

# BUSINESS ETHICS: BEYOND COMPLIANCE TO COMPETITIVE ADVANTAGE

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The *Asia Pacific Fraud Survey 2015* by EY found that, over the past two years, more and more organisations have stepped up their efforts to prevent fraud and combat bribery and corruption.

That is the good news.

The not-so-good news is that the survey suggests that while Singapore companies have put in place structured frameworks and procedures for dealing with unethical conduct, bribery and corruption, these measures do not work that well in practice.

The prevalent feeling among survey respondents is that compliance violations are not dealt with promptly and appropriately. More critically, the survey revealed that near 80 per cent said they would be unwilling to work for organisations involved in bribery and corruption.

### A NEW TALENT PERSPECTIVE

These findings provide an important perspective for viewing compliance, especially as it relates to business ethics. If the survey is correct in its assertions that, for the younger workforce (25 years and below), an organisation's reputation for ethical behaviour is a key factor in their career decisions, companies should therefore have a new imperative for managing fraud, bribery and corruption, by going beyond the basic compliance indices set by regulators.

As the survey points out, a failure to do so could see the loss of promising talent, higher attrition rates and expensive recruitment campaigns. In markets where it is already difficult to recruit and retain staff, the consequences could be severe.

High standards of ethical conduct and practices, in other words, have become a competitive business advantage in attracting and retaining top talent. And if it is not already, it needs to become central to the growth strategy of any company.

### TONE FROM THE TOP

Achieving a sustainable ethical culture takes a commitment of resources and effort. To begin with, it is fundamental that the board, together with senior management, sets the appropriate top-down tone by establishing a corporate culture that promotes ethical behaviour.

A detailed framework of policies should clearly and consistently articulate the organisation's values. Ethics and integrity must be seen to be ingrained into the very fabric of the company's culture, so that it is part of the ordinary and usual course of business.

In the board's and management's communication with staff through meetings, employee discussions, town halls, memos, emails and presentations, the importance of integrity and ethics should be stressed.

At the next level, employees need to understand and appreciate the moral legitimacy of their actions, whether they involve spending time during working hours on personal social media, falsifying expense claims, receiving gifts from customers or suppliers, or leading or grooming favoured vendors towards the award of a contract.

Very often, such behaviour is exacerbated by the absence of internal controls (or the presence of weak controls). It is therefore essential that regular ethics training be an integral component of the business. Comprehensive anti-fraud and bribery programmes will also help ensure key stakeholders such as employees, customers and vendors are looped in.

Experience has shown that one such effective programme is a whistleblowing mechanism and ethical hotline for the reporting of suspicious or fraudulent activities. Yet, the EY survey found that whistleblower programmes are either missing or underused in most companies.

Of particular concern is that the percentage of respondents prepared to use their company's whistleblower hotline has dropped dramatically over the past two years. Companies need to find out the reasons for this fall and redress them.

## DON'T CONFUSE ETHICS WITH LEGALITY

Of course, the ethical basis of a particular action should not be confused with its legality, and it is here that the board should lead by example.

Take a vendor who has set up several subsidiaries to participate in the same competitive tender process. Let us say that one of its bids ends up winning the contract. Now, it is debatable whether the company was under any legal obligation to declare its relationships with those subsidiaries.

However, it behoves the board to take a firm stand against this vendor on the basis that the making of multiple bids without full and fair disclosure was neither moral nor ethical. It might even consider drastic action such as blacklisting and stopping future business dealings with the vendor.

As the EY survey shows, business ethics is no longer just an issue of compliance with regulations and enforcement. There are broader implications, not the least of which are talent recruitment and talent retention; honest people want to work with other honest people.

And in a hyper-competitive world in which good human resources are increasingly difficult to come by, the value of embracing integrity as a fundamental feature of a company's DNA becomes very much self-evident.

Also clear is the resulting commercial advantage to be had over a competitor. Instead of continuing to pursue success and profitability, a company that actively practices ethical business as a strategy will drive and create shareholder value.

In turn, it is not inconceivable that such behaviour may well be viewed as an intangible asset in ensuring the company's long-term sustainability. ■