Setting the Tone
a New Zealand perspective on ethical business leadership

By Jane Arnott and Guendalina Dondé

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The Institute of Business Ethics, whose purpose is to promote high standards of business behaviour based on ethical values, is an important partner to any business wanting to preserve its long-term reputation by doing business in the right way.

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- Advising senior business leaders and those with responsibility for developing and embedding corporate ethics policies
- Supporting the development of these policies through networking events, regular publications, research and benchmarking as well as training
- Providing guidance to staff through bespoke training and decision-making tools
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" **Doing business ethically ...**
.... **makes for better business** "

Report

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Authors

Jane Arnott has been the IBE's Associate and country representative in New Zealand for over eight years. Following the completion of her postgraduate studies in Professional Ethics, she had a lead role in bringing the IBE's work to New Zealand and is largely responsible for the development of IBE New Zealand.

Jane's professional career stems back to working on the launch of some of New Zealand's first state-owned enterprises (SOEs) as well as IPOs in the 1980s and 1990s. She developed some of the first public-private partnerships for conservation gain, founded New Zealand's first cross-cultural consultancy representing Pacific Island communities and, most recently, was appointed CEO of NZ Wood, reporting to the Wood Council of New Zealand. Jane has also held senior marketing and consultancy roles across architecture and engineering companies as well as membership organisations. Her career includes work for government agencies, NGOs and listed companies.

Jane researches and writes in the public domain on business ethics, governance and issues that impact on stakeholders. She also undertakes training and presentations on behalf of the IBE.

Guendalina Dondé is Senior Researcher at the Institute of Business Ethics. She writes and researches on a range of business ethics topics for the IBE. She is the author of the IBE survey *Corporate Ethics Policies and Programmes: 2016 UK and Continental Europe Survey* and co-author of the 2017 TEI & IBE *Ethics and Compliance Handbook*, the 2016 IBE *Codes of Business Ethics: examples of good practice* and of the French and Italian editions of the 2015 IBE survey *Ethics at Work: 2015 Survey of Employees*. Before joining the IBE, she collaborated in developing the code of ethics for the Italian Association of Management Consultants and worked for a European CSR Business Network in Brussels. She holds a Master's degree in Business Ethics and CSR from the University of Trento in Italy.

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The authors are particularly grateful to those who agreed to be interviewed, providing their input and expertise. A full list of those interviewed can be found in the Introduction to this report. Special thanks go to John Botica, Felicity Caird, Professor Karin Lasthuizen, Hamish MacDonald, Linda Noble and Kirsten Patterson for providing invaluable insight as reviewers of the report. The authors are grateful to all who contributed. The IBE remains solely responsible for this report's content.

Foreword

The IBE is pleased to celebrate its first publication in New Zealand. Ethical business leadership is not a new concept. It is naturally present in well-managed companies but the public expectation of leaders' behaviour has risen as the public's trust in business has fallen.

This is a global issue and business leaders need to address it because, collectively, business is losing its social licence to operate. The few bad examples of corporate behaviour, some of which are egregious, tarnish the reputation of those who do undertake their business in the right spirit. This is a theme picked up by the interviewees in this publication. They accept there is no room for complacency, but it helps to have a good base from which to draw.

In New Zealand, the vast majority of businesses are small and family run although a significant proportion of the working population is employed by larger businesses, some of which are listed global companies. Whatever their size, these companies reflect the values of New Zealand society with Māori values having an important role in business and society.

This society is, like many other places, facing new challenges. These include immigration and the changing nature of work, trade and technology driving a pace of change not seen before. This changing environment means that New Zealand needs its business leaders to demonstrate robust ethical leadership in order to support the country's place in the world.

We are grateful to all those who agreed to be interviewed for this publication and those who brought their knowledge, experience and acumen to bear on this important topic. I thank Jane Arnott, IBE's NZ Associate, for undertaking the interviews and co-authoring this publication with Guendalina Dondé, Senior Researcher at the IBE.

At the IBE, we believe that doing business ethically makes for better business. This New Zealand perspective exemplifies that, when leaders set the ethical tone for their organisation, it leads to better business.

A better business is more sustainable in the long-term because it reduces integrity and reputation risk; attracts top talent; increases brand loyalty and enhances shared value. A more trustworthy business is a more secure one

Philippa Foster Back CBE
Director
Institute of Business Ethics

Executive Summary

IBE New Zealand invited business leaders, defined for the purposes of this project as chairs or chief executive officers (CEOs) of substantial businesses in the private sector, to answer questions on their view of ethical business leadership.

Few, if any, had been previously asked to address questions about ethics in business. A total of 24 senior leaders agreed to be interviewed for this report. The conversations that followed are illuminating. They document how integral business ethics is to business operations, profitability and overriding purpose. Interviewees also talked about the impact of ethical business lapses or misjudgement.

The consequences of major cases of ethical misconduct in New Zealand are widely felt by interviewees, who expressed considerable regret that preventative action had not been taken by government or those organisations involved. Major transgressions in New Zealand have led to revision and tightening of policies and systems. Interviewees had a genuine awareness of the benefit of discussing and embedding core ethical values as well as demonstrating those values at work. Business ethics takes time and belief to implement but prevention is far less complex and costly than cure.

> *Ethical business leadership means doing the right thing – beyond popularity, political favour or profit*

Business ethics necessarily stems from the tone at the top. Public commitment from senior leaders to 'doing the right thing' inspires others to do the same and adds significance to programmes that aim to implement, embed and monitor an ethical culture.

Interviewees reflect on the range of different sectors and companies where they hold a position of influence. The breadth of comment at this point highlights the extent to which each sector is at a different stage in terms of bringing business ethics into everyday boardroom or executive management decision-making.

Perhaps unsurprisingly, there is growing consensus on the internal processes around building culture and communicating ethical values while the discussion about how this impacts and feeds into top-level leadership remains fragmented.

Business relationships and interactions with external partners and stakeholders are seen as a particularly complex area to tackle. There is a stronger expectation that companies need to address and monitor supply chain issues in order to show ethical leadership.

As New Zealand seeks to generate greater economic gain through free trade agreements, this makes ethical business leadership central to ensuring consistent standards of behaviour and encouraging a sense of shared values throughout the countries and cultures in which an organisation operates. This report provides examples of how business leaders can withstand pressure and remain steadfast to their own values, even when doing business in countries with lower standards of ethical behaviour.

Leaders have expectations of themselves and of those around them. They must believe in their ability to influence others. This can be a positive quality because they can lead on ethics, but it can also represent a risk if they do not live up to ethical values.

Business leaders can found companies that go on to grow and expand almost beyond recognition. Changing expectations and nuances can mean that the organisation they have inspired may develop a life of its own. In larger, more powerful companies that are sprawled across continents, the business ethics message can't be left to chance.

The IBE's research suggests that ethical business leadership is most effective when it is reflected in an ethics programme that includes training, internal communications and monitoring, as the company moves to new levels of engagement with its markets, employees, suppliers and customers.

A formalised approach to business ethics in New Zealand is still in its infancy for many organisations. However, market expectations and regulators are beginning to make clear that this is the next stage of development.

The New Zealand Stock Exchange (NZX) has already identified having a code of ethics as a requirement for listing. The Financial Markets Authority (FMA) is reinforcing this stance and the professions at large are beginning to evaluate how auditing organisational culture can contribute to providing the level of insight that enables investor confidence.

All of these developments can be seen as preconditions that, when aggregated, signal change. Building an ethical culture and developing a code of ethics that is a living, working and, most of all, an applied document are emerging as a 'must' for directors. This is increasingly seen as a strategy that will maximise shareholder returns while providing the broader stakeholders with the confidence they so richly deserve.

> *Building an ethical culture and developing a code of ethics that is a living, working and, most of all, an applied document are emerging as a 'must' for directors*

Main themes

In researching ethical business leadership from a New Zealand perspective, the IBE's aim has been to gain views from as many different sectors as possible. Company size and ownership models have also been considered. Generally, the interviewees' perspective and leadership style vary considerably. However, the following recurring themes emerged from the interviews:

- **Ethical business leadership goes beyond compliance with the law**
  Business success cannot be achieved through a culture of fear or control, or ticking boxes on what to do or not to do. It has to be grounded in core values and in an ethical culture.

- **Ethical business leadership supports individual decision-making**
  Ethical business leaders encourage people to make their own decisions, taking into account organisational values. Creative problem solving, reasoning and discretionary judgement based on ethical values needs to replace blind obedience. This gives employees the confidence to deal with situations that are not specifically covered in the 'rulebook' and supports the belief that 'doing the right thing' is the right thing to do.

- **Ethical business leadership promotes an open culture**
  It promotes a company culture where employees can ask questions and raise issues without fear of retaliation. This ensures that poor, unwise or non-compliant behaviour is reported and dealt with. Speaking up is seen positively and encouraged. It enables early intervention and prevention, thus helping to keep a company's reputation intact.

The business leaders interviewed for this report spoke eloquently about the importance of business ethics. Some had a written code of ethics while others did not. IBE research undertaken over many years demonstrates that leadership commitment is strengthened by articulating a set of core ethical values, developing a code of business ethics and introducing a formalised ethics programme.

Leadership commitment is strengthened by articulating a set of core ethical values, developing a code of business ethics and introducing a formalised ethics programme

About this Report

Background to the report

In 2005, Philippa Foster Back CBE stated in the precursor to this report – the IBE's *Setting the Tone: ethical business leadership* **– that:** *"Leadership is as essential to business ethics as ethical qualities are essential to good leadership"*.[1] **More than 10 years have passed since then, but this remark remains just as relevant today.**

Both ethical and business acumen are key components of leadership. In times of deep social and economic uncertainty, people look to those in political and business leadership positions to take a firm stance on issues that are seen as a threat to social development.

How can companies integrate workforces with different cultural backgrounds? How can business leaders ensure that all staff have equal opportunities in accessing training and developing their skill sets? How can companies ensure that their environmental impact is managed properly while maintaining returns on investments or that their sustainability mantra is truly upheld?

The role of business leaders is key to answering these questions. In particular, it is important that leaders are clear about the core ethical values that guide their behaviour. As this report outlines, many business leaders in New Zealand place great importance on their personal values and are confident that these values are embedded in their organisations and directly affect how employees behave.

> *Leadership is as essential to business ethics as ethical qualities are essential to good leadership*

However, to build trust amongst the public and society as a whole, it is necessary for business leaders to make explicit the core ethical values that inspire them. This is particularly the case as an organisation expands internationally. Companies also need tools and processes to embed those values so that the culture of the organisation will be preserved when the founders or leaders retire or move on.

There is no one-size-fits-all approach to ethical business leadership. From the interviews conducted for this report, it is clear that companies in New Zealand have specific characteristics that define their identity and make them unique. The aim is not to suggest a tick-box exercise or checklist for every organisation to adopt. On the contrary, it is to provide examples of good practice in New Zealand that can help organisations of all sizes – and in all sectors – to strengthen their ethical business leadership.

Encouraging business leaders to make an explicit commitment to promoting an ethical culture is an essential step in protecting an organisation against a range of ethical risks [2] that might arise and undermine long-term sustainability.

[1] IBE (2005) *Setting the Tone: ethical business leadership*

[2] Business risk implies uncertainty in profits or danger of loss due to unforeseen issues or events in the future, which might cause the business to fail. The concept of ethical risk refers to unexpected negative consequences of unethical actions.

Figure 1 **The IBE Business Ethics Framework**

Ethical Values
Together with the business values, in the purpose, business model, strategy, governance, ethics policy and decision-making process in the organisation

Embedded into organisational culture through

Code of Ethics

Supported by

Ethics Programme

| Communication & Engagement | Training & Reinforcement | Leadership, Supportive Environment & Speak Up | Risk Assessment, Monitoring & Accountability |

Creating an open responsible culture which influences behaviour and conduct

Enhancing Trust and Reputation

Improving Financial and Operational Performance

Why talking about ethical business leadership matters

The process of building an ethical business culture can be described as a journey: the calibre and style of leadership, along with the size and geographical spread of the organisation, will influence the direction and pace of travel. At the same time, the values and expectations of a company's stakeholders [3] – including employees, customers, suppliers, shareholders and society as a whole – will influence the priorities of business leaders and may put both positive and negative pressure on their commitment to ethics. Explicit ethical values and a structured approach to the promotion of an ethical culture can, however, assist those in leadership positions to manage and diffuse any tensions that might arise.

As mentioned above, there is no one-size-fits-all approach and the business ethics journey will be different for every company. Business leaders need to find the style and tone that is best for communicating and embedding the ethics message within their organisation. However, it is possible to identify a framework that can support and provide a general structure to articulate a leader's commitment to ethics in business practice. This is illustrated in Figure 1.

> *There is no one-size-fits-all approach and the business ethics journey will be different for every company*

> *Ethical business leadership and values-based business behaviour are topics that need to be at the top of the agenda in every company*

Who is this report for?

This report has been written for those who seek to gain a better understanding of how leaders can shape and influence the ethical culture of their organisation, across all departments including (but not limited to) human resources, risk management, marketing and legal. The ethical business leadership commentary comes from New Zealand where it is anticipated the primary audience will be based. Although aimed at a business audience, the advice and guidance in this report is also relevant to the public and voluntary sectors as well as to organisations of any size, from SMEs to multinationals.

Ethical business leadership and values-based business behaviour are topics that need to be at the top of the agenda in every company in order to enhance trust and reputation and, ultimately, to improve financial and operational performance.

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[3] Stakeholders are individuals or groups who have an interest or 'stake' in the affairs of a company or organisation.

Introduction

Purpose and methodology

Building on the 2005 IBE report *Setting the Tone: ethical business leadership***, this report explores the importance of ethical business leadership from a New Zealand perspective. Whilst certain traits of ethical business leadership – such as integrity and respect for others – are applicable regardless of geographical location, other elements need to be considered within the local context of the country in which the company operates.**

The aim of this report is to provide an overview of thought leadership amongst business leaders and highlight some of the practical applications of business ethics in New Zealand. The report draws on a wealth of information gathered in a series of interviews with prominent business leaders.

The main objectives are:

- To **understand** what ethical business leadership means in New Zealand
- To **spell out** the importance of setting the right tone from the top
- To **identify** the leadership traits that promote trust and an ethical culture
- To **apply** these qualities to the business context and engage with stakeholders.

Respondents' profiles

In carrying out research for this publication, particular attention was directed at including interviewees from a cross-section of sectors and identifying individuals with a reputation for leadership skills.

Interviewees have been selected on the basis of their *mana*,[4] their achievements and their overall standing. Several interviewees have been recognised as pioneers in their sector, having received awards for their leadership skills or been linked to business success that has left a lasting legacy.

The people interviewed were (in alphabetical order):

- Mike Bennetts, CEO, Z Energy
- Kevin Bowler, New Zealand CEO, Frucor Suntory
- Angela Buglass, CEO, Trilogy International
- Rob Campbell, Chairman, Tourism Holdings and Summerset Group
- Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare
- Simon Challies, former CEO, Ryman Healthcare
- Barbara Chapman, CEO, ASB Bank
- Mark Cairns, CEO, Port of Tauranga
- Liz Coutts, Chair, Ports of Auckland

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[4] *Mana* is a word in the Māori language meaning power, effectiveness, prestige.

- Martin Dippie, Chairman, Mitre 10
- Whaimutu Dewes, Chairman, Moana New Zealand
- Rob Fyfe, Chairman, Icebreaker
- Brian Gaynor, Executive Director, Milford Asset Management
- Peter McBride, Chairman, Zespri
- Dame Alison Paterson, Independent Non-Executive Director, Vector
- Dr John Penno, CEO, Synlait
- Mark Peterson, CEO, NZX
- Bruce Plested, Executive Chairman and Founding Owner, Mainfreight
- Mike Sang, CEO, Ngāi Tahu Holdings
- Lees Seymour, Managing Director, Nelson Forests
- Charles Spillane, CEO, Kensington Swan
- Michael Stiassny, Chairman, Vector
- Anne Urlwin, Chairman, Naylor Love Construction
- Dr Brent Wheeler, Chair, The Boardroom Practice

Analysis

The analysis is presented in four chapters:

Chapter 1 provides a description of the context in which business leaders in New Zealand have to operate. It describes how the context has evolved over time and why a formalised approach to business ethics is important.

Chapter 2 discusses the characteristics of an ethical business leader and the importance of setting the right tone from the top to support an ethical culture. It includes examples of ethical dilemmas that interviewees had to face and how they approached the situation. Furthermore, it explains the difference between ethics and compliance and it illustrates how ethical business leaders need to go beyond compliance with the law to embed their organisation's core ethical values.

Chapter 3 focuses on the importance of building trust and gaining a social licence to operate. It addresses some of the main ethical issues and risks that business leaders need to tackle to do so effectively.

Chapter 4 highlights the importance of business leaders giving guidance to their employees, supporting their commitment by setting up an ethics programme and engaging with employees to empower ethical decision-making.

Ethical business leaders need to go beyond compliance with the law to embed their organisation's core ethical values

Setting the Context

Doing business in New Zealand

To understand the challenges and opportunities that business leaders in New Zealand face, it is important to consider the features that make the country unique (see Box 1). The characteristics of the economy have shaped New Zealand's approach to ethical business leadership and the core ethical values that underpin business behaviour.

The business environment in New Zealand has been nurtured by a strong sense of fairness and commitment to integrity that has shaped business practice for decades. Once defined as a 'classless society' or a 'working man's democracy', [5] it is clear that some key ethical values are profoundly rooted in the structure of New Zealand society, although they are not always made explicit by companies.

Family businesses have an important role to play in New Zealand. The PwC *2016 Family Business Survey* states that New Zealand family businesses are growing faster than their counterparts overseas, with 42% reporting that they grew significantly in the previous 12 months. [6]

Family values, such as shared responsibility and mutual respect, have underpinned the development of business values. As Dr Brent Wheeler of corporate governance advisory group The Boardroom Practice explains, *"most of New Zealand's ethical base comes from families. Family values are 'imported' into business, even though some people do not realise it."*

The **type of organisation** is also important. The prominence of co-operatives and mutual associations along with the strong values-based approach upon which these organisations are established (see Box 2) has a significant impact on their ethical culture.

For example, Martin Dippie of the home improvement and hardware industry co-operative Mitre 10, highlights the benefits of this type of organisation: *"Because of our ownership structure, Mitre 10 is characterised by immediately accessible board members. As board members of a co-operative, we have a fiduciary duty to our member shareholders but also need to represent the interests of our members in certain business situations. The Mitre 10 co-operative is 43 years old and, despite our growth, the way we treat people has remained the same: we are always fair and equitable regardless of our store size or format. That's a foundational part of being a co-operative and gives our members a real feeling of ownership and pride in the business."*

> *The business environment in New Zealand has been nurtured by a strong sense of fairness and commitment to integrity*

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[5] Keith Sinclair (1969) *A History of New Zealand*

[6] PwC (2016) *2016 Family Business Survey*

Box 1 New Zealand in a snapshot

New Zealand has a population of 4.7 million. Its permanent workforce is 1.8 million and is often described as a 'club' where everyone knows everyone – particularly across some sectors. The Stock Exchange is small by international standards with only 173 companies listed on the NZX. The dairy sector is particularly prominent, contributing $7.8 billion (3.5%) to New Zealand's total GDP. [7]

In 2017, New Zealand was mentioned by the World Bank Group as the top country for *"ease of doing business"* in the world. [8] In other words, it is recognised for a regulatory environment conducive to the start-up and operation of local firms, providing a fertile territory for business to thrive.

The role of small and family run businesses. Although a significant proportion of the workforce are employed by large companies, according to a study published in 2017 by the Ministry of Business, Innovation & Employment (MBIE), 97% of organisations in New Zealand have fewer than 20 employees and organisations with fewer than 20 staff employ 30% of the overall workforce in the country. [9] Interviewees highlight that often such small and medium enterprises (SMEs) are family run.

The most co-operative economy. Co-operatives feature strongly across the country and New Zealand derives close to 20% of its GDP from co-operatively owned companies and mutual associations. About 1.4 million people out of a total population of 4.7 million are members of this type of organisation. In 2014, this prompted the United Nations to name New Zealand the most co-operative economy of 145 countries surveyed. [10]

A diverse business environment. Immigration levels are rising and the implications of an increasingly multicultural working society are only now beginning to be felt and considered. Diversity is a strong theme across all governance debates but tends to focus on gender rather than ethnicity, with Māori representation in business being enabled mostly through large, successful *iwi* [11] organisations.

Box 2 The Co-op movement ethical values [12]

Self-help
Members joining together and making a difference. Whether it's supporting a national charity [...] or working in their local community.

Self-responsibility
Every member doing their bit, making our Co-op a success by supporting its activities and using its products and services. They encourage others to support it too.

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[7] New Zealand Institute of Economic Research (2017) *Dairy Trade's Economic Contribution to New Zealand*

[8] The World Bank Group (2017) *Ease of Doing Business Index*

[9] MBIE (2015) *Small Businesses in New Zealand*

[10] David Grace and Associates (2014) *Measuring the Size and Scope of the Cooperative Economy*

[11] A Māori community or people.

[12] Co-op *Our Values*

Box 2 **The Co-op movement ethical values** *continued*

Democracy
All members are equal. Voting power can't be bought – it's one member, one vote.

Equality
Our Co-op gives all members an opportunity to get involved, like campaigning for
fair trade.

Equity
Co-op is committed to fairness.

Solidarity
Together we're stronger, so members join together to help their Co-op achieve
even more.

A third element worth considering is the **diversity** within the business community. As Box 3
highlights, Māori culture and values are having a growing impact on corporate governance
practices in the country with concepts like *kaitiakitanga* – custodians for future generations –
appearing more frequently in discussions on governance.

Diversity issues come to fore more prominently in the context of increasingly globalised
businesses. New Zealand has a particularly favourable business environment characterised
by political and economic stability. This has contributed to attracting significant foreign
investment, joint ventures involving offshore companies and labour from other countries.

> *Māori culture
> and values
> are having a
> growing impact
> on corporate
> governance
> practices*

Whilst on one hand this has brought enormous
opportunities for businesses to develop, on the other hand
it has posed new challenges that business leaders have to
address in order to support and maintain an ethical culture.

An important outcome of this development, recognised by
many interviewees, is that business leaders are increasingly
required to manage a multicultural workforce. Leaders
therefore need to be sensitive to the differences that
might exist among their employees, suppliers and other
business partners. Core ethical values such as reliability,
honesty, respect and openness are not defined by national
boundaries and inspire ethical behaviour worldwide.
However, some aspects of their practical application might
differ. Issues around the provision of gifts and hospitality
are one example: whilst in some countries this is part
of building business relationships, in other cultures gifts
might represent an unacceptable form of bribery. [13] Another example is the willingness of
employees to speak up about instances of misconduct in the workplace, particularly when
more senior employees are involved. This practice can be difficult to accept in some cultures
where hierarchy and respect for elders are endemic. [14]

[13] An interesting example is represented by facilitation payments. Under New Zealand law such payments are not considered
bribes and are a narrow exception to the foreign bribery offence in section 105C of the Crimes Act 1961. However, the Ministry
of Justice has issued some guidance on facilitation payments and New Zealand's anti-bribery laws. This guidance discourages
businesses from using facilitation payments as they are illegal in many countries.

[14] IBE (2014) *Towards Ethical Norms in International Business Transactions*

Box 3 Corporate governance and the Māori tradition [15]

The Māori culture is deeply rooted in the history of New Zealand. The Māori represent 15% of the total population and the Māori economy contributes approximately 8% to national GDP. Māori land extends to 1.5 million hectares of New Zealand, 70% of which is administered by trusts and incorporations. In 2011, Māori assets amounted to $36.9 billion. These statistics indicate that the Māori economy makes a significant contribution to the economic development of New Zealand.

This contribution is evidenced by several successful Māori-owned companies. Fisheries company Moana New Zealand and investment company Ngāi Tahu Holdings, which are included in this report, are just two examples.

As Dr Robert Joseph of the Māori and Indigenous Governance Centre, University of Waikato points out, the future of Māori economic development is bright and grounded on core values that have shaped the Māori culture for centuries. When these values are applied in business, they can drive success and impact significantly on corporate governance.

Traditional Māori values also influence business leadership style. Māori entity ownership characteristics are collective, ancestry-based and do not have easy exit mechanisms for owners, whilst their sense of accountability to their *whānau* (family) and community members is particularly strong.

Dr Joseph illustrates the role of Māori business leaders through a nautical metaphor. In Western ships, the captain sits at the helm at the back, driving the crew. In a *waka* (Māori watercraft) the captain sits in the middle, encouraging and motivating his crew. In business this is reflected in the value of *manakitanga* – which is a measurement of people's ability to help each other – to coach, support and actively listen.

[15] Dr Robert Joseph (8 September 2016) *Governance – the Pathway to Effective Leadership* presentation at *Governance New Zealand Inc Conference*

Towards a more formalised approach to business ethics

New Zealand is a country with a relatively small population which, for centuries, has had limited business exchanges with other continents. The country's main companies have been created and developed on values derived from family background, tradition or social movements. It is therefore not surprising that many interviewees take pride in the core ethical values that enable them to promote and ensure the long-term success of their organisations. [16] Having core ethical values is particularly important when people are presented with difficult decisions for which there might not be an easy or straightforward answer. In those situations, employees need to be empowered to use their own judgement to apply their organisation's core ethical values in practice.

Further formalisation of business ethics will protect such values and ensure that they remain at the core of business. Conversations about values, in some cases prompted by succession issues when a founder leaves the business, are causing business leaders to express their beliefs more explicitly. This can mean tightening the link between incentive schemes, bonuses and values (see Box 11). The increasingly complex business context and more mature role that New Zealand business is preparing to play on the international stage requires thoughtful consideration of the importance of ethical business leadership. Against this backdrop, business leaders are often required to take a step further in their organisation's ethical journey, making their commitment more explicit and equipping their organisations with the necessary tools to promote long-term sustainability.

> *Employees need to be empowered to use their own judgement to apply their organisation's core ethical values in practice*

Furthermore, in recent years, several high-profile business collapses at a national and international level – including Mainzeal, Postie Plus, Pumpkin Patch and Ross Asset Management (New Zealand's largest Ponzi scheme) – have placed new attention on how companies live up to their values and promote ethical conduct. Box 4 presents an example. Business decisions and actions have been increasingly exposed to scrutiny from shareholders, governments and the general public. Business leaders are held increasingly accountable not only for what the company achieves but also for how business is conducted and for the drivers and incentives that are at play.

Box 4 **How ethical failures have influenced business in New Zealand**

Certain events have dramatically shaped the New Zealand business environment and led to new legislation. These events happened either because the wrong values and incentives were applied or the commitment to values was eroded.

An example is the Pike River tragedy, New Zealand's worst mining disaster where 29 lives were lost. According to the executive summary of the independent investigation report into the tragedy, *"size is no guarantee that an employer will be doing the right things to ensure the health and safety of its employees"*.

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[16] www.iod.org.nz/FirstBoards/Family-businesses

Box 4 **How ethical failures have influenced business in New Zealand** *continued*

In addition, the reviewers found there were *"some fundamental lessons here about the culture and strategic approach of an effective health and safety regulator. Simply put, any organisation that has health and safety regulatory responsibilities needs to own them."* [17]

The Royal Commission on the Pike River Coal Mine Tragedy highlighted that the mining company's board had no effective framework for ensuring there was a systematic assessment of risk throughout the organisation. The board commissioned no third parties to carry out such an assessment. The corporate risk management policy required an overall risk management committee but this was not established. And at a management level, the company *"focused on production targets, the executive management pressed ahead when health and safety systems and risk assessment processes were inadequate. Because it did not follow good management principles and industry best practice, Pike's workers were exposed to health and safety risks."* [18]

The findings of both reports made an invaluable contribution to the drafting and subsequent passing of the *Health and Safety at Work Act 2015* which was referred to at length throughout the interviews. Under the Act, a director can be personally liable for health and safety issues, with a maximum prison term of five years and/or a fine of up to $600,000.

Michael Stiassny, Chairman of energy company Vector, confirms the importance of the Act: *"I am convinced that the Health and Safety at Work Act has provided the catalyst to reassess our beliefs. Accepting the importance of health and safety is about ethical engagement with workers and partners. It's the first step in accepting a wider ambit of responsibility – including social leadership."*

Many interviewees were fully aware of the importance of establishing healthy relationships with society and other stakeholders. This prompted them to enhance their ethics programmes. Some examples are outlined in Box 5.

Once the formal tools of an ethics programme are in place (see Figure 1), they will provide effective risk management as companies grow and new challenges – such as those dictated by the increased complexity of the international marketplace – appear.

> *Interviewees highlight the importance of focusing on long-term sustainability rather than just on short-term profits*

[17] David Shanks and Jane Meares (2013) *Pike River Tragedy Report of the Independent Investigation to the Chief Executive of the Ministry of Business, Innovation and Employment*

[18] Royal Commission on the Pike River Coal Mine Tragedy (2010) *What happened at Pike River?*

Box 5 Engaging stakeholders

LEADERS' VOICES

Interviewees highlight the importance of focusing on long-term sustainability rather than just on short-term profits. They stress that, in order to achieve this, the way they do business has to be in line with their ethical values and there is also a need to engage with all stakeholder groups.

"I strongly believe that companies that do the right thing are more attractive to customers and staff and will therefore outperform those that take a short-term view."

Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare

"To me, being a good citizen is one of the main objectives of our company. As a dairy company, this is an important commitment for us and shapes the way we do business with all our stakeholders."

Dr John Penno, CEO, Synlait

"In the bigger picture, we have to take responsibility for our people and for the environment to ensure that we treat the land that we have been given and the people fairly. Fair play, equal pay and affordable housing are part of our responsibilities, the thinking that encompasses everything we do, the way we treat the land, animals and human beings. We are making the world a better place for our mokapuna, our grandchildren. We have spent a lot of time trying to move away from a culture driven by short-term profit to one inspired by long-term sustainability and wealth for all people involved. We have just started the journey."

Michael Stiassny, Chairman, Vector

Business ethics and corporate governance practices

In New Zealand and worldwide, collaborations between business and policy-makers on the subject of ethics and corporate governance demonstrate the importance of business ethics in the political and economic agenda. The role of business leaders in promoting ethical practice is of utmost importance. There is a particular focus on the role of the board of directors, whose responsibility to promote and support an ethical culture is recognised by regulations and codes of practice worldwide. In the UK, the 2016 update of the *UK Corporate Governance Code* states that: *"One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct 'tone from the top'. The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success."* [19]

The Institute of Directors of New Zealand (IoD) states that: *"A company should not consider that focusing on ethical practice is a diversion from core business. Companies should regularly evaluate the role of ethics and compliance to ensure a healthy and universal ethical culture is fostered. It is important to observe that the tone at the top is only part of the solution to ensuring the company is performing as an ethics champion.*

[19] FRC (2016) *The UK Corporate Governance Code*

Too many organisations fail to enquire whether the approach is consistent through the company. The attitudes of middle management and individual business units need to be monitored for standards of ethical behaviours." [20]

Further important guidance on corporate governance in New Zealand is provided by the FMA handbook for directors, executives and advisers. [21] This handbook details principles and guidelines to promote good practice in corporate governance, as Figure 2 shows.

Figure 2 FMA principles for corporate governance

01
Ethical standards
Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

02
Board composition and performance
To ensure an effective board there should be a balance of independence, skills, knowledge, experience and perspectives.

03
Board committees
The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

04
Reporting and disclosure
The board should demand integrity in financial reporting and in the timeliness and balance of corporate disclosures.

05
Remuneration
The remuneration of directors and executives should be transparent, fair and reasonable.

06
Risk management
Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.

07
Auditors
The board should ensure the quality and independence of the external audit process.

08
Shareholder relations
The board should foster constructive relationships with shareholders that encourage them to engage with the entity.

09
Stakeholder interests
The board should respect the interests of stakeholders, taking into account the entity's ownership type and its fundamental purpose.

The FMA clearly considers that ethical business leadership is an essential part of good corporate governance. It places substantial responsibilities on directors in this respect, as stated in Principle 1: *"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation."* Given the high-level nature of the principles, boards are asked to explain how they comply with each principle.

[20] IoD (2017) *The Four Pillars of Governance Best Practice for New Zealand Directors*
[21] FMA (2014) *Corporate Governance in New Zealand: principles and guidelines*

As discussed in more detail in Chapter 4, to ensure that Principle 1 is applied in practice it is suggested that boards *"should adopt a written code of ethics that is a meaningful statement of its core values."* [22] This stance confirms the fundamental importance of ethics in corporate governance.

It is also reflected in the 2017 *NZX Corporate Governance Code*, which is structured around eight principles of good corporate governance and uses a 'comply or explain' approach. [23] This represents an example of international good practice which, along with the comply or explain approach, enables meaningful dialogue and well-informed investor decisions.

> ❝ . . . .
>
> *As these risks continue to grow, the pressure on audit and risk committees may also increase and companies require more specialised understanding, causing more to form an additional committee focused on non-financial risk*
>
> . . . .

The guidance provided in these documents is particularly helpful, not least because it spells out how boards can fulfil their duty to promote and support an ethical culture. In particular, boards are encouraged to *"use committees where this will enhance its effectiveness in key areas while still retaining board responsibility"*. [24] While it is acknowledged that board committees might not be the appropriate solution for every organisation, they can be a helpful tool. This is particularly the case in larger or more complex companies where committees enhance board effectiveness through closer scrutiny of issues and more efficient decision-making. Board committees can maximise the use of directors' skills, knowledge and experience. Whilst the FMA handbook mentions board committees dealing with audit, remuneration, risk and also health and safety, IBE research has found that many large organisations worldwide also have a committee dealing with ethics, culture and values. [25]

As monitoring non-financial risk is gathering momentum, an important driver behind these committees is business leaders' increased awareness of their role in shaping organisational culture to minimise risk and protect business operations. In many cases it appears that one of the main reasons for companies to form such committees is that audit committees, which have traditionally had a role in monitoring compliance and relevant issues such as Speak Up or whistleblowing arrangements, are becoming overloaded.

As the IBE's Peter Montagnon explains, *"While audit committees retain their core role of monitoring financial arrangements and reporting, as well as of overseeing internal controls, they are operating in a world where non-financial risks are growing, with potential*

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[22] FMA (2014) *Op cit*

[23] NZX (2017) *NZX Corporate Governance Code* The Listing Rules act to encourage issuers to adopt the NZX code but do not force them to do so. This allows an issuer flexibility to adopt other corporate governance practices considered by the board to be more suitable. Under the NZX code, if the board of an issuer considers that a recommendation is not appropriate because it does not fit the issuer's circumstances, it is entitled not to adopt it but must explain why it has not.

[24] FMA (2014) *Op cit*

[25] See IBE (2016) *Culture by Committee: the pros and cons* for an overview in the UK, and TEI & IBE (2017) *Ethics and Compliance Handbook* for a comparison between the UK and South Africa.

consequences for reputation and for conduct risk. As these risks continue to grow, the pressure on audit and risk committees may also increase and companies require more specialised understanding, causing more to form an additional committee focused on non-financial risk." [26]

Fuel supplier Z Energy, for example, has adopted this approach by setting up a board-level *People and Culture Committee*. The stated purpose of this committee is to *"guide and review Z's People and Culture strategy and policies, including organisational design, remuneration, board and senior succession planning, and diversity and inclusion to ensure they are optimally designed to support and deliver the business plan and overall strategy."* [27]

Other companies have sub-board committees at management level that are responsible for similar issues. Barbara Chapman of ASB Bank explains that *"an ASB sub-board committee reviews, amongst other things, material breaches of the Code of Conduct, reports them to the Chief Executive Officer and the board, and makes recommendations with respect to the consequences of the breach."*

This is not intended to suggest that all companies should form a committee dedicated to ethics, values and culture, as this might not be the most appropriate choice in every case.

" "

Discussing business ethics is a vital part of enabling positive behaviour

However, this is an example of how some business leaders address the challenges associated with promoting an ethical culture, particularly in view of the greater expectations of internal and external stakeholders.

As the interviewees highlight, there are a number of different ways in which leaders can take responsibility for ethics in their organisation. According to the IBE's experience in New Zealand, companies tend to turn to the legal or human resources departments. Internationally, many organisations include ethics under the remit of the function responsible for internal audit and risk, whilst other organisations have a separate ethics function.

"Business ethics is all about finger wagging!"　　　　　　**OFTEN SAID**

The interviews highlight how easy it is for discussions on business ethics to be misinterpreted as finger wagging and time wasting. Embedding an ethical culture is not always considered as important as, for example, risk management.

Business leaders have an important responsibility to explain that discussing business ethics is a vital part of enabling positive behaviour.

Business ethics, defined as the application of ethical values to business behaviour, is about teamwork – it requires everyone's co-operation and commitment to be successful. Those in leadership positions have the important role of keeping the conversation on ethical issues prominent in the organisation and making sure that the relevant processes and procedures are in place to support employees to do the right thing.

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[26] IBE (2016) *Op cit*
[27] Z Group *People and Culture Committee Charter*

The challenge of promoting an ethical culture

The interviews conducted for this report support the need for the more formalised approach to ethics suggested by the FMA. Interviewees acknowledge progress in embedding ethics into business in New Zealand (see Box 6). Michael Stiassny of Vector believes that senior executives are *"all more aware of the ethical dilemmas and this is positive"*, although he acknowledges that there might still be room for improvement. Mark Cairns of Port of Tauranga adds that this extends to shareholders and investors who are *"stronger and more active"*.

Similarly, Kevin Bowler of drinks company Frucor Suntory explains that: *"today there is more awareness about ethics"*. According to Bowler, this new emphasis on ethical business leadership is the product of a number of factors. One of these is the impact of international companies such as Frucor Suntory taking a more structured approach to the management of ethics. The work done by the IoD was identified as another driver of change. The IoD, which over the past 40 years has built a strong reputation as a thought leader on corporate governance, has developed an online course specifically designed for directors and senior executives. The aim of the course is to explore how ethics management can shape how a company is run. It builds on the consideration that doing business ethically takes more than just a code of ethics that may only be downloaded or discussed from time to time. One of the points covered on the course is the relationship between ethics management and the culture of an organisation, as well as the role of directors and senior executives in planning ethics management. [28]

Box 6 From implicit to explicit commitment

> **LEADERS' VOICES**
>
> **Some interviewees suggest that there has been a tangible shift from an implicit definition of what a company stands for, often based on the viewpoint of the founders or the CEO, to an explicit ethics framework. However, they also point out that more should be done to ensure that all organisations explicitly support decision-making based on core ethical values across all aspects of business, from incentives and procurement to contracts and customer satisfaction.**
>
> *"We are more explicit about the top ethical issues compared to the past. Explicit conversations and discussions about ethical issues at work used to be rare in the past."*
>
> Rob Campbell, Chairman, Tourism Holdings and Summerset Group
>
> *"I have seen changes in the perspective on ethics in business. I believe that, in recent years, there has been a greater emphasis on making a conscious effort to think about the ethical implications of what we do, rather than just do things because it is what has always been done before or for the sake of compliance."*
>
> Charles Spillane, CEO, Kensington Swan
>
> »

[28] IoD *Ethics – how directors do business* training course

Box 6 **From implicit to explicit commitment** *continued*

> LEADERS' VOICES
>
> *"Today there is more emphasis on monitoring ethics and analysing the data. Companies conduct explicit culture surveys to try to get data and check whether the values they are trying to live up to are effectively applied in practice."*
>
> Tony Carter, Chairman Air New Zealand and Fisher & Paykel Healthcare
>
> *"Tim [Bennett, former CEO] formalised our values and by now they are deeply engrained in our business: integrity, openness, creativity, delivery, resilience. We then introduced a programme to support those values; they are at the heart of training, staff recruitment and recognition practices."*
>
> Mark Peterson, CEO, NZX
>
> *"Naylor Love Construction's history dates back 107 years. Ethics has always been there. The problem is talking about it in a more formalised way. In New Zealand, the approach to business ethics is often undocumented and is expressed through people's actions."*
>
> Anne Urlwin, Chairman, Naylor Love Construction
>
> *"At Icebreaker, our values haven't been defined explicitly but they are deeply embedded in our sense of purpose. Jeremy Moon, our founder, was a pioneer of the thinking around ethical supply chains in New Zealand. He was concerned about the promotion of ethical practices on farms and animal welfare. Our overall vision is around living in harmony with nature and becoming a force for good – this is a very strong ethos that is also embedded in the brand. As our company grows in scale, however, we recognise we will have to document and take a more formal approach to policies and procedures linked to ethics."*
>
> Rob Fyfe, Chairman, Icebreaker

Many interviewees describe the positive impact that an increased awareness of ethical issues has had on their organisation. A particularly helpful example is provided by Nelson Forests. Lees Seymour explains how ethics strengthened his relationships with employees in his company. Taking a more structured approach to the organisation's duty of care towards its employees led Seymour to embark on a journey to raise awareness of health and safety procedures. Although health and safety issues had always been important to the company, presenting people with lists of rules had produced limited employee engagement. A more inclusive and collaborative approach improved general understanding and acceptance of the spirit of the health and safety policy. *"I changed my vocabulary and people became more willing to learn and accept our guidelines,"* recalls Seymour. This translated into a significant reduction in the number of work-related injuries and near accidents.

Some suggested that new generations coming into the workforce might also be one of the main drivers of change, as Box 7 illustrates.

Box 7 **A generational issue?**

> LEADERS' VOICES
>
> **Some interviewees mention the different approach to business ethics of the new generations entering the workforce. Younger employees expect companies to deliver more social and environmental benefit and to work more collaboratively to tackle global issues. [29] This demonstrates that it is important for companies to ensure diversity in terms of age groups, as it is a way of bringing together different perspectives and enriching the organisation.**
>
> *"The younger generations often take for granted that we as business leaders care about business ethics and our impact on society."*
>
> Dr John Penno, CEO, Synlait
>
> *"Over the last decade, a new breed of business leaders has emerged. A whole new generation has come through and they are very passionate about doing business ethically. It shows in things like diversity: some people in the older generations fought against having women on boards of directors. Now we have a new generation that is pushing for this change."*
>
> Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare
>
> *"In a way, the younger generations seem to be better at ethics. Currently, a large share of the workforce is made up of people between 23 and 35 years of age, who had no exposure to the 'cowboy days'. They don't even know those days existed! Now that they receive training on ethics matters [...] we are many moons away from the worst practices."*
>
> Brian Gaynor, Executive Director, Milford Asset Management

> *Stronger engagement with society gives companies a social licence to operate*

Another recurring theme is how stronger engagement with society gives companies a social licence to operate (see Box 8). Whaimutu Dewes of Moana New Zealand stresses the positive impact of increased attention to ethics and values: *"Several actions promoted by representatives of civil society to voice their concerns about business behaviour have been taken very seriously in recent years. And this is a good thing."* Dewes acknowledges that the reasons for this are complex: *"I think there is a whole raft of reasons. We live in the 'information age', therefore it is easier for people to get access to the relevant facts, and there is more awareness of the impact of business activities even in remote locations. Companies are held more accountable."*

Barbara Chapman of ASB adds that, *"social media has elevated previously 'hidden' voices and given them a platform to build a groundswell of public opinion. The scale and pace of*

[29] IBE (2015) *Business Ethics across Generations*

social media reaction has taken many organisations by surprise and has had a direct impact on how they react to ethical issues. Boards and executives need to be mindful of reputation being one of the company's most valuable and powerful assets and without the greatest care and protection, it can turn quickly from asset to liability."

Box 8 **The social licence to operate**

> **LEADERS' VOICES**
>
> **Many business leaders are discussing the need for a more formalised approach to ethics in order to strengthen their company's social license to operate.**
>
> *"Companies are now more in tune with their social licence to operate and the importance of doing the right thing. They are now recognising the importance of doing business ethically. Corporate taxation is a good example. A decade ago, companies were planning aggressive strategies to minimise the tax they paid. This was legal but potentially very controversial. Today, the most reputable companies have clearly committed to paying their fair share of tax."*
>
> Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare
>
> *"I increasingly see the appreciation that business has to operate as part of society. Society and the public look at business and attach value to how a company goes about its operations. They require companies to report more openly on issues such as environmental performance, treatment of staff, health and safety, executive remuneration. These things used to be kept under wraps – not because businesses wanted to keep them hidden, but more that there wasn't any requirement or expectation that they be reported on.*
>
> *They are linked to business's social licence to operate and to trust. Trust has decreased across the board, so the onus is on business to prove that it can be trusted, explaining for example why executives are paid that much. In general, business leaders need to connect with broader parts of society than in the past.*
>
> *These issues of lack of trust and lack of transparency can reduce financial performance. People might decide that they don't want to deal with a certain company because they consider the CEO is overpaid or because of the negative impact of that company's activities on the environment. To ensure continued financial success, companies need to explain, justify and communicate on more than just financial performance in order to guarantee their continued social licence to operate."*
>
> Anne Urlwin, Chairman, Naylor Love Construction

Promoting an ethical culture for long-term business success

Business leaders understand that talking about ethical business leadership requires going above and beyond corporate sponsorships or charitable donations. This type of activity can make a very positive contribution to addressing specific social issues. Bairds Mainfreight Primary School, for example, is a long-standing partnership between logistics and transport company Mainfreight and a school. The partnership is designed to improve opportunities for children from lower socio-economic backgrounds.

Another example is Ryman Healthcare retirement village residents and staff raising considerable funds for the New Zealand Red Cross as a charity partner and in the wake of cyclone devastation in Fiji in 2016.

> *There is a significant difference between doing ethical things and doing things ethically. Business ethics focuses on the latter*

However, the interviews highlight how business leaders want to go beyond 'doing ethical things' to focus on 'how things are done' in their organisation. They want to make sure that their employees are treated fairly, their suppliers share a similar commitment to ethical standards and their customers are respected. In other words, they are focusing on the ethical culture of their organisation. There is a significant difference between doing ethical things and doing things ethically. Business ethics focuses on the latter.

Whaimutu Dewes of Moana New Zealand, which is deeply rooted in the Māori tradition, makes this point clearly. He explains that the main challenge Moana has addressed is ensuring that its ethical values, expressed by the *Tikanga Framework* [30], are embedded in everything they do. This is why Dewes has decided to use the *Tikanga Framework* as an opener for the Chairman's Report in the company's annual report: *"as these values underpin our culture as a company and our overall approach, it is appropriate to keep them at the forefront of our activities"*. He supports the idea of bringing these values to life when behaviour *"falls outside that set of values, we need to go back and question our decisions"*.

Some interviewees also recognise the risk, especially in some industries, of excessively narrowing the scope of ethics to specific issues. Charles Spillane of law firm Kensington Swan warns: *"there is the danger for some industries to place all the emphasis on things such as health and safety or compliance with a professional code. Instead, ethics relates more broadly to how an organisation engages with people. This is what really matters."*

Another point worth noting is that several interviewees make a link between ethical conduct, customer satisfaction and long-term profitability. Bruce Plested of Mainfreight explains how ethics is strongly intertwined with offering their service with integrity: *"I feel very strongly we must perform our job as promised and have very high standards in place to ensure that we do that."* Ethics is seen as a core element of what the company does, rather than as a bolt-on activity or public relations exercise. Dr Brent Wheeler of The Boardroom Practice also suggests that this should be explained more clearly to all stakeholders and to the public because *"by and large, there is a broad failure to understand the tangible link between strong commercial performance and ethical behaviour"*.

Similarly, Liz Coutts of Ports of Auckland states that: *"a healthy culture delivers performance. When every employee enjoys a respectful workplace environment, their contribution is more likely to be greater. When customers believe they are being treated fairly, they are more likely to repeat their business."*

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[30] Tikanga refers to customs and traditional values, especially in a Māori context.

Leading by Example

Profile of an ethical business leader

There are no absolutes when it comes to a clear definition of ethical business leadership. However, a suggestion is included in Box 9. Certain behaviour patterns and characteristics are crucial for a business leader who lives up to their commitment to ethics. Ethical business leadership is often best demonstrated when challenging or unexpected situations arise.

Box 9 Definitions and challenges of ethical business leadership

Definition:

Ethical business leadership is *"the demonstration of normatively appropriate conduct through personal action and interpersonal relationships, and promotion of such conduct among followers through two-way communication, reinforcement and decision-making processes."*

Brown, Treviño and Harrison (2005) *Ethical Leadership: a social learning perspective for construct development and testing*

Challenges:

"Traditionally, much research has assumed that there is a one-size-fits-all style of ethical leadership that works across all types of organisations. Latest insights suggest that ethical leadership is more dependent on the context; for instance, type of organisation, public vs. private sector, cultural background. Different ideas among business people and customers about what it means to be an ethical leader may well lead to varying expectations about doing good, ethical, business – and vice versa; which in turn influence the actual practices and have a major impact on the reputation of and stakeholder confidence in New Zealand's businesses."

Professor Karin Lasthuizen, Brian Picot Chair in Ethical Leadership, Victoria University of Wellington [31]

"Bribery and corruption are still not well understood in New Zealand. It is though, as the [Deloitte] survey shows, an obvious reality of doing business within both domestic and foreign markets. In an ever-changing world with changing political influences and continuous advancements in technology, organisations need to stay at the forefront of marketplace trends. Identifying actually how bribery and corruption occurs in practice, and not just thinking about the broad risk, is the phase of bribery and corruption we need to focus on." [32]

Barry Jordan, Lead Partner, Forensics, Deloitte New Zealand

"[I am] not sure New Zealand has made enough philosophical steps to make us more ethical in the way we do our business."

Michael Stiassny, Chairman, Vector

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[31] www.victoria.ac.nz/ethical-leadership
[32] Deloitte (2017) *One Step Ahead – obtaining and maintaining the edge, Deloitte bribery and corruption survey*

Ethical business leadership is about doing what is right for the long-term benefit of all stakeholders. Often employees look to their leaders for guidance on what is right and what is wrong in the workplace. Business leaders set the example with their behaviour. They determine the direction of the organisation, its goals and its priorities. They make important decisions and choose who, when and what to reward. When things go wrong, they are responsible for the consequences.

Whilst every person who holds a leadership position needs to find the approach that best suits their particular organisation and the context in which they operate, Figure 3 illustrates key ethical leadership traits.

In the short and long-term, the challenge of promoting and supporting an ethical culture is best met by business leaders who are open and honest in all their dealings. Leaders must be prepared to disclose and discuss issues and engage with others. They must demonstrate fairness and courage in how they run their organisations.

Figure 3 Attributes of ethical business leadership [33]

OPENNESS
Be determined and direct without fear of confrontation, actively stamping out poor behaviour

HONESTY
Be aware and know that doing the right thing is the right thing to do

COURAGE
Be independent and willing to stand up and be counted, to challenge the status quo

FAIR MINDED
Be considerate and cautious in managing expectations

ABILITY TO LISTEN
Be open minded and cultivate themselves and others through willingness to learn

Such personality traits are important because they enable ethical business leaders to link their strategy to the purpose of their organisation, thereby protecting and generating value. Whilst it is important to bear in mind that different sectors might apply this in different ways, the Financial Reporting Council (FRC) in the UK lists three main issues that business leaders in all industries should consider in order to address this responsibility effectively: [34]

- **Connect purpose and strategy to culture**
  Establishing a company's overall purpose is crucial in supporting ethical values and behaviour. Corporate strategy and purpose should reflect values and culture rather than be developed in isolation. Boards should oversee this process.

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[33] Adapted from IBE (2005) *Setting the Tone: ethical business leadership*
[34] FRC UK (2016) *Corporate Culture and the Role of Boards*

- **Align values and incentives**
Recruitment, performance management and reward should support and encourage behaviour that is consistent with the company's purpose, values, strategy and business model. Financial and non-financial incentives should be appropriately balanced and linked to behavioural objectives. Several interviewees acknowledged this point.

- **Assess and measure**
Boards should give careful thought as to how culture is assessed and reported on. There is a wide range of potential indicators (for example Speak Up or whistleblowing reports, customer satisfaction data, results of staff surveys, etc). Companies can choose indicators that are appropriate to the business and the outcome they seek. Objectively assessing culture involves interpreting information sensitively to gain practical insight. It is worth noting, for example, that ethical due diligence on business partners and culture audits are becoming more important to investors because they provide evidence of both a company's overall 'health' and ethical business leadership.

> *Boards should give careful thought as to how culture is assessed and reported on*

OFTEN SAID

"We are a bunch of good jokers!"

Interviewees flagged up that talking about ethics in an organisation can be difficult when people have the perception that they don't need this kind of conversation because 'we are all ethical anyway'.

Business leaders need to help their staff understand that they are not questioning their personal morals but instead providing guidance. It is important to recognise that anyone might, under certain circumstances, have doubts about the best course of action to reflect their ethical values.

Tradition, an unblemished history or a belief in inherent professional values do not provide sufficient safeguards against ethical mishaps. A formalised approach to ethics management supports conversations around ethics and helps to build a common understanding of ethical values.

Those at the top of the organisation are responsible for making sure that everyone feels supported in doing the right thing and that the appropriate mechanisms are in place.

Setting the tone from the top

Interviewees recognise that senior leaders are seen as role models by employees and their behaviour is one of the most important drivers in creating and maintaining a culture of integrity within an organisation. Unethical behaviour at the top can lead to 'copycat' actions throughout the company, driving down performance and undermining ethics. This leads to a toxic culture of 'do as I say, not as I do'. Several interviewees are acutely aware of this, as Box 10 outlines.

Box 10 Importance of leading by example

LEADERS' VOICES

Many interviewees are acutely aware of the influence that their behaviour can have on organisational culture and of the example that they set through their actions and decisions.

"If management says one thing but displays another, it destroys credibility. It is me, the Chairman, together with the board and the CEO, who have to be seen as the biggest promoter of ethics. We have to lead by example."

Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare

"It is all very well to set high standards, but take action and people will take note. They don't believe what you say, they believe what you do."

Dr John Penno, CEO, Synlait

"Companies need to be aware of a number of ethical issues. But an ethical culture comes from high standards at CEO leadership level and cascades down. While policies are easy to write, it is my belief that culture is much more than just policies."

Rob Fyfe, Chairman, Icebreaker

"Ethics starts with the board and has to be implemented through the CEO and other senior leaders. If I behave like a role model, I can set standards that are accepted by the team. It goes across simple things: ensuring that travel and entertainment are proper and transparent and that processes are followed, for example. Whatever the rules, they are designed for everyone, there is no favouritism. We have to be fair and consistent."

Lees Seymour, Managing Director, Nelson Forests

"If you are in a position to affect a cultural change, you have to do it – you have a moral obligation to do it; and being aware of ethical issues is important."

Peter McBride, Chairman, Zespri

"For me leadership goes beyond maintaining your privilege within the boundaries of the law. It extends to the role we play in leading people within the organisation, to delivering our purpose."

Charles Spillane, CEO, Kensington Swan

"Ethical behaviour will only occur within a strong ethical culture. Leaders and founders create that culture."

Rob Campbell, Chairman, Tourism Holdings and Summerset Group

"Clearly the board and the CEO have responsibility not just for setting the policies but also for the tone of ethics."

Mike Bennetts, CEO, Z Energy

"To be effective, ethical leadership has to sit with everyone; the decisions need to be made close to the action. However, leadership has to set expectations, walk the talk. In Ngāi Tahu, there is a strong engagement with the owners which results in structured processes, mechanisms for feedback [...] it is an ongoing process of interaction, a steady stream of feedback."

Mike Sang, CEO, Ngāi Tahu Holdings

What defines an ethical business leader is how they behave and, in particular, the ability to act appropriately when an ethical dilemma arises. Box 11 outlines an example of solving an ethical dilemma by applying the organisation's core ethical values. The situation presented is a good example of a genuine dilemma, where the issue raised was legally permissible and therefore acceptable by compliance standards.

Box 11 **Setting the tone in addressing an ethical dilemma**

> **LEADERS' VOICES**
>
> **Interviewees discussed situations where they found themselves facing an ethical dilemma and had to make a decision that could significantly influence the culture of their organisation.**
>
> At Mainfreight, it was recognised that some of the Key Performance Indicators (KPIs) set as a measure of success had the potential to incentivise inappropriate behaviour to achieve short-term results. Bruce Plested recognised the risk this could pose to the culture of the organisation. He felt it was his duty and responsibility to address the issue by deciding to scrap sales targets and replace them with a weekly profit report that *"allows the board to maintain the watch over performance without creating pressure on people to compromise ethical standards"*.
>
> Bruce Plested, Executive Chairman and Founding Owner, Mainfreight

Ethical business leadership: values and rules

Setting the tone for doing business ethically goes beyond compliance with laws and regulations and involves a focus on ethical values.

Such a distinction is important and some interviewees express concern about the link between ethics and compliance, particularly in terms of the impact that regulatory changes might have on business. As Rob Fyfe of outdoor clothing and apparel company Icebreaker reflects: *"Recently I have seen a greater focus on compliance than in the past in terms of strengthening the legislation on the director's responsibilities, for example. However, I'm not sure whether this actually has been translated into changes in the field of ethics and integrity."*

It is important that business leaders understand the difference between ethics and compliance and reinforce a culture where everyone lives up to high ethical standards, not least because it is in their best interests to do so. Figure 4 outlines the main differences between ethics and compliance. However, it is important to bear in mind that in some sectors (such as financial services) there is greater integration between the two and principle-based compliance has gained ground.

The IBE believes that both ethics and compliance are important and contribute to business success. However, it is important that business leaders understand that a culture of compliance is not a synonym of an ethical culture.
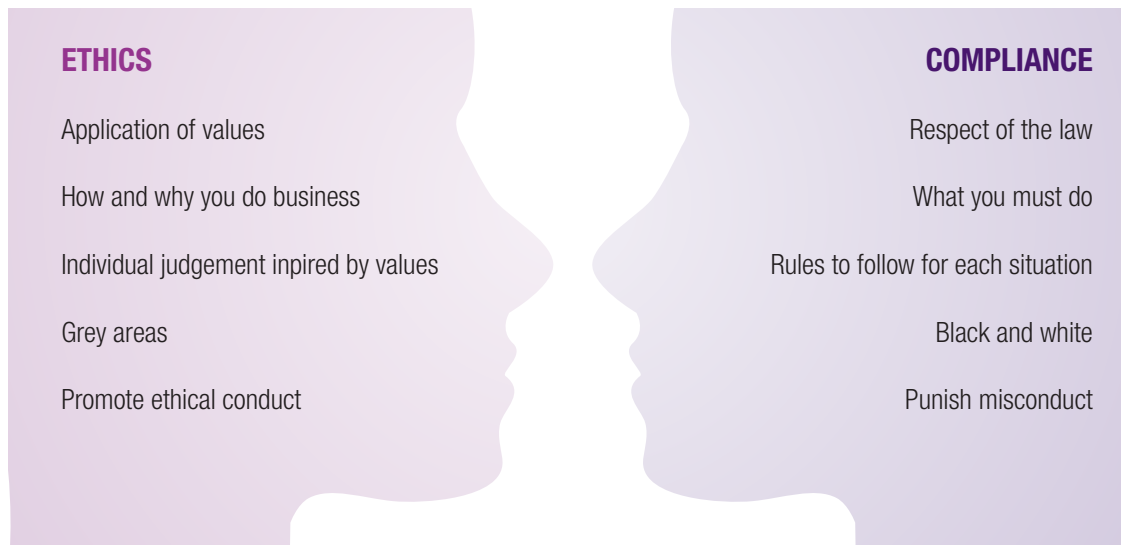
> *A culture of compliance is not a synonym of an ethical culture*

A strong focus on compliance can hinder ethical considerations and support the perception that only rules matter and 'everything that is not explicitly forbidden is allowed'. Moreover, a culture of compliance might undermine personal responsibility as compliance implies that employees must behave as instructed by rules and the law. This shifts accountability to someone else at a higher level. When employees operate in a state of blind obedience their buy-in is limited and phrases such as 'it's nothing to do with me' or 'I only work here…I don't make the rules' are warning signs of potential disengagement on ethical issues.

Figure 4 Main differences between ethics and compliance in an organisation [35]

ETHICS	COMPLIANCE
Application of values	Respect of the law
How and why you do business	What you must do
Individual judgement inpired by values	Rules to follow for each situation
Grey areas	Black and white
Promote ethical conduct	Punish misconduct

On the other hand, business ethics encourages employees to rely on their own judgement to make the best decision in accordance with ethical values (see Box 12). In other words, the standard of behaviour is not enforced by the law but voluntarily chosen. This approach is more likely to motivate employees to take personal ownership of their decisions – a hallmark of accountability.

Box 12 Empowering each individual to do the right thing

LEADERS' VOICES

Interviewees discuss their role as enablers of an ethical culture rather than guardians of compliance. They explain how they engage with employees to promote individual accountability for ethics and how they seek to empower them to do the right thing.

"Each individual is important to us. We feel it's our job to give everyone a sense of belonging, the possibility of contributing to a bigger purpose. As a distinctive company, we need their help in realising an extraordinary future. We knew that we would never gain the best out of them if the sole expectation was that they could only follow rules and demonstrate compliance."

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[35] TEI & IBE (2017) *Ethics and Compliance Handbook*

Box 12 Empowering each individual to do the right thing *continued*

> LEADERS' VOICES
>
> *Z Energy developed a tool entitled* Freedom in a Framework*. It describes the purpose of delegating decisions to enable "Z employees to carry out business activities efficiently without overly restrictive approval requirements. Part of Z's governance philosophy includes preventing unnecessary 'corporate spread'.*
>
> *When Z people make decisions under a delegated authority, they are authorised to exercise appropriate and informed decision-making within a controlled, accountable and transparent framework. They must refer to budgets, comply with the law and meet the Z objectives throughout the organisation. Z's governance structure also includes a commitment by all Z people to its policies, stands, values, and business purpose."* [36]
>
> Mike Bennetts, CEO, Z Energy
>
> *"A big focus is on preventing people from getting into situations where they could be compromised. This meant reviewing people's delegated authority, its limits and the escalation processes. Employees need to have authority to do their job, within Nelson Forests' guidelines. However, they also need to know when the decision is outside their remit and they have to escalate it."*
>
> Lees Seymour, Managing Director, Nelson Forests

There are a number of helpful considerations that business leaders can draw from this:

- **Importance of the company's core ethical values**
  Knowing the laws and regulations is not enough to minimise ethical risks. It is crucial that the board and those in leadership positions are personally involved in setting out the organisation's core ethical values, endorsing them and explaining clearly how they can be applied within the context of their organisation.

- **Moving from 'you must' to 'we will'**
  Business leaders who seek to promote an ethical culture need to be mindful of the approach they use to engage with employees. It is advisable to opt for an inclusive language that underlines the fact that the responsibility for promoting ethics is shared by everyone, including board members and senior leaders.

- **Supporting individual decision-making**
  Whilst compliance presents decisions in black and white, ethics is often about 'grey areas' and the appropriate course of action might not be obvious. In these situations, it is the responsibility of leaders at all levels within an organisation to make sure that employees feel supported and know how and where to find advice.

- **Prevention of ethical lapses is important**
  To add weight to their commitment to ethics, many organisations make clear that breaches of the company's policies or the law may have serious consequences. However, to minimise the risk of misconduct, it is also important that a focus is placed on prevention. Everyone in the organisation needs to receive appropriate training on how to apply core ethical values in their daily work – cascading down from the board to every employee. All employees also need to know who to contact if they have concerns about conduct.

[36] Z Energy (2017) *Solving What Matters for a Moving World – 2017 Annual Report*

Values

If the mission of an organisation sets out what the company wants to achieve and why it exists, the core values explain how this is going to be achieved.

> **An organisation's core values explain 'how things are done around here'**

An organisation's core values are often a combination of strategic, work and ethical values. They explain 'how things are done around here', providing an important tool to support individual decision-making in the boardroom and beyond. The IoD highlights that: *"In gaining a grasp of people and behaviour, a director understands the importance of defining sound, purposeful organisational values and leading the development of organisational culture. People are integral to business; the awareness and analysis of board and director relationships, board composition and boardroom ethics are all crucial to enabling the organisation to function cohesively."* [37]

Those in leadership positions should always refer to their company's core ethical values when they have to make a difficult decision – particularly when it impacts on other stakeholders. According to Whaimutu Dewes of Moana New Zealand (see Box 13), in order to build and maintain an ethical culture it is important to *"continually reinforce the values set, testing whether they are still current and whether they are still applicable to the business. We need to make sure that they can still inspire and modify behaviour. If this is true, it is easier to have a practical impact."*

Box 13 **Core ethical values describe 'how things are done around here'**

> **LEADERS' VOICES**
>
> **Interviewees often describe their core values as crucial in promoting an ethical culture that goes beyond compliance.**
>
> *"Our tikanga (values) are our drivers and our navigation points. They are:*
>
> > *Whakapapa – our genealogy, where we're from*
> >
> > *Manaakitanga – looking after people our way*
> >
> > *Kaitiakitanga – custodians for our future generations*
> >
> > *Whakatipuranga – prosperity for future generations*
>
> *As these values underpin our culture as a company and our overall approach, it is appropriate to keep them at the forefront of our activities.*
>
> *[…]*
>
> *We have a deep sense of responsibility and respect for our kaimoana,* [38] *honouring the taonga* [39] *we have been entrusted with. Taking a long-term view in everything we do, we work in harmony with nature to ensure the sustainability of our fisheries for future generations.*
>
> »

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[37] www.iod.org.nz/Governance-Resources

[38] Seafood in the Māori language.

[39] An object or natural resource which is highly prized in Māori culture.

Box 13 Core ethical values describe 'how things are done around here' *continued*

LEADERS' VOICES

Profits we make are returned to Iwi shareholders in the form of dividends with the balance retained to fund the long-term growth of Moana New Zealand."

Moana New Zealand 2016 Integrated Annual Report

"We use our values as a basis for our reporting which encompasses 4 areas: community involvement, social responsibility, commercial results and corporate culture.

Whanaungatanga (family) – We will respect, foster and maintain important relationships within the organisation, within the iwi and within the community.

Manaakitanga (looking after our people) – We will pay respect to each other, to iwi members and to all others in accordance with our tikanga (customs).

Tohungatanga (expertise) – We will pursue knowledge and ideas that will strengthen and grow Ngāi Tahu and our community.

Kaitiakitanga (stewardship) – We will work actively to protect the people, environment, knowledge, culture, language and resources important to Ngāi Tahu for future generations.

Tikanga (appropriate action) – We will strive to ensure that the tikanga of Ngāi Tahu is actioned and acknowledged in all of our outcomes.

Rangatiratanga (leadership) – We will strive to maintain a high degree of personal integrity and ethical behaviour in all actions and decisions we undertake."

Mike Sang, CEO, Ngāi Tahu Holdings

3

Building Trust

In the aftermath of the recent global recession, the role of business generally – and that of its leaders particularly – has been put under intense scrutiny by the public worldwide. The attention of the media and of non-governmental organisations on business and its behaviour is a global phenomenon. [40]

As Philippa Foster Back, Director at the IBE, wrote, *"the impact of corporate failures, whether or not the company is bankrupt, is manifold. Primarily, it is the loss of confidence in the market system caused by such failures that makes their effect wide-ranging. There is nowhere, and quite rightly so, for business to hide, certainly if it is engaging in bad and inappropriate practices. The problem for business, particularly when it operates internationally, is how to ensure that it at all times conducts its business in a fit and proper manner, not only according to the letter but also the spirit of the law and to the high standards it sets itself."* [41]

Business leaders have a crucial role to play in ensuring ethical conduct within their organisations, particularly in the current context. A series of high profile corporate scandals, including questions on inflated executive pay, have produced an 'implosion of trust' in the ability of leaders to pursue the long-term interest of society and the sustainability of their organisations. According to the *2017 Edelman Trust Barometer* only 37% of global respondents believe that CEOs are trustworthy when they relay information about their company. [42]

Most interviewees are very sensitive to the importance of building trust, as demonstrated by Simon Challies of Ryman Healthcare: *"Ethical leadership is about trust. If people trust you, they believe that you live up to your ethical values and that these will be reflected in the service that you provide."* A similar view is shared by Martin Dippie of Mitre 10, who talks about the co-operative sector: *"Our success reflects the co-operative spirit and its founding principles. We rely on a high level of trust within the co-operative to drive the spirit and culture that distinguishes our business from our corporate competitors. We are like a large family who look out for each other and work collaboratively to ensure the group's wider success."*

Ethical issues and risks

The 2017 Edelman Trust Barometer identifies five business behaviours that are most damaging to public trust: [43]

1. **Pay bribes to government officials to win contracts**
2. **Pay executives hundred times more than workers**
3. **Move profits to other countries to avoid taxes**
4. **Overcharge for products that people need to live on**
5. **Reduce costs by lowering product quality**

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[40] The IBE monitors the media regularly – www.ibe.org.uk/business-ethics-news – with particular focus on the UK and New Zealand, to highlight examples of good ethical practice and ethical lapses reported in the media.
[41] IBE (2005) *Op cit*
[42] Edelman (2017) *2017 Edelman Trust Barometer*
[43] Edelman (2017) *Op cit*

On a similar note, Box 14 shows that interviewees have identified a wide variety of ethical risks that can have a negative impact on public trust in business. Almost every interviewee identified the tension between short and long-term gains along with various challenges linked to sustainability.

It is worth noting that each sector presents specific risks that companies need to tackle. In the case of agribusiness, there is significant concern around environmental issues and how to offset them. Companies with significant export operations are particularly aware of increased corruption risks that come from opening up to a more complex international marketplace.

Simon Challies of Ryman Healthcare illustrates a clear challenge for the healthcare sector: *"Companies in this industry find it difficult to reconcile making money with their general mission of providing good care for people. There is the general perception that people's health should be looked after by a public body. We are often challenged on this, as some people accuse this kind of company of existing primarily for their profits rather than for their customers."*

Recruitment, promotion and people management are all identified as inherently risky in terms of potential conflicts of interest. This represents a particularly thorny issue because it can be difficult for people to judge. As Dr Brent Wheeler of The Boardroom Practice points out: *"one person's networking is another person's conflict of interest"*. A report issued by the Office of the Auditor General after the Canterbury earthquakes in 2010 and 2011 highlighted issues related to the prevention of conflicts of interest: *"We saw benefits when governance groups included people who are independent of the projects and the entities involved. People who are independent of the project do not have a vested interest in the project's outcomes. This helps them to challenge entrenched or opposing views that sometimes prevent good decisions from being made."* [44]

In industries with major skills shortages, the issue of poaching staff comes under scrutiny. It is not uncommon for some firms, notably in the broader engineering and construction sector, to offer an *ex gratia* payment for staff members who can introduce a prospective employee to the company. This can be seen as a questionable practice when it leads to poaching human resources within a tight labour market where there are known skill shortages.

Conflicts of interest can also become manifest at senior management level. With New Zealand being such a small market, the pool of senior managers is small – a situation where 'everyone knows everyone'. Michael Stiassny of Vector recognises this by acknowledging that a major ethical dilemma relates to *"ensuring that the decisions we make are not driven by relationships among senior executives but in the interest of the organisation"*.

An ethical issue mentioned in relation to employees stems from the rising numbers of low-skilled seasonal workers who move to New Zealand to work in the agricultural sector. New Zealand does not yet have any modern slavery legislation. Although the Government offers programmes to assist in supporting the recruitment of seasonal staff in a way that protects human rights, some challenges persist. Interviewees recognised that more needs to be done to minimise the risk of modern slavery, particularly in some sectors such as agriculture or construction. [45]

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[44] Office of the Auditor General (2015) *Governance and Accountability for Three Christchurch Rebuild Projects*

[45] See New Zealand Immigration's website – www.immigration.govt.nz – for details of the *Recognised Seasonal Employer Programme.*

Interviewees often mention that a crisis or major natural disaster can increase pressure on individuals to compromise their ethical standards. Companies may, for example, seek to recruit employees or to win contracts regardless of the impact this might have. In the aftermath of the Canterbury earthquakes there were an abundance of insurance pay-outs, multimillion dollar Canterbury Rebuild contracts and an urgent need to rebuild demolished commercial and residential buildings. This created a unique, fast-paced business environment. New companies were created and there was high pressure to obtain the best deals. Some interviewees refer to the dangers of 'deal fever', where companies are tempted to cut corners to achieve short-term economic gains. Interviewees stress that, under these circumstances, boards need to ensure that appropriate checks and balances are in place for contracts over a certain value. Having a set of explicit core ethical values and an ethics programme will be invaluable in such circumstances.

Procurement and supply chain management also pose significant ethical challenges. Dairy processing company Synlait provides a particularly positive example. It established Australasia's first internationally accredited ISO 65 dairy farm assurance system and initiated a ground-breaking programme called *Lead with Pride*. The programme recognises and financially rewards suppliers who achieve dairy farming best practice. It is based on four pillars: the environment; animal health and welfare; milk quality and social responsibility.

Box 14 **Key ethical risks that can have a negative impact on business trustworthiness and reputation**

> **LEADERS' VOICES**
>
> **Public trust in business is a very important asset for companies. Interviewees explain that certain ethical risks have to be minimised in order to protect and enhance trust.**
>
> *"I think that the main ethical risks are:*
> - *Finding the appropriate incentive scheme: what do we do to make sure we achieve what we want without putting undue pressure on people to cut corners?*
> - *Gifts and hospitality: you need to set out clear guidelines about what is and is not acceptable in terms of gifts and hospitality and be prepared to take action if the standards that you set are not met. Of course the dilemma here is where you draw the line of what you consider acceptable."*
>
> Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare
>
> *"The speed at which companies are growing and the subsequent related recruitment process, how new people are brought on board. There are cultural complexities that, if not addressed properly, have the potential to lead to serious ethical issues.*
>
> *Conflict of interest is also an issue. People are constantly watching the board and are prepared to challenge them if they perceive that they are pursuing their own personal interest which is in conflict with that of the company. All board members disclose their interests, they are all fully declared and monitored by an independent director.*
>
> »

Box 14 Key ethical risks that can have a negative impact on business trustworthiness and reputation *continued*

LEADERS' VOICES

This process is well established. If there are genuine concerns and we are not able to solve them there is always the election of directors where people can enable and force change."

Peter McBride, Chairman, Zespri

"In the forestry industry there are definitely issues around environmental management, health and safety and the use of the land. However, there are also significant risks related to people. We have to tackle these issues to take a long-term view and establish long-term relationships with our customers."

Lees Seymour, Managing Director, Nelson Forests

"The need to be profitable will always create tensions with ethical obligations in law, as it does in other businesses. This is always a risk. A related risk for the profession moving forward comes in terms of the development of people. Clients are now less willing to pay for the involvement of very junior staff. We want to make sure that our summer clerks who are final year law students, for example, get paid fairly and treated professionally, we want to help them to develop professionally and understand whether this is what they want to do This is an essential pipeline of talent for the profession.

We do have high expectations, it is through hard work that people can develop and become a top professional, but we need to be careful we exercise our duty of care towards all our staff. At both Kensington Swan and in previous roles, I prioritise the health and safety report within the CEO's report to the board of directors and am conscious in particular of the impact of workplace stress. We also try to help our employees to manage and maintain a work-home balance with flexibility. Behaviour such as 'presenteeism' [46] is not helpful. To ward against this and other forms of stress, daily meditation sessions have been introduced for any staff that wish to participate."

Charles Spillane, CEO, Kensington Swan

"We always try to address promptly ethical issues related to staff. We always ask ourselves: are staff treated fairly? An important part of this is making sure that managers behave in the right way towards their subordinates."

Rob Campbell, Chairman, Tourism Holdings and Summerset Group

"Product safety for us is one of the main things – our infant formula, which makes up over 80% of our business – is the sole source of nutrition throughout the first year of an infant's life, it is critical to their development. Hygiene and quality are critical and there are no exceptions – we don't take risks with the quality of our products. We have the responsibility to keep our customers safe. We can't help but walk in with our eyes wide open to make sure that everything is authentic and done to the highest standards.

Regarding gifts and hospitality, we try to limit entertainment to a minimum. Sometimes it is the case that some forms of gifts or entertainment are required when dealing with a specific culture. However, we make sure that it is always something that can be reciprocated and is not a special favour to an individual.

»

[46] Presenteeism is the practice of being present at one's place of work for more hours than required in order to be seen to be there.

Box 14 Key ethical risks that can have a negative impact on business trustworthiness and reputation *continued*

LEADERS' VOICES

We have firm policies and high standards – bribery and facilitation payments are not tolerated. Once you have built your character and reputation in this area it becomes easier to get people on board."

Dr John Penno, CEO, Synlait

"There are definitely some ethical risks in the sourcing process. This includes packaging, raw materials, selection of suppliers and partner companies that can help scaling up the business internationally. It is all very well to get certifications for your sourcing practices, but you can get caught short anyway if you haven't established clear relationships with your partners and suppliers based on ethical principles."

Angela Buglass, CEO, Trilogy International

"We are acutely aware of the risks related to pay inequalities, this can have a huge impact on the morale of our 2,500 employees. We need to manage the tensions between short-term and long-term decisions. Bullying and harassment in the workplace are also important issues to tackle."

Mike Bennets, CEO, Z Energy

Trustworthy leadership

Unless managed appropriately, ethical dilemmas can have serious consequences for a company, undermining trust and exposing the business to significant financial and reputational risk. Some concerns include:

- **Perceived injustice**
  Employees may believe that the system is biased in favour of leaders, especially when the remuneration gap is significant. This is particularly problematic when employees think those at the top seek to maximise their own personal interests and so are tempted to follow suit, losing sight of the company's purpose and mission.

- **Lack of commitment**
  Employees may not trust their leaders to value and reward them for their merits and this might hinder their commitment to an organisation, especially when issues such as nepotism and favouritism are not addressed adequately. As a result, the quality of work might suffer and staff turnover may be higher.

> *Ethical dilemmas can have serious consequences for a company, undermining trust and exposing the business to significant financial and reputational risk*

- **Higher tolerance of unethical practice**
  Employees may not trust the integrity of their leaders and this might lower the bar of what is considered acceptable behaviour within the organisation, especially if employees do not feel supported when they face difficult decisions.

Some interviewees make explicit reference to the link between their role in supporting an ethical culture and the challenge of building trust. According to Peter McBride of the kiwifruit marketer Zespri, *"the awareness around ethical issues needs to be followed by actions. You need to provide the appropriate response to tackle these issues. Once you are aware of an ethical risk, you can't just sit there and do nothing. This is how you become a trustworthy company."* Along similar lines, Charles Spillane of Kensington Swan states *"it is crucial to break with the past and with some of the things that happened within our profession"*.

Several interviewees stress that organisations with a strong reputation for trustworthiness enjoy a valuable competitive advantage. This can help them to keep valued staff, build efficient supplier relations and win or retain business. Bruce Plested says this is a key issue, particularly since his organisation Mainfreight became a listed company: *"we knew that our reputation was important and how easily we could lose that reputation. This increased our ethical thinking."* Mark Peterson of NZX adds that: *"acting with integrity is key to the NZX brand and our reputation. We have to behave to the highest standards to stand up to public scrutiny."*

> *Managers and supervisors at all levels need to lead by example in applying an organisation's ethical values*

Authentic, ethical business leadership helps to promote a company's trustworthiness and build a positive organisational reputation. As outlined in Chapter 2, leaders at all levels are role models and shape internal behaviour and external perceptions. This is especially true of senior leaders – they are an organisation's primary representatives and, as such, the public image of their company.

Research confirms these observations. According to a survey conducted by the IBE among large companies with operations in Europe, almost two thirds of respondents say that senior leaders in their organisation are very engaged when it comes to ethics. This is mirrored by a focus on ethics, values and culture at board level, with 86% of respondents stating that these are regular items discussed in board meetings. This appears to have a positive impact on the culture of the organisation, as 93% of respondents report that their company has a supportive environment for ethics. [47]

Issues related to ethical business leadership are not limited to board members and senior executives alone. Managers and supervisors at all levels need to lead by example in applying an organisation's ethical values. This role and related responsibilities can be recognised by companies in their code of ethics, as highlighted in Box 15.

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[47] IBE (2017) *Corporate Ethics Policies and Programmes: 2016 UK and Continental Europe survey*

Box 15 Managers' additional responsibilities

"Managers are responsible for:

(a) ensuring employees complete regular training on this Policy in order to educate and ensure that their employees are aware of and adhere to Auckland Airport's policies and procedures;

(b) leading by example to uphold the Policy;

(c) effectively and confidentially managing complaints regarding unacceptable behaviour and misconduct;

(d) ensuring that all work and employment practices comply with relevant legislation and policies; and

(e) taking all reasonable and practicable steps to ensure the protection, safety and security of Auckland Airport's employees, premises, property and resources and to ensure that Auckland Airport's assets and resources are used only for the purposes of Auckland Airport and in accordance with appropriate authorisations."

Auckland Airport Ethics and Code of Conduct

4

Guidance for ethical behaviour

Company leaders need to create an atmosphere in which individuals understand not only what jobs they are expected to do, but also *how* they should undertake them. The *NZX Corporate Governance Code* provides some recommendations in this respect:

"The board should document minimum standards of ethical behaviour to which the issuer's directors and employees are expected to adhere (a code of ethics).

The code of ethics and where to find it should be communicated to the issuer's employees.

Training should be provided regularly. The standards may be contained in a single policy document or more than one policy.

The code of ethics should outline internal reporting procedures for any breach of ethics, and describe the issuer's expectations about behaviour, namely that every director and employee:

    a. *acts honestly and with personal integrity in all actions;*

    b. *declares conflicts of interest and proactively advises of any potential conflicts;*

    c. *undertakes proper receipt and use of corporate information, assets and property;*

    d. *in the case of directors, gives proper attention to the matters before them;*

    e. *acts honestly and in the best interests of the issuer, shareholders and stakeholders and as required by law;*

    f. *adheres to any procedures around giving and receiving gifts (for example, where gifts are given that are of value in order to influence employees and directors, such gifts should not be accepted);*

    g. *adheres to any procedures about whistleblowing (for example, where actions of a whistleblower have complied with the issuer's procedures, an issuer should protect and support them, whether or not action is taken); and*

    h. *manages breaches of the code."* [48]

Several interviewees highlight the importance of a framework to help them engage with employees about ethics. Lees Seymour of Nelson Forests confirms that: *"The big thing we focus on is to help people and prevent them from getting into situations where they could be compromised. We review the reporting lines, how authority is delegated, how employees can escalate a concern if they want to. Everyone has to have the capacity to do their job within the guidelines. We want them to raise issues before they become issues internally. Line managers need to feel confident and be able to offer help and support when this happens. That's how things are done around here."*

Focusing on the need for standards and procedures, Dr John Penno of Synlait explains that: *"we say what we do. Managing ethics is setting a standard and living up to it, so that there are no surprises. People know what they get. Sometimes there is a fine line between what is and isn't ok. We aim to be clear about how people are expected to behave when they are under pressure and want to meet their financial targets for example – we have to reinforce our standards constantly and ensure that when these standards are not met there are consequences."*

[48] NZX (2017) *Op cit*

In a similar tone, Angela Buglass of Trilogy International explains that an organisation with an established approach to ethical behaviour among employees – fair, approachable and professional – will be able to translate its ethical approach well when managing and building relationships with external stakeholders: *"If an external partner is not 'behaving' in an ethical manner, we can clearly communicate our position and clearly define the course of action with little disruption to our business."*

The *IBE Business Ethics Framework*, introduced in Figure 1, provides support on this. An organisation's core ethical values are its basis – they inspire and shape people's behaviour. Values are usually expressed through a code of ethics, or similar document. A code of ethics generally provides guidance to staff and other stakeholders on how to apply the ethical values in practice while a code of conduct more commonly sets out a list of obligations of staff to the organisation. Many organisations do, however, use the terms interchangeably without issue. An organisation's code provides guidance to employees on how the business' core ethical values are applied in practice. It guides employees in their daily decision-making.

"
. . . .

Having a code is necessary but not sufficient

. . . .

Having a code is necessary but not sufficient. It is important to have a comprehensive ethics programme in addition to a code. This provides the additional tools that companies need to ensure their core ethical values are effectively implemented and embedded. These tools include appropriate communication campaigns; regular training; resources that encourage an open and supportive environment – including frameworks for decision-making and speaking up – and monitoring processes.

Barbara Chapman describes ASB's approach as follows: *"Our values of integrity, caring, passion and ambition are reinforced by our code of conduct, through continuing education for all our people via Doing the Right Thing learning modules and high profile policies that encourage our people to speak up. We encourage open discussion on our Intranet on a wide range of topics, often prompted by my weekly CEO blog. In addition, employee performance is measured using a balanced scorecard that includes behaviour and values gates."*

Code of ethics

A code of ethics, or similar document, has increasingly become an essential element of a company's approach to business ethics.

Tony Carter, Chairman of Air New Zealand and Fisher & Paykel Healthcare, recalls the code's role in one of the companies where he worked in the past: *"A code of conduct was the first thing that was introduced. It had never been defined as such but the key principles had always been there. It set out how people are expected to behave and what behaviour they can expect from others too – it's reciprocal."*

Similarly, Dame Alison Paterson of Vector explains that the code can help to clarify the company's stance on specific issues that require more attention: *"We do operate our business at a very high standard. We set out a code of conduct and ethics to make clear what those standards are. It covers particularly problematic issues such as conflict of interest, insider trading, gifts, fraud and corruption."*

Mark Peterson of NZX addresses the importance of integrity. To fulfil NZX's regulatory role, Peterson explains that, as an organisation, they decided to raise the standards of behaviour and make significant changes to the way business was done in New Zealand in order to build trust and confidence in the market: *"It is important that we live up to the highest standards of integrity, and that NZX is perceived as a trustworthy organisation for the market to be functional. When we started the consultation process to update the NZX Corporate Governance Code, our focus was not only to raise standards but, importantly, to make it easier for issuers to manage and align with other reporting requirements including the Financial Markets Authority and the ASX [Australian Securities Exchange]. Further, it is our strong belief that shareholders have a right to understand the corporate governance practices of a listed company."*

Developing or revising a code is an important opportunity for senior leaders to take a view on ethical matters and prove their commitment (see Box 16). Their buy-in is of the utmost importance in giving a code credibility. Every code should begin with a short, personal message from the organisation's leadership. This statement should include a reminder of the organisation's ethical values, making clear that they are the cornerstone of the document. It is also important that the chief executive encourages all staff to raise their concerns and gives assurance that those who raise their concerns will not be retaliated against.

Every code should begin with a short, personal message from the organisation's leadership

Box 16 Endorsement by senior leaders is of the utmost importance in a code

LEADERS' VOICES

Some interviewees include a personal message in their code of ethics to demonstrate their own commitment and endorsement.

"Our vision and objectives are more easily achieved if we are consistent and adhere to the company's values, which align closely with the personal values of people in this organisation. This document aims to guide your decision-making process and to help you achieve 'extraordinary', both for yourselves and Z, all while doing the right thing." [49]

Mike Bennetts, CEO, Z Energy

"As individuals, we all have our own moral compass that defines what is, and what is not, acceptable behaviour. In corporate life, it is also important that the organisations we work for define the behaviours expected of us and those that will not be tolerated." [50]

Mark Binns, CEO, Meridian Energy

[49] Z Energy (2017) *Code of Conduct*
[50] Meridian Energy Limited (2016) *Code of Conduct*

Box 16 **Endorsement by senior leaders is of the utmost importance in a code**
continued

LEADERS' VOICES

"We all as Zespri employees want to work for a company that conducts itself ethically and legally. We share a responsibility to Zespri growers and shareholders to comply with the highest standards and to act consistently with our values at all times. Our Code of Conduct sets out Zespri's expectations of all employees, no matter where we work." [51]

Lain Jager, CEO, Zespri

"Our airline plays a pivotal role in supercharging New Zealand's success environmentally, socially and economically. And that's a big responsibility we take very seriously. We can only fulfil this role with the trust of our colleagues, customers, shareholders, business partners and communities. Our Code of Conduct reflects the way we do things here at Air New Zealand, setting out the standards expected of everyone who works for the airline around the world." [52]

Christopher Luxon, CEO, Air New Zealand

Enhancing individual responsibility

The code of ethics also provides an opportunity for business leaders to communicate that everyone's actions matter and that ethics is the responsibility of everyone within the organisation. Leaders can use the code to empower each individual to take personal responsibility for promoting high ethical standards. Codes cannot cover every situation in which employees may find themselves. Instead, staff need to be empowered to use their own judgement when they face decisions and ask when they are unsure of how to apply the organisation's ethical values in practice.

The issue of how to empower employees to use their own judgement recurs often in our interviews. Rob Campbell of Tourism Holdings and retirement village developer and operator Summerset Group explains that: *"ethical behaviour will only occur if a strong ethical culture is established. Leaders and founders have a big role to play in this. We explicitly need to get people to do it, it doesn't just happen by writing a code. Now the question is: how do you influence what's happening? How do you feel that you are doing the right thing?"* On a similar note, Dr John Penno of Synlait clarifies that: *"We can have written policies and procedures in place but it's really around actions – not anything else."*

> *Staff need to be empowered to use their own judgement when they face decisions and ask when they are unsure of how to apply the organisation's ethical values in practice*

[51] Zespri (2017) *Code of Conduct*
[52] Air New Zealand (2015) *One Air New Zealand: doing what's right*

Mark Cairns of Port Tauranga explains that his organisation's code reflects the difference between ethics and compliance, as addressed in Chapter 2: *"In our code, we encourage our staff to use their best judgement at all times. We are not overly prescriptive, as this would stifle innovation and the ability to empower. And innovation is one of our values!"*

Mike Bennetts of Z Energy describes the approach adopted by his company: *"It is clear that the code cannot cover every possible situation. People need to use their judgement, it's a world of grey and not black and white. It's made up of everyday choices. So we included an 'ethical test' in our code of conduct. Three questions that people should answer when they face a difficult decision are: Does it feel right? Can I tell my grandmother? If it's in the paper, will I mind?"*

It is a matter of trust. Bruce Plested of Mainfreight believes that *"Responsibility for ethics lies at the top, but it has to permeate through every single department. If you want good security, then give everyone a key. If you trust everyone, then almost everyone will respond to that trust."*

OFTEN SAID

"The code is just another list of rules, we don't need it!"

It is important that leaders at all levels of the organisation make it clear that the code is designed as a framework to help employees to do the right thing rather than a list of rules to comply with.

Z Energy expresses this in their code: *"We acknowledge that in the pursuit of the wider set of business objectives Z people will have choices, some of these will be ambiguous, and the best path to take is not always clear.*

The Code of Conduct is a cornerstone of expected behaviour and company culture.

This document is the first place you should look if you have any questions on what is expected from you as a member of the Z team. This Code is designed to help guide and inform the choices that Z staff make on a daily basis and ensure they do the right thing. It is designed to help Z's people succeed through making choices that are consistent with two key parts of the company's foundations: Z's values and policies.

In the pursuit of our business objectives, our values and policies guide our decisions." [53]

Communication, training and monitoring

A leader can instigate a series of actions to support their ethics programme and embed messages about standards of behaviour. Key actions include ethics training that focuses on everyday ethical dilemmas and how to work through them; an internal communications strategy and a monitoring programme to ensure that the tools in place are effective.

Training

A written code is significant in guiding behaviour – a company cannot simply rely on the implicit behaviour of their staff – yet this is not sufficient to promote an ethical culture.

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[53] Z Energy (2017) *Op cit*

A company needs to invest in adequate training resources in order to help employees understand explicit messages about behaviour. As Kevin Bowler of Frucor Suntory puts it, *"people don't learn by accident. A conscious effort and investment is needed from the top."*

The training should cover all employees. Kevin Bowler describes Frucor Suntory's approach as follows: *"all staff are educated about our ethics policies and those policies were perceived as reasonable. We set clear boundaries between what is ok and what is not, so that people cannot say they didn't know."*

Senior leaders, who should lead by example, also need to receive training. According to Martin Dippie of Mitre 10, *"leadership training is a strength for the business. We have a wide range of programmes within the group that are all based on our non-negotiable co-operative values of being honest and fair, having the highest levels of integrity and aiming for excellence in everything we do."* Similarly Peter McBride of Zespri says *"training on ethics at Zespri has been a big focus, particularly over the past few years. We also train senior executives by giving them scenario-based ethical dilemmas to solve."*

> ❝
> *Middle managers play a key role in engaging employees on the frontline*

It is important to train middle managers. They play a key role in engaging employees on the frontline and can set an example that will influence other people's behaviour. It is of the utmost importance that middle managers understand and support the ethics programme. They need to feel empowered to provide guidance and help any employees who might approach them with an ethical dilemma.

Charles Spillane of Kensington Swan explains that they have deployed *"a leadership development programme to help managers of people move beyond the traditional legal career development. We wanted to provide a tool to increase self-awareness and the understanding of how to get the best out of people they supervise – and also from those who supervise them! We find that this enables them to engage with clients and potential clients better; it improves their emotional intelligence. Technical expertise isn't enough anymore; it gets you to the table but it doesn't necessarily get you the job. An element of emotional intelligence enables our people to fulfil a role as trusted advisors to clients and to build good relationships."*

Training should range from a general introduction to business ethics to set courses for particular areas of the company, such as procurement or management. Lees Seymour of Nelson Forests points out that scenario-based training is particularly helpful: *"we can turn a problem into an opportunity to improve the way we do business. We don't like to blame people – this is not the point of this exercise. We want to create a nice atmosphere. Everything provides an opportunity to learn."* Similarly, Simon Challies of Ryman Healthcare explains that: *"our employees really appreciate when we share stories and living examples of how our values play out. In particular our founders, John and Kevin, were very good at making these stories very personal, talking about their own experience of ethical dilemmas and how they addressed them."*

OFTEN SAID

"I don't need you to teach me how to be ethical!"

It is important that staff understand the importance of ethics training and learn how to consider the different ethical dimensions raised by a dilemma, so that training is taken seriously and can have a concrete impact. It is also important that people understand that the aim of ethics training is not to teach them how to be ethical but to help and support them to apply the organisation's core ethical values to their day-to-day business decisions.

According to Dr Brent Wheeler of The Boardroom Practice, *"any process that deals with ethics needs to deal with relationships. We can't talk about ethical or non-ethical people. Dealing with ethical issues is more about managing relationships than it is about finding or creating saints. There are people that might think 'I'm a saint, I'm always good'. But there's always a situation where you might not act like a saint – or the possibility of that situation."*

Internal communications

Internal communications play an important role in establishing an ethical culture. However, it is important that the communications on ethics are specifically planned to reinforce the company's values and culture. As stated by the IBE's Katherine Bradshaw, *"communicating ethical values is not as simple as informing employees about facts, figures and procedures and checking they are compliant. […] Therefore, discussions about ethics must start with concepts that touch employees' sense of self."* [54]

Peter McBride of Zespri says that it is particularly important to be open about difficult issues: *"Communications play a big part in maintaining an ethical culture. If something happens, we try to face the issue as openly as possible – we don't want to have skeletons in the cupboard. If we can't fix the problem, then we try to mitigate the impact. But we want our staff to know that we don't cover things up, especially if something can have a negative impact on our stakeholders."*

> *It is particularly important to be open about difficult issues*

Risk assessment, monitoring and accountability

It is important to monitor the effectiveness of the ethics programme, to check whether the core ethical values are embedded throughout the organisation.

For the monitoring process to be valid and reliable, it is important that the right questions and a range of indicators are considered. Examples of indicators that provide an insight into the culture of an organisation include the number of calls received through the Speak Up system, results of exit interviews and employee turnover. [55]

[54] IBE (2014) *Communicating Ethical Values Internally – Good Practice Guide*
[55] IBE (2008) *Surveying Staff on Ethical Matters – Good Practice Guide*

However, two areas need to be prioritised:

- **Link up the dots**
  It is important to draw the relevant connections between the indicators collected in order to paint a complete picture of the culture of the organisation.

- **Engage with the board of directors**
  Indicators of culture need to be regularly communicated to the board, which should have oversight of the ethics programme. The board should take responsibility for promoting an ethical culture.

Interviewees confirm that anonymous internal employee surveys are a common and effective way to monitor whether an ethics programme is working. Employee surveys offer the company an opportunity to ask questions about organisational culture. The results will paint a picture of how core values are perceived and applied. At Z Energy, for example, questions about social and environmental issues are included in the *Employee Engagement Survey*. At Frucor Suntory, the annual survey focuses on three main themes aimed at measuring the temperature of the company's culture:

- Stay – are they willing to stay or leave?

- Say – what do they say about us?

- Strive – do they make discretionary effort?

The monitoring process helps to identify and assess the ethical risks of the organisation. Ethical risk is a very important component of the organisation's broader risk framework and effective ethical risk management is essential to long-term sustainability. [56]

Speak Up

It is vital to create and maintain a culture where employees feel that they are able to speak up about concerns at work. Corporate leaders need an early warning system for any issues that may cause problems or undermine the reputation of their organisation.

Speaking up requires courage, determination and a powerful sense of trust that there will be no retaliation for raising an issue. To make an internal Speak Up system operate effectively, two aspects need to be addressed: first, that the behaviour observed is of sufficient concern to warrant intervention and, second, that there are processes in place to both protect and support the person who is speaking up.

According to Kevin Bowler of Frucor Suntory, speaking up isn't something that occurs 'on command'. Employees have to feel confident that there won't be any retaliation, including loss of career prospects.

> *It is vital to create and maintain a culture where employees feel that they are able to speak up about concerns at work*

[56] IBE experience suggests that effective ethics risk management and monitoring processes still remain a challenge for organisations. Companies are becoming increasingly engaged on this.

No empirical research has been done to date in New Zealand on these issues. According to IBE research, 20% of employees in the UK said they have been aware of unethical conduct in their workplace over the preceding year. However, only just over half of these employees said that they raised their concerns. The two most commonly given reasons for not doing so were: 'I felt it might jeopardise my job' and 'I didn't believe any corrective action would be taken'. [57] Business leaders need to address both these concerns to ensure that their employees are supported and encouraged to speak up.

A useful question to include in the monitoring programme to assess this could be: if you report a concern about unethical behaviour to your manager, would you trust him/her to treat the matter confidentially and do something about it?

Research undertaken by IBE New Zealand into codes of ethics for the top ten companies by capitalisation-weighted index reveals that, while all codes referred to an expectation that poor behaviour would be reported, only three in ten codes provided insight into the Speak Up process or details on the kind of protection offered to those who speak up. [58]

> *Speaking up is in the best interest of the organisation and its stakeholders*

OFTEN SAID

"If I blow the whistle I will be seen as a troublemaker by my colleagues and managers!"

The terms whistleblowing and Speak Up are often used interchangeably. However, the IBE views the term Speak Up as considerably more affirming. It has a more positive connotation and therefore helps to overcome resistance to speaking up.

Moreover, the metaphor of 'blowing the whistle' suggests that something bad has already happened, whereas speaking up encourages employees to ask questions and raise concerns that may prevent future misconduct. The IBE has found that a change in organisational language helps to encourage employees to speak up. [59]

It is important that leaders communicate that speaking up is not about pointing fingers or blaming people. Rather, it represents an invaluable tool to identify the source of ethical risks and mitigate them. Speaking up is in the best interest of the organisation and its stakeholders.

A Speak Up system as the key to an open culture

The interviews highlight different views on this subject (see Box 17). Some of the interviewees believe that in addition to the internal Speak Up mechanisms, it is useful to have a hotline operated externally, as it might give employees more confidence to report. Several endorsed the view that *"we are not a natural whistleblowing country"*.

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[57] IBE (2015) *Ethics at Work: survey of British employees*

[58] NBR (2017) *Opinion: NZ companies need to up their ethics game*

[59] IBE (2017) *Encouraging a Speak Up Culture – Good Practice Guide* provides detailed guidance on all aspects of developing a Speak Up policy and culture.

Opinions are divided about whether Speak Up processes should be handled internally, provided by an external provider or a mix of the two. Another point of debate was whether anonymous reporting should be allowed and many interviewees debated the pros and cons of this approach.

Box 17 Speaking up

LEADERS' VOICES

Interviewees explain that many organisations in New Zealand are setting up mechanisms for their employees to report their concerns or ask questions about ethics.

"People who want to raise an issue have different channels to do so. The first port of call should be their line manager. If, for any reason, they are not comfortable to do this, they can talk to another manager or they can call a hotline managed by a third party. I keep reminding staff that they have all these tools that they can use."

Mike Bennetts, CEO, Z Energy

"It is important that people can talk to someone that they feel is close to them. They are more likely to report if they know that they can talk to someone that they know and trust."

Dr Brent Wheeler, Chair, The Boardroom Practice

"Speaking up is an important element. People who raise potential issues are not judged negatively and do not suffer negative consequences. We want to identify early potential problems and this is only achieved by creating the right culture."

Charles Spillane, CEO, Kensington Swan

"We have set up Fair Call, a system to report concerns anonymously. The board receives regular updates on the reports received through Fair Call every three months. Issues around bullying, harassment and generally HR-related are quite prominent."

Tony Carter, Chairman, Air New Zealand and Fisher & Paykel Healthcare

"We have a formal whistleblowing line. The reports are taken seriously and in some cases they have led to the dismissal of people. We aim to set high standards of behaviour and the more serious breaches go straight to the Chairman."

Mark Cairns, CEO, Port of Tauranga

"We have established several avenues for reporting. Managers are encouraged to spend time with their staff and discuss their concerns, but there are also anonymous ways of reporting. We want to avoid Chinese whispers that could be detrimental to trust. We work a lot with indigenous family businesses, but the challenges are not unique to this group. We look around the world to learn and then apply it to our context, making the needed adjustments. We have done a lot of work on developing and communicating a framework that explains how to ask questions and what to report. It is important that everyone understands the role of these mechanisms properly to prevent any possible frictions."

Mike Sang, CEO, Ngāi Tahu Holdings

Managers and team leaders need to deal with ethical breaches swiftly and effectively. It is important that the company explains clearly that every report will be taken seriously and properly investigated, keeping the person that raised the issue informed whenever possible. It is also important that any individual who has been accused of misconduct or is under investigation is treated fairly and with respect. As Mike Bennetts of Z Energy points out, *"it is important to make a distinction between errors and deliberate violations. When we deal with misconduct we always ask ourselves: did this person know? Did we do enough to support him/her?"*

As Dr John Penno of Synlait points out, each company needs to find the Speak Up arrangement that is most appropriate in order to achieve an ethical and open culture: *"For me, it's about creating a culture that lets people start a conversation when they first become concerned and feel those twinges of something not being right. There is the risk that placing too much emphasis on a policy might not engage with employees effectively. All breaches can be major – we enable everyone to intercept, discuss and take action way before that."*

> ❝
> *It is important that the company explains clearly that every report will be taken seriously and properly investigated*

Conclusion

The way in which business is done in New Zealand has evolved significantly over recent decades. Overall, the senior business leaders interviewed for this report agreed that this process has resulted in greater awareness of ethical dilemmas. However, they recognise that much more needs to be done to protect organisations against ethical risks.

What can business leaders do to improve the ethical footprint of business?

The people interviewed for this report provide a clear answer: leaders need to take personal responsibility for how business is done within their organisation. They need to lead by example in applying their core ethical values to all stakeholder relationships. Leaders can build trust both internally and externally by demonstrating their commitment through their own behaviour. As Whaimutu Dewes of Moana New Zealand explains, the positive impact that this can have on employees can't be overestimated: *"Having a high ethical standard helps the company to be proud of their job. It helps people to 'feel good' about doing what they do. It's more than just some value words on paper."*

The importance of ethical leadership in achieving business success is a recurring theme on the agenda of enlightened business leaders. However, personal commitment alone is not enough: it has to be supported by stating the organisation's core ethical values explicitly and implementing the processes and frameworks required to embed those values in practice.

> ❝ · · · · · · · · · · · · · · · ·
> *Leaders need to take personal responsibility for how business is done within their organisation. They need to lead by example*
> · · · · · · · · · · · · · · · · · · ·

This is summed up clearly by Lees Seymour of Nelson Forests: *"Ethical leadership definitely contributes to the performance of the company. When there are good processes and ethical systems throughout the organisation, starting from the board, people can easily tell – they perceive it. As a result, they want to work for that company. There might be some occasions where we miss out on business because we stick to our values but I am prepared to take that risk."*

Appendix 1
Case studies

Case study **1**

Z Energy: Engaging with stakeholders to deliver change

In 2016, when the former assets of Chevron New Zealand were acquired by Z Energy, some ethical issues relating to fair competition on the market were raised due to the potential monopoly in some localised markets. As a consequence, it was ruled that 19 retail sites and one truck stop had to be divested.

The ruling was unpopular. Most retailers wanted to remain within the network they had selected and were accustomed to, and didn't welcome the idea of being 'assigned' another supplier. This change, and the relatively tight timeframe for its implementation, increased uncertainty and the pressure on some people to 'cut corners', resulting in an increased ethical risk for all the companies involved.

Z Energy CEO Mike Bennetts interpreted this scenario as an opportunity to demonstrate the company's core ethical values in practice. He determined that the requirements in terms of divestment had to be met but this had to be done in an inclusive and engaging way. In Bennetts' view, this is how a company can earn public trust and demonstrate the positive impact that business can have on all its stakeholders.

The process that followed was based on consultations with all parties involved. The objective of this exercise was very clear: to achieve an agreement that was recognised as fair and open by all. Z Energy rolled out a gradual and smooth transition process, taking the time to reassign all the contracts efficiently and effectively. The timeline was managed openly and with integrity, explaining the reasons for delays and amendments.

At the end of the process, Z Energy conducted an anonymous survey of its stakeholders including retailers, purchasers and other internal and external groups: 89% of them thought that Z Energy's reputation had either remained the same or improved and only 6% felt otherwise.

Case study **2**

Icebreaker: Preventing modern slavery in a globalised supply chain

Rob Fyfe, Chairman of Icebreaker, recalls that a particularly difficult dilemma he faced related to production sites that the company was evaluating in Bangladesh. Concerns arose as questionable practices, in particular around the fair treatment of employees and promotion of human rights in the workplace, were unveiled in some factories in the area.

Fyfe explains that: *"right from the top the decision was made to be true to our values. Our aim was to replicate how we treated our New Zealand workers within a Bangladeshi setting. Our code DNA and our commitment to making a positive difference meant considering and implementing a number of measures that could protect our staff's human rights at work and improve their quality of life. These included offering above average salaries, checks on health and safety standards, onsite food and crèche facilities."*

Fyfe personally conducted onsite inspections at Icebreaker's new manufacturing partner Youngone in Bangladesh to see the working conditions with his own eyes and communicate to his team, partners and customers that Icebreaker had chosen to partner with a factory that lives up to similar ethical standards, is committed to changing the practices in the country and will help create a new future and reality for the people of a nation that has faced hardship and turmoil. [60]

> " *Right from the top the decision was made to be true to our values. Our aim was to replicate how we treated our New Zealand workers within a Bangladeshi setting*

[60] See nz.icebreaker.com/en/our-story/philosophy for a video of Icebreaker Chairman Rob Fyfe visiting one of the company's suppliers in Bangladesh.

Appendix 2
Interview Questions

The following questions were asked of the 24 business leaders who were interviewed by IBE New Zealand for this report:

1. What do you think are the key ethical issues facing your company and your industry?

2. How has your company gone about trying to introduce or maintain an ethical business culture?

3. What do you think are the most common ethical dilemmas for senior executives?

4. Over recent years have you seen changes in the attitudes of New Zealand companies towards ethics? If so why?

5. Where does responsibility for ethical leadership / embedding an ethical culture sit within your company?

6. Can you describe a situation in which ethical leadership around an internal or market issue became apparent? How was it dealt with?

7. A common item in codes of conduct / ethics involves reporting of breaches. How is this managed within your company (i.e. what processes are in place)? Are breaches discussed at a board level?

8. How do you think ethical leadership contributes to the performance of your company? Do you train your middle managers/supervisory staff in how to handle ethical issues raised by employees?

9. Do you think there are disadvantages to ethical behaviour? If so how do you tackle those challenges?

Related IBE Publications

IBE publications provide thought leadership and practical guidance to those involved in developing and promoting business ethics, including senior business people, corporate governance professionals and ethics and compliance practitioners. Some recent publications related to this topic which you might be interested in include:

Codes of Business Ethics: a guide to developing an implementing an effective code
### Simon Webley and Daniel Johnson

New guidance from the IBE on how to develop and implement an effective code of ethics. This Core IBE Report addresses many of the questions that arise when organisations wish to provide support and guidance to staff in ethical decision-making. It is intended to apply to organisations of any size, regardless of the sector in which they operate and will assist those charged with implementing or updating their organisation's code of ethics. Codes of Business Ethics follows the IBE 9–Step Model and shares examples of good practice.
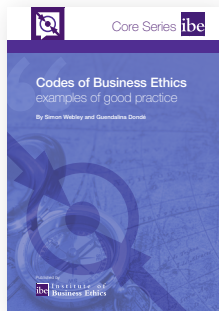
Codes of Business Ethics: examples of good practice
Simon Webley and Guendalina Dondé

This companion publication to Codes of Business Ethics: a guide to developing and implementing an effective code draws on the wording of a number of current corporate codes which address the most common concerns encountered in doing business today. There are potentially 108 issues which codes of ethics can cover. These include new issues, such as personal relationships at work; treating customers fairly; social media; protection of the company's brand; risk management and prioritising ethics over profits which did not exist when the guidance was last updated in 2003.
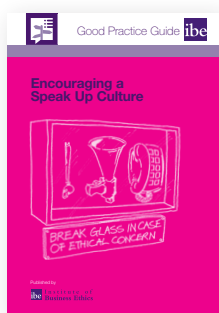
Encouraging a Speak Up Culture
By Katherine Bradshaw

The freedom to raise concerns without fear of retaliation is a core component of a supportive ethical business culture – one where employees are confident they will be supported to 'do the right thing'. Encouraging a Speak Up Culture is the latest IBE Good Practice Guide. It examines practical ways that organisations can encourage a Speak Up culture by establishing a procedure to give employees the confidence to raise concerns about anything they find unsafe, unethical or unlawful without fear of retaliation. If companies do not support their employees in this way, they risk a concern becoming a crisis.

Other IBE Resources

Investing in Integrity Charter Mark

Is there a way to prove a company's integrity? The IBE has developed a charter mark in association with the Chartered Institute of Securities and Investment (CISI) to help businesses and organisations know if their ethics programme is embedded throughout their organisation.

The **Investing in Integrity** (IiI) charter mark gives an assurance of trustworthiness to clients, customers, investors and other stakeholders doing business with the organisation. The real strength of the IiI framework is that it tests an organisation's ethical conduct against its statements of values to ensure those values are properly embedded. It can help them identify whether or not the company is truly living up to its values, from the boardroom to the shop floor.

The testing uses a self assessment management questionnaire and third party audit by IiI partner **GoodCorporation** whose methodology has been adapted for the IiI chartermark.

To find out more visit **www.investinginintegrity.org.uk**

Say No Toolkit

The IBE Say No Toolkit is a decision making tool to help organisations encourage employees to make the right decision in difficult situations. The Say No Toolkit delivers immediate guidance to employees on a wide range of common business issues, especially those that could lead to accusations of bribery.

Employees tap through a series of questions about the situation they face and the tool will provide the right decision to take: Say No, Say Yes or Ask. The answer also makes it clear why it is important to make that decision so your employees can have the confidence and the knowledge to respond correctly.

Organisations can use both the IBE Say No Toolkit app and website for free. The app can be downloaded on to any smartphone or tablet.

You can start using it for free now. Simply go to www.saynotoolkit.net

The Say No Toolkit can be customised and branded to suit your organisation's needs and detailed procedures. For more information email info@ibe.org.uk or call the IBE office on +44 20 7798 6040.

For details of all IBE publications and resources visit our website www.ibe.org.uk

Setting the Tone
a New Zealand perspective on ethical business leadership

What can business leaders do to improve the ethical culture of organisations and why does it matter?

In order to promote a culture of integrity within an organisation, guidance to staff is absolutely critical. This normally takes the form of a code of ethics, or similar document, which is applicable wherever the organisation operates and at all levels of the business.

For this report, IBE New Zealand interviewed 24 senior leaders on their view of ethical business leadership. Few, if any, had been previously asked to address questions about ethics in business.

The conversations that followed are illuminating. They document how integral business ethics is to business operations, profitability and overriding purpose, confirming that ethical business leadership means doing the right thing – beyond popularity, political favour or profit.

This report shows that the way in which business is done in New Zealand has evolved significantly over recent decades. The importance of ethical business leadership in achieving business success is a recurring theme on the agenda of enlightened business leaders. However, personal commitment alone is not enough: it has to be supported by stating the organisation's core ethical values explicitly and implementing the processes and frameworks required to embed those values in practice. This will help business leaders to achieve and fulfil the purpose of their organisation, promoting its long-term success.