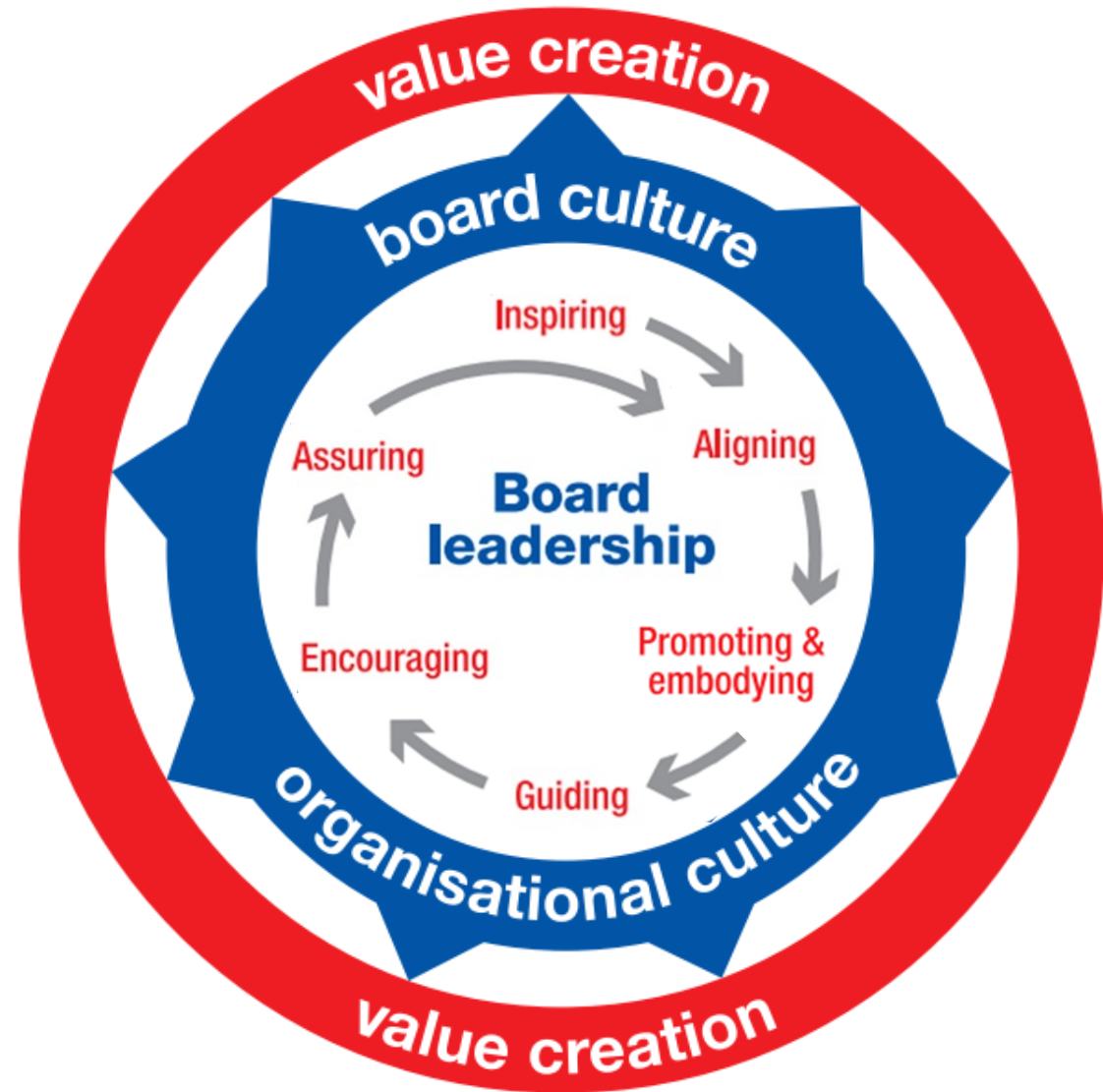- Assurance: Assure key stakeholder of performance

How high performing boards govern culture

"Governing Culture: Risk & Opportunity? *A Guide to Board Leadership in Purpose, Values and Culture"*

City Values Forum & Tomorrow's Company

Published as part of

The Financial Reporting Council's

"Culture Coalition". 2016

What information do boards need to govern culture better?

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Boards need information on culture that answers these kinds of questions:

How inspired are our people by our purpose and values?

If we agree this strategy, what are the culture implementation risks? How will we know you are managing them well?

Are we attracting and retaining the talent we need to succeed? If not do we know why? What are we doing about it? Is it working?

How can you assure us that all our leaders and managers promote and embody our culture?

Do we know who is misbehaving? Why? What are we doing about it? Is it working?

Do our policies and processes and how and what decisions we make support our culture ambition or get in its way?

What information do boards need to govern culture better?

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Compliance and risk data

- Speak up, whistleblowing, grievances
- Diversity & Inclusion
- Training and development compliance

HR data

- Vacancy rates, sickness, turnover
- Engagement surveys
- Health and Safety/Wellbeing

Customer and supplier Data

- Complaints and Net Promoter Scores
- Who we do and don't do business with, supplier standards and expectations

Finance Data

- Expense claims, time records, customer write-offs and discounts, average days to pay suppliers
- Internal audit reports esp implementation of performance and reward systems

ESG Impact data

Measuring culture is hard

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- It's a whole system challenge

- There is no one metric

- Values are relational: who and what we value and how we behave in doing so.

- Values can best be measured through measuring behaviours especially decisions: the behaviours of the organisation and the behaviours of individuals.

- Boards use dashboards to triangulate on the culture firmwide and within the organisation.

Measuring Culture - Conclusions

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- Culture is led by the Board
  - culture matters for reputation, strategy and survival
- Boards govern culture through their stewardship, accountability and assurance:
- Culture is hard to measure
- Culture measures for the board need to be:
  - relevant, contextualised and interpreted
- Understand where you are starting from and which of the board's six areas of vigilance you can influence with culture measures.
- Keep up the good work

Oonagh Harpur

KPMG UK LLP Independent Non Executive and member Public Interest Committee

Senior Board Advisor and Coach

Building trust and integrity in boardrooms

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