ETHICS AND RISK MANAGEMENT

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Ethics in Business Today

The public, and employees, are looking more and more at how 'ethical' the businesses they engage with are and organisations, for whatever reason, are taking more and more notice. The start of this process is understanding what 'business ethics' is and how it can be incorporated into the day-to-day workings of the organisation.

An ethical business could be considered as one that applies ethical values to their behaviour, and therein lies a multitude of interpretations. In short, ethics is subjective. It has been said that ethics begins where the law ends, so there are plenty of grey areas. For example, is it ethical for a company to use every loophole in tax legislation to pay as little tax as possible? Should action be taken to reduce wage disparity? Should business dealings be avoided with companies recognised as having a highly negative impact on the environment? In fact, these three issues (tax avoidance, executive pay and environmental impact) were voiced as the biggest public concerns in a recent Institute of Business Ethics poll in the UK.

Ordinary people are becoming ever more conscious of the impact their business dealings and private transactions are having on society and the

environment. Witness the growth in investment funds specifically designed to have a positive social impact, at over $500t worldwide. Microfinancing is estimated to have supported over a billion poor entrepreneurs. Employees are often keen to work for an organisation they see as ethical. An ethical lapse by a business in the public eye is likely to damage its reputation. Reputations take years to build and can be destroyed in seconds, as they say.

Ethical Risk Management

So, how can ethics be built into the risk management framework of an organisation? Well, in many ways, embedding ethical business practices into risk management activities is no different to the treatment of any other risk category, with a few words of caution. The starting point is the ethical values chosen by the organisation, usually including integrity (honesty), respect and openness. The next stage is to interpret what these well-intentioned words actually mean and this is where it gets tricky. These values need to be interpreted in sufficient detail to make it clear what behaviour is expected, of individuals and the business internally and externally. A result of this might be a more detailed Code of Business Ethics and then, one of the most vital steps in the process, an ethical risk assessment. These two stages could be iterative, one refining the other.

A common mistake, in my view, that organisations make, is to skip the risk assessment stage, in looking at things like bribery & corruption, anti-trust and ethics, in the assumption that it's 'obvious' what the risk are, going straight to developing procedures and training/awareness raising programmes. This risk assessment should look at sufficient, relevant information about the organisation's business activities and relationships to enable it to determine to determine how these might expose it to an ethical breach. It is vital that the right people, who understand how the business operates, are engaged at this stage and the outcomes must be refreshed and kept up to date on a regular basis.

In addition to identifying specific risks, the risk assessment process should help in deciding the resources needed to support the organisation's ambitions to operate ethically. It may support the creation of a dedicated ethics function, that can be the custodian of policies and procedures, the go-to for employees with concerns and the conduit to report to management. What the risk assessment should also do is to highlight areas of the business that require special attention, be that a particular sector or location. Resources will always be limited and a 'boil the ocean' approach is counter-productive, in more ways than one. Treating all employees the same, regardless of the risk of them behaving unethically, diminishes the organisation's approach in the eyes of the employees.

Making sure the message is understood

This brings up the issue of how seriously all stakeholders (staff, suppliers, partners etc.) take the organisation's ethical stance. There is a tendency to assume that the Code of Business Ethics and other declarations of intent are imposed on the organisation, are window dressing and that management is just paying lip service to the issue. This can only be countered by repeated reinforcement by management of the need for this to be taken seriously. In addition, signs that the approach is not working, such as high levels of pilfering or absenteeism, should be viewed as a need for more effort to get everyone on board. An ethics 'culture' needs to be developed and encouraged and the remedies in place should be easy to use. For example, stakeholders are naturally slow to come forward and report an ethical concern, so every effort should be made to make this easy to do.

Developing an Ethical Risk Culture

This characteristic of an organisations risk culture is vitally important. Risk culture describes the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose. An effective risk culture is one that enables and rewards individuals and groups for taking the right risks in an informed manner and this applies as much, if not more, to ethical risk

management as it does to any other category of risk. The Institute of Risk Management has provided thought leadership on risk culture for as long as it has existed, and has produced guidance documents and offers training in the subject, to help professionalise the approach to this key component of good risk management in general, and to ethical risk management in particular.

Ethical risk issues will not be addressed with policies and procedures alone. The engagement of all stakeholders is the true defence of an organisation's ethics and this culture of ownership needs to be encouraged at every opportunity. The opposite, complacency, which can be defined as "self-satisfaction accompanied by unawareness of actual dangers or deficiencies" is the enemy of risk management, in general, and of ethics, in particular. Arrogance, an extreme form of complacency, has been the downfall of many a household name in the business world, and should be guarded against at all costs. Organisations capable of managing ethical risk internally need to keep up with the latest though leadership on the subject, empower those tasked with managing this category of risk, train them and visibly support their efforts. In addition, it sometimes helps to bring in outside expertise, to review what's being done with a fresh pair of eyes, to avoid being stuck in 'group thought'. ∎