EUROPEAN Business Ethics FORUM

Conference Report

Victoria Park Plaza, February 2014

The conference was held under the Chatham House Rule which means that participants may use and repeat what was said but they may not attribute anything by name or company. For this reason, the full report is available only to participants.

This is summary outlines the plenary sessions and the topics discussed in breakouts.

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BAE SYSTEMS INSPIRED WORK

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Thursday 6th February

1. Welcome and introductions

The conference was opened by introductions from the four organising groups. IBE was the hosting partner this year.

Philippa Foster Back, Director, Institute of Business Ethics (IBE), emphasised how this conference is known for providing an opportunity to learn from others in a friendly atmosphere. She thanked the 3 companies that gave generous financial support – BAE Systems, BP and Prudential.

Tim Mazur, COO, Ethics & Compliance Officer Association (ECOA), pointed out that the ethics and compliance field continues to be dynamic and growing in influence. He remarked that EBEF is a fantastic forum for those who believe ethics and culture has a place alongside law and compliance in business. Participants were encouraged to give feedback at any time on the agenda so that the forum remains relevant.

Yves Medina, President, Cercle d'Éthique des Affaires (CEA), outlined developments in France including new laws, such as transparency in public life and whistleblowing protection, and felt that this is a positive direction for this field.

Luc Van Liedekerke, European Business Ethics Network (EBEN), reflected that employing 1,000 lawyers and 3,000 compliance officers cannot be an effective way to create an organisation where people do the right thing as a matter of habit and live up to fundamental values – which is the central concern of this conference, how to embed ethics in organisations.

2. Plenary 1 - Thurs am: Reflections from the CEO in Rebuilding Trust

Speaker: Ian King, Chief Executive, BAE Systems

Ian King gave a personal reflection on the cultural journey of BAE Systems and the role of the CEO in this.

Ian first gave a brief history of how BAE was formed in 1999 from two very culturally different organisations: Marconi and British Aerospace. The reputation of the newly formed company was not good and recent UK press coverage had undermined public confidence. The company had to get a new Chief Executive to focus on operational excellence for survival and elected its first non-exec chairman. This meant a second high profile cultural and board change. The exec had to learn how to work with this non-exec structure.

Two years later, the Serious Fraud Office started an investigation and BAE's relations with stakeholders were under threat again. While the defence sector reputation remained poor how could a company like BAE regain trust? The company appointed Lord Woolf to head a committee to provide independent oversight and commitment to implement all of his recommendations.

The primary result was an introduction of a principle-based rather than a rules-based approach. Ian presented several things that show how the company went in that direction:

- Behaviours became a focus. A code of conduct was developed which encouraged employees to speak up as this is important for mutual trust. In international business there are cultural challenges, especially around conflicts of interest, which change over time, and a company has to be on top of and responsive to what new generations experience.
- The concept of "Total Performance" was introduced as core to business strategy. The 'how' was not to be separated from the 'what'. The principled-based culture was talked about extensively, along with its rationale.
- There was a realisation that the values had actually been expressed as attributes and that they needed to be clearer in terms of principles.
- How managers communicate to staff is important for influencing culture. At BAE, it is not dictated how this must be done but managers are allowed to do what works for them and their audience – to get to hearts and minds.
- Ian went on to say that pride is very important: "We want our people to understand the what, how and why of what we do. This will be the basis of our forthcoming rebranding as part of delivering our strategy."

For Ian, a big lessons learnt is that culture change is never ending and that it has to be relevant. The CEO's role is to create an environment that others can succeed in, as well as dealing with any bad news. Setting substance, value and commitment are key to the CEO role.

Discussion: – a selection of the questions and comments

Q: Was there a blinkered view at the time of the trouble – an assumption that it was isolated, or was it considered an organisational issue?
A: At the start of the SFO investigation it was probably thought of as isolated, but the Woolf review made it clear that an all embracing cultural shift was key to preventing it happening again. We needed to get resources in for that and to address it in a decentralised way and across the players in the sector.

Q: How do you square the requirements of the FCPA?
A: We have requirements that are even stricter, in line with the UK Bribery Act. We have our own standards that have to be global.

Q: Have your shareholders been a help or a hindrance on this journey?
A: They want a sustainable business. I go to all the meetings. Our standing in society matters to them. The government is our customer. So they have been generally supportive.

Q: Please say more about exec level culture.
A: The incentives for execs are all transparent. A significant part of the way they are rewarded includes performance on health and safety, environment and responsible business.
Our executive committee meetings include a facilitated workshop which encourages a group dynamic for decision making that is creative and shared.

Q: How does BAE push the cultural shift down its supply chain?
A: Joint venture partners must respect our policies and sign up to our code. We check that their codes match up to ours. Regarding suppliers, we work hard to ensure standards. One example is when we found one of our contractors placing their suppliers under undue pressure and we acted on that. Also a local manager was able to make the decision himself to withdraw from tendering process after we had inadvertently become privy to information about a competitor's bid.

3. Breakout sessions 1 - Thurs am

Three sessions of five simultaneous breakout discussions followed over the course of the forum. The goal of these sessions is for participants to share highs, lows, and lessons learnt, rather than to give a platform to "experts". The rapporteur's notes for each breakout discussion follow.

1.1 Adapting Your Programme to Local Cultures

Introduced by: Courtney Wallize, Corporate Director, Ethics & Business Conduct, Northrop Grumman Corporation (NG)
Moderated by: Solveig Maria Sarin (ECOA)
Rapporteur: Neil Holt, CH2M Hill

1.2 Technology And Your Ethics Programme

Introduced by: Timothy Schultz, Director, Business Ethics & Compliance, Raytheon Company
Moderated by: Rebecca Rehm (ECOA)
Rapporteur: Bertrand Rossert, World Bank

1.3 Protecting The Whistleblower After The Whistle Has Been Blown

Introduced by: Patrick Donovan, Chief Ethics & Compliance Officer, Airbus Group
Moderated by: Celine Pires (CEA)
Rapporteur: David Morris, Boeing

1.4 Ethics And The New Generations: Bridging The Divide

Introduced by: Henri Van Elewyck, Group Vice President Ethics, HR Research and Progress, SODEXO
Moderated by: Marie Agnes Vieitez (CEA)
Rapporteur: Roz Bliss, Northrop Grumman

1.5 Creating An Ethical Culture: Beyond Policies And Procedures

Introduced by: Peter Massey-Cook
Moderated by: Simon Webley (IBE)
Rapporteur: Robert Smith, Serco

4. Breakout sessions 2 - Thurs pm

2.1 Conducting Lawful and Effective Investigations: Lessons Learnt

Introduced by: Sylvie Kandé de Beaupuy, Senior Vice President - Chief Compliance Officer, TECHNIP
Moderated by: Cedric Dubar (CEA)
Rapporteur: David Morris, Boeing

2.2 Resolving Ethical Challenges and Dilemmas

Introduced by: Corinne Lagache, Group Compliance Officer, SAFRAN
Moderated by: Marie Agnes Vieitez (CEA)
Rapporteur: Marie Agnes Vieitez, CEA

2.3 Incentivising Ethical Behaviour: Examining Processes And Procedures

Introduced by: Neil Holt, Director, Ethics & Business Conduct - International Operations, CH2M Hill
Moderated by: Nicole Dando (IBE)
Rapporteur: Brigid Briggs, Rolls-Royce

2.4 Making The Grade: Assessing The Effectiveness Of Your Programme

Introduced by: Joan Elise Dubinsky, Director, Ethics Office and Chief Ethics Officer, United Nations
Moderated by: Tim Mazur (ECOA)
Rapporteur: Julie Sheppard, Shell

2.5 Innovations In Ethics Training

Introduced by: Ludmila Ivashina, EMEA Zone Compliance Officer, Siemens
Moderated by: Rebecca Rehm (ECOA)
Rapporteur: Roz Bliss, Northrop Grumman

5. Speed Sharing - Thurs pm

The aim of this session was to allow participants to share while getting to meet new colleagues in a small and fun setting.

Three questions were posed to participants sitting in groups of 8-10:
- What were your biggest achievements in 2013?
- What were your main challenges?
- What is your ambition for your programme/what would you like your legacy to be?

6. Plenary 2 - Fri am: Why Do Good Employees Do Bad Things?

Speakers: **1. Ann E. Tenbrunsel, Rex and Alice A. Martin Professor of Business Ethics & Director of the Institute for Ethical Business Worldwide, University of Notre Dame**
2. Björn Fasterling, Professor, Accounting, Law, Finance and Economics Department, Edhec Business School

1. Prof Ann E.Tenbrunsel: We aren't as ethical as we think we are

The field of behavioural ethics helps us to understand how is it that individuals behave in a way that is in contrast to their values? Four "ethical blind spots" were explained:
   i)   Ethical Illusions
   ii) Ethical Fading
   iii) Dangerous reward systems
   iv) Motivated Blindness

1. Ethical Illusions – "I am not one of those unethical people".
People rate themselves too high on ethical traits like honesty compared to average. Individuals have a biased perception about their personal ethicality. The same can apply for the organisation they work for: "our company is different".
(Yet books about ethics are more likely to be stolen than other books!)

However, behavioural analysis shows a discrepancy between:
   • How we predict we will behave
   • How we actually behave
   • How we reflect on that

Ann gave the examples of stated intention and actual behaviour when conducting job interviews, and around charitable giving.
Why does this forecasting and revisionary error occur?
   • Desirability versus Feasibility – what we want to do really is less feasible in the actual situation. This can be due to visceral forces such as hunger, tiredness or fear, for example.
   • Reflections: Rose tinted glasses (it wasn't that bad), biased attributions (it was someone else's fault), post hoc rationalisation (it is OK because …).
   • Confirmatory searches: Our brain searches out confirmatory sources for these biases and rationalisations. We don't remember the things which don't support our views.
   • Adjustable ethical standards: our view of what is acceptable shifts slightly over time but continually – going further over an ethical line each time.

2. Ethical Fading – we use different criteria for different situations and decisions. Ethical fading refers to the process by which we don't see the ethics in the decision and thus ethical criteria become irrelevant. We might see it as a legal decision or an economic decision which can displace moral criteria with legal or economic criteria. The example was given of labelling a decision as a management decision which brings up different criteria (profitability, deadlines) than labelling it as an engineering decision (design functionality). How we label a decision (decision processing) is relevant to how ethics can fade out.

Also relevant to fading ethics out are **language euphemisms** as these affect our attitudes: "job creators" versus "the filthy rich"; and **compartmentalisation**: "worrying about that is not my job".

3. Dangerous Reward Systems – we see things that we are rewarded for and do not see things we are not rewarded for. We are cognitively biased. In the workplace there are incentives to cross ethical lines.

4. Motivated Blindness – we don't see bad things or report on them when it is not in our interest to do so. This allows bad things to spread. We are not motivated to report on our boss.

2. Prof Björn Fasterling: Ending the compliance game: addressing "bad" behavior of "good" employees

Prof Fasterling described a case study of a company which in 2009 had said it had a best in class compliance programme just before a serious misconduct case. And in 2013, its CEO was satisfied that "we resolved it. It is behind us."

He also suggested that the reason they did not bother to consider what had gone wrong was "The Compliance Game".

The elements of the Compliance Game are:
1. Misconduct surfaces
2. It is investigated by regulators or prosecutors
3. They have a cooperative attitude with companies
4. Consequences are agreed e.g. a fine and the "matter is now behind us"

What pieces of the Game allow this to happen?
- The adoption of ambitious laws
- Some types of economic crime are intrinsically difficult to investigate
- Limited resources of legal authorities
- There are sophisticated compliance programme
- The possibility of prosecuting organisations (availability of corporate criminal law or functional equivalents)
- Prosecutors or regulators have discretion to negotiate justice (for example through DPAs)

Compliance programmes do not address employee's motivations, justifications and circumstances for misconduct. Companies prefer to focus on measures that are visible and documentable rather than revisiting implicit values and cultural issues. This causes "ethical fading".

There is a tendency that motivations that lead to misconduct are buttressed in the Compliance Game where authority is negotiable; the focus is on the cost of non-compliance while the moral sensitivity is absent. There is ethical fading when focus is solely on the business case for non-compliance, and not on other essential requirements such as an independent compliance function and a speaking up culture and guarantees of freedom of expression within organisations.

Discussion – a selection of the questions and comments

Q: What is the role of culture?
A: Two types of culture:
Formal culture – ethics programme
Informal Culture – "the pressures I feel". This is more important influencing behaviour

In ethics training people are asked to think about how they think they would behave, but we need to help them think more accurately about how they really would behave. Giving

employees time to reflect is important. Some companies are encouraging meditation and this has a role in creating a reflective culture.

Q: What are the implications for compliance programmes?
Ethics training needs to concentrate more on predictive reality - so that employees and employers better understand where the pressures really come from. Senior execs should turn up to training and say how disappointed they were about something that went wrong and not simply declare that something is not allowed.

Q: Do some ambitious laws create a problem?
A: They can result in more pressure to look for loop holes. Laws are best when they result in system change.

Q: How should we structure incentive programmes to motivate ethical behaviour?
A: Ethical behaviour in performance review can reduce ethical fading by affecting motivation and decision making. Accountability for ethical behaviour does have an effect. However, incentives based not on judgment but on calculable results has a tendency to corrupt ethical motivation.

7. Breakout sessions 3 - Fri pm

3.1 Imagining the "Ideal" Ethics Practitioner: From Personality to Performance

Introduced by: Harriet Kemp, Head of Engagement, IBE
Moderated by: Harriet Kemp (IBE)
Rapporteur: Alyson Corrigan, Tate & Lyle

3.2 Mitigating Third-Party Risk

Introduced by: Lucille Dolor, Group Deputy Secretary, Spectris
Moderated by: Simon Webley (IBE)
Rapporteur: Lisa Stewart, RBS

3.3 Empowering Employees To Share Values

Introduced by: Virginia Canter, Ethics Adviser, International Monetary Fund
Moderated by: Solveig Maria Sonin (ECOA)
Rapporteur: Anne Fairbairn, Diageo

3.4 Engaging Managers In Your Ethics Message

Introduced by: Ann Mickle, Global Comms & Training Risk & Compliance Manager, Diageo
Moderated by: Nicole Dando (IBE)
Rapporteur: Simone Holliday, Deloitte

3.5 Assessing And Measuring Culture

Introduced by: Stéphanie Scouppe, Assistant to the Chairman's Adviser - Sustainable Development Ethics, Groupe La Poste
Moderated by: Celine Pires (CEA)
Rapporteur: Adrien Mezouari, L'Oréal

8. Plenary 3 – Fri pm: Tales From The Frontline: Practical Ways To Make Your Ethics Programme More Effective

Speakers: 1. Philip Jordan, Senior Vice President Ethics, Total S.A.
2. Emmanuel Lulin, Senior VP, Ethics Chief Officer, L'Oréal
3. Alex Sulaimani, Director, Compliance & Ethics, Euroclear

Philip Jordan, TOTAL - How we evaluate what goes on in the field

Total has a pretty mature programme but our frontline can pose various ethical challenges due to the locations we work in. Using third parties is important for getting genuine assessments of what is happening. Three types of evaluations are used by Total:

1) Good Corporation – uses a check list of 87 points related to stakeholders. Interviews take place to check that polices exist and are working. E.g. in one subsidiary they assessed staff working conditions in our dealer managed service stations. The working conditions were found to be unsatisfactory in some cases. The staff wear our uniforms and brand though they are not our employees. So the subsidiary developed a guide for dealers to help them to be good employers, which at the same time brought them business benefits.

2) Danish Institute of Human Rights – runs self-assessment workshops with our affiliates to identify issues, challenges, and strategies to prevent problems. Sometimes they work together with Good Corporation in areas where human rights challenges are more complex. They also did follow up workshops with our staff and service station dealers to support them regarding the Human Resources Guide and how it could be both implemented and audited.

3) CDA – do assessments of our impact on local communities independently of us. Their report is published on their website. For example they recently checked what is being said by our stakeholders and local communities in Nigeria. They found many good things but also highlighted some areas of improvement regarding, for example, governance in the communities, the working of grievance mechanisms, how to ensure engagement is constructive on all sides. They also discussed the long-term sustainability of community projects.

Discussion
Q: What has changed in the compliance programme over ten years?
A: Just about everything! It is more robust and we now have many more resources deployed to implement the programme. We have a Chief Compliance Officer at HQ and 350 local compliance officers in affiliates, as well as a clear set of policies and auditing process. The affiliates themselves have strong due diligence programmes which are being rolled out.

Emmanuel Lulin, L'Oréal – Country visits and audit tool

1. Country visits: I visit our countries to raise awareness of ethics, but also to make sure that all levels of employees can speak up. I talk with our ethics correspondents and for three hours with the executive committee in the country. Mainly discussion concerns ethical issues – around integrity and reputation, rather than legal compliance. For example, marketing issues such as children in advertising. These are discretionary issues for the company and it's a lively meeting.

I also organise a roundtable with workers but in the absence of senior managers so I can better assess the mood in the company and the reality on the ground. I also go round our factories and talk to all employees about their experiences. This is very effective and encourages employees to speak up, especially around things they may feel uncomfortable raising with their managers.

Town hall meetings with employees allow me to talk with the whole staff and then individuals are invited to come and talk to me individually if they wish.

2. Risk assessment tool: Mr Lulin showed EBEF participants the online tool used by country managers.
Its value is that it encourages country managers to discuss ethics in a very practical way with their management committees. L'Oréal wants to encourage debate especially around the grey areas. They must rate their business environment and what actions they have taken to date to mitigate their ethics risks with about 400 questions and they get a score and a draft action plan.
They also rate their own performance:
E.g. Ethical leadership:
> Is the code of ethics visible in your office?
> Are ethical issues on your management agenda?
> What did you do to promote our annual Ethics Day?

They are not obliged to share the results with the Ethics Office. The more important thing is that they complete it. That is mandatory. In fact, they mostly do share it and then the Ethics Office helps them finalise their action plan.

Alex Sulaimani, Euroclear

In 2011 we began a transformation of our Compliance programme to ensure that we were delivering value for all our stakeholders, internal and out. This includes revamping our policies and training to be more case-study based and practical, more than doubling our staffing, and putting in place a comprehensive testing programme.

Some of the key learnings along the way which help us create value and demonstrate it:
- Speaking at an early stage with various stakeholder groups to understand their perceptions, needs, etc. – Compliance functions can often be seen as primarily serving the Board, Management, regulators, but by understanding the needs of other stakeholders we can demonstrate e.g. that we can support innovation while focusing on the right controls.
- Volunteering to take on 'orphaned' action plans – every company has them, and by taking on unwanted challenges we demonstrate we are not taking a tick the box approach, that again we're striving to create value.
- To recruit from various backgrounds – some of our strongest team members are not lawyers or auditors but people who understand the business or how to communicate.
- To formally apply change management methodology and techniques to Compliance & Ethics transformations to affect cultural change.
- To affect real cultural change it is essential that people take ownership and accountability of those changes. Our testing programme starts with a self-certification to demonstrate ownership of controls. Although it can be seen as a tick the box, it also creates awareness.

Discussion – a selection of the questions and comments

Q: How do you conduct supplier audits?
A:
- L'Oreal: we use ASA8000 and external auditors to do it. Suppliers have to do it.
- Total: We audit H&S and quality, but the wider ethical things are not well audited yet– other than the GoodCorp process which includes how migrant workers are treated. We have just started auditing NGOs that we work with too. There are governance issues there.

- Euroclear: We (led by Corporate Procurement and the business) perform comprehensive risk assessments before using a supplier but we do not audit them. We do have however the right to audit set out in our supplier contracts, as relevant.

9. Plenary 4 – Fri pm: Challenges On The Horizon: Looking Ahead To 2015

Three participants were asked to views on what they had learnt and what challenges lay ahead.

1. Charles Hornsby, Business Compliance Officer, Shell International Ltd
Tensions on the horizon which are relevant to this field:
- Between the roles of "ally and advisor" and "conscience and critic" in an enterprise
- Denationalisation versus national agency – global versus international interests
- Boundaries between ethics and compliance determining the expectations over certain issues – e.g. responsibilities around taxation and around harmful products.

2. Blair Marks, Director Ethics Awareness and Operations, Lockheed Martin
Main conference themes and challenges ahead:
- How best to engage with leaders, employees, middle managers
- Use of technology e.g. apps, webinars, data analytics.
- The increasing urgency of third party issues.
- Integration of the different functions covering ethics, CSR, sustainability and compliance.

3. Dominic Lamoureux, VP Ethics and Corporate Responsibility, Thales
- We need to recognize that radical changes are happening in our environment, which transform ethical issues and policies. We must operate outside our comfort zone.
- We have then to learn how to detect and understand emerging trends or faint signals: geopolitical crises, power of social networks, influence of NGOs, etc.
- But also these tremendous changes invite us to propose or invent new paradigms. Particularly ethics must become a tool for performance and competitive advantage.

Forum Dinner

Dinner on Thursday evening was held at the Honourable Society of the Inner Temple.

The 2015 conference will be held in Paris, 4th – 6th February. Registration with an "early bird discount" will open soon. Please check the EBEF website for details: www.ebef.eu.