MAY 2022 - EVENT SUMMARY REPORT

How can a focus on governance help reimagine corporate integrity?

A joint ecoDa / EY Webinar in collaboration of INSEAD Corporate Governance Centre

Between June and September 2021, EY surveyed more than 4,500 board members, senior managers, managers and employees from 54 countries on corporate integrity. To follow up on the EY Global Integrity Report, ecoDa and EY organized a webinar to discuss the key insights highlighted by the report.

The first striking result of this global survey is the widening gap between higher levels of integrity awareness and lowering standards, as well between the confidence in integrity standards displayed by companies' leadership ranks and their employees. Indeed, 97% of respondents believe integrity is important to sustain their business, yet 54% board members say COVID-19 pandemic has made it more difficult to carry out business with integrity.

The Global Integrity Report also shows that in 2021, while compliance programs grew in scale, business leaders appear to have become more tolerant of unethical behaviour, particularly among themselves. 42% of respondents say unethical behaviour in their organisations is often tolerated when the people involved are senior while 34% say that it is easy to by-pass the standard business rules and processes in their organisations.

If these results appear to be quite shocking, there is a need to look at the context and not only the symptoms. These numbers reflect the complexity of ethics and may well be influenced by the panic mode under which board members were operating during the pandemic. By changing the risk environment and isolating people at home, the COVID-19 crisis made it arduous for companies to maintain a sound integrity culture, which is about collective behaviour. Under this crisis, companies were in survival mode, people had less interaction with peers, they were less confronted with diverging views and proper feedback. This forced isolation implied a lower exposure to oversight which made it easier to bypass the standard business rules. It has been all the more challenging for leaders that decisions had to be taken as rapidly as possible in a less supervisable world.

Under these exceptional circumstances, commitment, feedback and exchanges are all the more important to avoid cognitive biases and group thinking. To efficiently cope with a crisis, board members need to remain long sighted while ensuring rules cannot be bypassed. What's more, they need to lead by example and represent the desired ethical behaviors themselves.

Board members should set the tone by defining and translating the company's ethical culture into concrete behaviour and policies (KPIs...). When a misconduct is reported, they should zoom out from the individual level and look at the possible root-causes (located in the environment and context) to prevent any similar behaviour. Basic discipline is crucial to safeguard shareholders and stakeholders' trust and to avoid reputational risks.

Board members are on the horns of a dilemma. They have to adapt the corporate world to ever evolving and increasing multi-faceted pressures while ensuring there is a fair reward system in place where trust and transparency prevail. To help this shift towards greater transparency and less misconduct, the European Commission formally adopted the new Whistleblower Protection Directive in October 2019 to introduce effective, confidential and secure reporting channels to protect whistleblowers against retaliation. Despite macro level efforts, only 47% board members agree that it is easier for employees to report concerns while only 25% of the employees think likewise. So whilst the change in legislation is a useful acknowledgment that whistleblowing is legitimate and socially valued, the challenge for companies is that changing behaviour is far more complicated. Organizations need to work harder to define a speak-up culture where employees can feel emboldened to point out issues and feel confident that management will take action to initiate change.

To conclude, six key recommendations were made to help companies promote a culture of integrity:

- Really know your business: performing fraud and corruption risk assessments are at the heart of the journey to protect your organisation. But in addition to monitoring your risk exposure, you have to embed an inclusive purpose to inspire your stakeholders and prevent misconduct;
- Put the human into compliance: recognize that systems and processes don't commit frauds, humans do. The best compliance frameworks can be breached if there is not a culture of doing the right thing;
- Be empowered by the power of your own data: treat the growth in data volumes as an opportunity to aid the combat of fraud, not a threat;
- Education: continue the journey of communicating and awareness building;
- Speak up and support whistleblowing: give people the opportunity to report suspected wrongdoing, in good faith, and make them feel safe by ensuring there is protection against retaliation;
- Ensure coherent and fair reward systems.

Speakers: Maryam Hussain *(EY Partner, Forensic & Integrity Services UK)*, Esther Janssen *(Managing Director, Culture-Inc)*, Nick Jones *(Director, Client/Market Engagement, Forensic & Integrity Services EY)*, Marc Le Menestre *(Affiliate Professor of Decision Sciences, INSEAD)*, Anthony Smith-Meyer *(Founder & Managing Director, The Governance Project).*

The recording of this webinar is available here.

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