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Incentivising Ethical Behaviour in Staff

"To be effective, the incentive structure of the business needs to be aligned with its ethical and professional standards so that adherence to these values is rewarded and breaches of law are met with dissuasive consequences or penalties."

OECD Principles of Corporate Governance, 2004

The gap

Too often companies experience a gap between having a business ethics policy and programme in place and its absorption by employees. In considering ways of closing this gap, a number of organizations are no longer relying on negative deterrents but are developing positive incentives to encourage high ethical standards throughout their business. Some argue

that the only reward necessary to incentivise ethical behaviour in an organisation is a clear conscience. To be assured that they 'are doing the right thing' would be considered by some to be reward enough. But not by all; ethical lapses continue. Some organisations find that a more active approach is an effective way to sustain high ethical standards; that is 'incentivisation'.

Sticks and carrots

There are two principal ways in which employees can be incentivised to take into account ethical aspects of both their decision making and their relations with their organisation's principal stakeholders. The first, sanctions, is the threat of disciplinary action when any part of the code of ethics (or its equivalent) is breached. The second, rewards, is the provision of some form of inducement to behave ethically whatever the situation. In other words, either a 'sanctions' approach ('sticks') or a 'rewards' approach ('carrots').

Sanctions

Two examples of the sanctions approach set out in codes of business ethics are in Box 1, overleaf. Sir Mark Moody-Stuart, formerly chairman of Anglo American, a FTSE 100 company, put the matter this way:

"To me if an individual behaves unethically, he or she should no longer work for a company. If the company is unethical in its approach, you either have to correct that or resign. It is difficult to have shades of ethics, although I agree that there may be significant arguments over what is ethical and what is not and there could indeed be cases where an infringement was unintentional or relatively minor. But even that makes me a bit uncomfortable. A little bit of dishonesty is not acceptable. People who are dishonest in small things are more likely in my opinion to be dishonest about things that really matter or when the stakes are high."

Sir Mark Moody-Stuart

Box 1: Examples of sanctions approach

'All BAE Systems employees are required to comply with the standards set out within this Code. These standards are clearly laid out at the beginning of each section..... These standards are also included in the relevant BAE Systems policies..... as with other policies and processes, failure to comply may result in disciplinary action.'

BAE: Being a Responsible Company – What it means to us. Code of Conduct (2008)

'We expect every employee to uphold our ethical business practices. Each manager is responsible for the behaviour of those under his or her control or direction. Failure to comply with the standards in this statement will result in disciplinary action which may include termination of employment. We may also report the matter to the public authorities for appropriate action.'

Cadbury Schweppes: Our Business Principles (2008)

Rewards

The rewards approach is to provide either a monetary or a non-financial incentive to employees to take ethics seriously. Eleven general factors that can positively influence ethical behaviour in an organisation are identified in Box 2.

Among these are tangible rewards for consistent ethical conduct. Rewards may be linked to annual performance appraisals which require the employee to demonstrate awareness and understanding of the organisation's ethics policy and how they are applying it in their day-to-day business life.

Examples of questions that could be asked are: "Did you have any occasion this year to ask a question starting 'ought we or 'should' we?" and "Are you aware of anything happening in this (company/department) that is contrary to the values or code of ethics of the organisation?"

Schemes

Chart 1 sets out a classification of the incentive schemes compiled from a survey of 68 UK companies conducted by IBE in 2008. It shows that while monetary incentives are common, schemes such as public commendation and 'other' incentives are also used. Two examples are:

- Serco Group Plc. hold an annual event – the Pulse Awards – at which employees from all levels and locations of the company are publically commended and

Box 2: Factors that can positively influence ethical behaviour in an organisation

- Top management involvement and direct supervision;
- Stressing code values and standards in training;
- Human resources policies e.g. goal setting and incentives schemes;
- Recognition and tangible rewards for conduct which exemplifies desired values and standards;
- Constant consciousness of those written, codified values and standards in recruiting and hiring;
- Thorough concentration on high-risk jobs and areas in terms of violating code values and standards;
- Periodic certification and auditing to assure compliance with those code and values and standards;
- Well defined and fair enforcement procedures including sanctions;
- Organisational culture;
- Peer pressure;
- Work home balance.

awarded for outstanding actions in the course of their duties.

- Walmart give annual awards for 'ethical courage'. These recognise extraordinary ethical courage and integrity at the workplace.

A survey by Deloitte in 2007 showed a strong relationship between enabling staff to have a good work-home balance and ethical behaviour at work. The study also indicated that senior management, as well as immediate supervisors, being positive in their encouragement of ethical standards, was an important factor in promoting ethical practice in the workplace.

Positive reinforcement of right behaviour and/or appropriate actions through some kind of reward is seen by many companies as worthwhile: 'an ounce of prevention is worth a pound of cure'. For instance, rewarding staff who 'speak up' about unethical or illegal behaviour.

Chart 1: Incidents of different incentive schemes (% of respondents, multiple answers)



What works?

Six attributes of an effective incentive scheme are:

1. The scheme has to be seen to be as fair by both the recipients and others in the organisation.
2. The incentive should be directly related to aspects of an organisation's strategy.
3. The scheme has to be simple to explain and easily understood.
4. The award should be timely i.e. not unduly delayed.
5. The incentive should be proportionate in size to the achievement being rewarded.
6. There should be an element of surprise in the award – it should not be taken for granted by the recipient.

Adapted from: Dick, G. Are incentives always incentives? American Printer, February 2001

This briefing is based on research conducted by Precious Ncayiyana of Cass Business School.

Further resources

- Rewarding Ethical Behaviour: http://www.tsphr.com/pdfs/rewarding_ethic_behavior.pdf

- How Can We Encourage Ethical Behaviour? SuperVision: <http://www.allbusiness.com/management/154159-1.html>

- Trevino, L. K. and Nelson, K. A. (2007). Managing Business Ethics: Straight Talk About How To Do It Right. pp. 184 – 190