



ETHICAL LEADERSHIP COUNTS FOR MORE WHEN OPERATING IN A CRISIS

Companies won't get a pass on ethically questionable practices because of the pandemic

Written by Emily Miner, Senior Advisor at **LRN Corporation**

As countries and businesses work to adapt and transform on the heels of COVID-19 lockdowns, corporate conduct and culture will, as much as ever, define our future – and serve as a stress test for leaders.

Numerous corporate scandals over the past few years – like SNC-Lavalin scandal in Canada, the collapse of the Vale SA dam in Brazil, and the failures of the Boeing 737 MAX in the United States – have laid bare a significant gulf between the ethical principles corporations present in their ethics and compliance (E&C) program and what really happens on the ground when it comes to company conduct and culture.

When the pandemic was first taking hold, LRN Corporation published a report, [Confronting the Root Causes of Misconduct](#), based on a global survey of 500 ethics, compliance, and legal professionals. We found mixed results when it comes to companies' cultures of accountability:

- While 75% of E&C professionals say their organization requires employees' ethical conduct to be evaluated when deciding promotions, only 56% require it be evaluated for bonus allocations.
- Only 44% seek employee feedback on ethical culture via surveys, focus groups, or diagnostics focused on trust, respect, and transparency.
- Just 46% say their leaders support effective sanctions or penalties on senior executives and high performers who are involved in misconduct. And only 37% say their organization takes ethics into account when setting sales targets or goals.

An encouraging point amidst the current environment: 83% say they believe the E&C function has the ability to raise issues directly with the c-suite or board.

According to our report, companies with strong ethical cultures tend to have commonalities: affirmative values play a part in business decisions; employees can speak out without fear of retaliation; and governance is driven by values and transparency. These pillars of ethical culture determine whether the rules will be followed, ignored, or circumvented.

We know that companies won't get a pass on ethically questionable practices because of the pandemic, and regulators know that the tone is set from the top. So, how can leaders ensure these pillars of ethical culture are sustained?

Put values and ethics at the center. As

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restrictions lift and businesses reopen, many will focus on recouping as much revenue, share, or output as possible in an attempt to bounce back from the downturn. While understandable, it is a major concern for compliance professionals as this pressure foments the risk of misconduct.

Leaders must always – and especially now – be aware of explicit and implicit signals sent by their words, actions, and strategies. Reopening plans and business goals should be connected back to corporate values and ethical principles, both in how plans and goals are communicated and in the practice employees see on the ground. Our survey suggests that such an approach will pay dividends. For example, when leaders weigh ethics and compliance criteria as they pursue business and revenue opportunities, their employees are 4.3 times more likely to question decisions that seem to conflict with organizational values and 3.8 times more likely to do the “right thing,” even if it’s not in their personal best interest.

Ensure channels of communication are open – and two-way.

Fostering an environment where people are free to speak up – to report misconduct or unethical behaviour, to contribute their ideas, to share feedback, and to question why things are done – has never been more important. In fact, employees’ willingness to “speak out” is the top indicator of a culture of compliance, according to a behavioural

ethics study that examined 45 potential predictors of misconduct. Yet our survey shows that only 67% of employees speak up during team meetings if their manager is there, and only two-thirds are comfortable skipping levels to raise ethical concerns. We collected our data at the end of 2019, just before the rise of the pandemic, and it’s possible these numbers would be even lower today, given some employees’ fears of “rocking the boat” and jeopardising their employment.

Leaders, across all levels, must encourage people to speak up clearly and often, and assure that retaliation will not be tolerated. When people bring forward their concerns, leaders must demonstrate that they will “listen up.” Establishing recurring forums to solicit employee feedback outside of traditional reporting channels, such as short anonymous surveys on employees’ experience returning to work, is one method we recommend. And leaders must also set the tone themselves by communicating openly and regularly the organisation’s plans, rationale, and the good as well as the bad. Regardless of format, all communications should be accompanied by resources for how employees can seek help or to whom they can go with questions.

Demonstrate accountability.

The extent to which employees speak up depends on whether they perceive the organization to be fair and accountable. How companies deal with top performers who engage in unethical practices in this moment will send a strong signal to

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employees about what the company really values. It is critical that functions such as Compliance and HR remain resourced and able to fulfill their mandates. Our survey found that organizations with active, high-impact E&C programs were 57% more likely than other firms to hold senior executives accountable for misconduct.

Navigate and push adaptive business practices.

COVID-19 has changed the risk profile for almost every organization, such as increasing populations working remotely and disrupted or new supply chains. As a result, leaders must actively seek to understand how their risks have evolved in a dynamic and ongoing fashion, using real-time data from multiple sources, rather than relying on a snapshot in time. These insights must be quickly incorporated, and business practices adapted accordingly.

The corporate scandals that have transpired over the past several years point to “poisoned trees” as opposed to “just a few bad apples.” Accordingly, they also underline the importance of ethical leadership and culture. And with the past several months being a true test of leadership, we have seen remarkable examples of companies and individuals coming together, often at great sacrifice, to respond to the crisis. But the future holds a different type of test, as both companies’ employees and the world watch how organizations reopen, and not just what they achieve.

About LRN

 **LRN’s mission is to inspire principled performance.** Since 1994, LRN has helped over 25 million people at more than 700 companies worldwide simultaneously navigate complex legal and regulatory environments and make ethical decisions, and has also helped hundreds of companies foster ethical, responsible, and inclusive cultures. LRN’s combination of practical tools, education, and strategic advice helps companies translate their values into concrete corporate practices and leadership behaviors that create sustainable competitive advantage. In partnership with LRN, companies need not choose between living principles and maximizing profits, or between enhancing reputation and growing revenue: all are a product of principled performance. As a global company, LRN works with organizations in more than 100 countries. For additional information on LRN, visit www.LRN.com

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Contact Maggie Bettinson to hear about our vision for what's next in Ethics and Compliance at maggie.bettinson@lrn.com or call 800-598-2809.

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