

**An organizational ethics management program — The
context of an organization's whistle-blowing program**

Willem A Landman

CEO, Ethics Institute of South Africa (EthicSA)
Extraordinary Professor of Philosophy, University of Stellenbosch, South Africa
Ethics Advisor, Global Fund to Fight AIDS, Tuberculosis and Malaria

For internal use by the Global Fund only

A. Introduction

This document is a response to a request by the Ethics Committee of the Global Fund to set out the organizational management context or background of a whistle-blowing program (policy and implementation). It logically precedes the earlier document, *Whistle-blowing program best practice — Some policy considerations for the Global Fund* (dated October 23, 2005), which discusses crucial policy choices that need to be addressed in formulating a whistle-blowing policy.

This background document elaborates on a remark in the October 23 whistle-blowing document: “A whistle-blowing program is one of several best-practice, operational expressions of an organization’s concrete efforts to build a *responsible, ethical organizational culture*, requiring conscious and unwavering board and management commitment.

B. The need to manage actively an organization’s ethics

Ethics — or responsible business conduct — does not happen by itself in an organization. Ethics should be *actively managed*, because an organization brings together people with different values and motives. Actively managing an organization’s ethics means that common norms and standards need to be set, communicated and enforced.

Ethics is actively managed by means of an *organizational ethics program* driven from the top and with the Board setting the tone. The greater the different value sets or interpretations brought together in an organization, the greater the need for a common understanding of core ethical values and what they require in terms of concrete conduct. Also, in parts of the world where social and economic conditions distort or disrupt the effectiveness of moral education in the family context, organizations are society’s instruments to build values-based conduct.

In short, then, an organization’s ethics should be *managed actively*, and this is done through an *organizational ethics program*.

C. Principles informing an organizational ethics program

A set of *guiding principles* for managing an organization’s ethics were formulated in the US *Federal Sentencing Guidelines for Organizations* (FSGO) in 1991, and updated on November 1, 2004. Although these principles originated in a *compliance* context, they in fact form a sensible framework for creating an organizational ethical *culture*. These principles have been adopted in full or in part by corporate governance reports and codes, and aspects of these guidelines are required by legislation, such as the US *Sarbanes-Oxley Act* of 2002.

The FSGO guidelines can be summarized as follows:

- Adopt ethics compliance standards and procedures
- High-level personnel should oversee ethics initiatives
- Exercise due care when assigning discretionary authority
- (Re)develop a Code of Ethics
- Communicate and train on ethics
- Set up systems to achieve ethical compliance
- Enforce compliance standards, reward and discipline, respond to offences, and prevent recurrence
- Measure the effectiveness of ethics and compliance interventions.

D. Five components of an organizational ethics management program

These guiding principles are captured in a *five-component ethics program*, requiring an organization to:

- *Commit* — Executive and senior management commitment to the program
- *Assess* — Measure the organization's ethical effectiveness and ethical culture
- *Codify* — Develop a Code of Ethics — A values statement and conduct provisions (code of conduct) that communicate with each other
- *Formalize* — Set up formal ethics structures and systems, such as an ethics office with Ethics Officer(s), ethics committee, ethics training, ethics communication systems, and an ethics line (encompassing a whistle-blowing line/hotline for reporting observed misconduct and a help line for advice)
- *Integrate* — Make the formal structures work efficiently and build an ethical culture that legitimizes ethics discourse and conduct.

In what follows, I discuss each of these five components in a little more detail. I should stress that not all of the points made or best practices suggested may be applicable to the Global Fund given the unique nature of the organization, but, certainly, the basic components are generic to all kinds of organizations.

1. Obtain unwavering leadership commitment

The leadership of the organization should accept responsibility for, and custodianship of, the ethics program. This means taking steps, such as the following:

- Commit the organization, including the Board, executives and senior management, to values-based, responsible ethical conduct — visibly and repeatedly, to internal and external stakeholders
- Commit the organization to institutionalizing a working ethics program
- Determine ethics program goals and milestones
- Assign senior persons to coordinate the program, including Board responsibility
- Determine which unit or function should drive the ethics initiative.

An ethical person is not necessarily an effective ethical leader. Ethical leadership should be consciously cultivated and should model responsible conduct, for example as follows:

- Set high standards and communicate them loudly and repeatedly in public and private
- Act swiftly and firmly on violations
- Insist on complete candour from reports
- Never, never shoot the messenger
- Talk to a wide variety of employees on different levels and in different localities
- In a crisis, take responsibility, be accessible, and be honest
- Fund and support ethics initiatives
- Avoid simply adopting a Code of Ethics without putting supporting systems in place because it may be perceived as a collection of empty platitudes and induce cynicism
- Get help from communications and training professionals
- Don't leave ethics strategies to lawyers only.

2. Assess the effectiveness of ethics interventions as well as the ethical culture

Periodically, the effectiveness of ethics initiatives and the extent to which an ethical culture is present need to be measured by means of an organizational ethics assessment or audit. The rationale for this is simple — one needs to measure to manage, or, to use a medical metaphor, no prescription without diagnosis. In addition, an assessment serves as a benchmark for future measurements and consequent comparisons to ascertain areas of success and in need of improvement.

The key November 1, 2004 changes to the FSGO relate to such measurement or assessment:

- Ensure that the organisation “has an effective compliance and ethics program”
- “Evaluate periodically the effectiveness of the organization’s compliance and ethics program”
- “Periodically assess the risk of criminal conduct and... take appropriate steps to design, implement, or modify each requirement... to reduce the risk of criminal conduct identified through this process”.

A good organizational ethics assessment instrument would be structured around components such as the following:

- Existence and usefulness of a formal program
 - Ethics office, Ethics Officer(s)
 - Code of Ethics
 - Education and training
 - Whistle-blowing line and help line
- Organizational ethical culture (informal systems)
 - Communicating ethical values
 - Employee perceptions of ethics in the organization
- Outcomes
 - Observed misconduct
 - Misconduct reporting
 - Work pressure and ethical risk
 - Employee satisfaction.

3. Codify ethical and operational values and conduct provisions

A Code of Ethics should have the following components:

- A signed leadership pledge that the Code is universally applicable and enforceable
- An explanation of what the Code is for and how it is structured
- A simple model for ethical reasoning (making ethical choices or resolving ethical dilemmas)
- Vision (the organization’s “destination”, or the ideal towards which it aspires)
- Mission (the “road” travelled, or typical organizational activities in pursuit of that ideal or “destination”)
- “Values statement” (values are “beacons” that map the boundaries of acceptable conduct by internal and external stakeholders in the organization’s fulfilment of its mission in pursuit of its vision)
 - Aspirational or standard-setting component

- Core ethical and operational values, and principles following from them, that *inform* policies and procedures in the code of conduct (see immediately below)
- Examples — Respect; responsibility; accountability; transparency; honesty; integrity
- “Code of conduct”
 - Enforceable, compliance-oriented component
 - Contains specific or detailed conduct provisions, policies and procedures that *reflect* the values in the values statement (see immediately above)
 - Examples — Conflicts of interest; use of company resources; gift giving and receiving; e-mail and internet use (boxed illustrations are a useful explanatory and learning tool)
- A statement of the duty to report observed misconduct and the avenues for reporting, including assurances of confidentiality and anonymity.

4. Set up formal structures and systems, policies and procedures

With a Code of Ethics in place, a supporting formal infrastructure should be institutionalized, consisting of the following components:

- An Ethics Office, Ethics Officer(s), Ethics Champions, cross-functional Ethics Committee
- An ethics communication strategy
- An ethics education and training strategy
- An Ethics Line
 - Help line for consultation and advice
 - Hotline (tip-offs line; whistle-blowing line)
- Ethics program monitoring and measuring (data-collection) mechanisms
- Reporting internally and externally on the ethics program.

I briefly comment on some of these components.

An *Ethics Office* and what goes with it should be integrated as much as possible with existing structures, but, importantly, it should be a cross-functional initiative. Ethics should not be perceived as being “located” in one person, function or unit, but should be understood as an inseparable dimension of every item on a business agenda, and of every decision.

Ethics — core values and concrete requirements for responsible conduct following from those values — should be *communicated* consistently and repeatedly throughout the organization, using all routine channels of communication, such as the internet, e-mail, newsletters, and annual reports.

Ethics *education and training* would focus primarily on understanding and interpreting the Code of Ethics, and would use generic as well as more level-specific and specialized job-specific material. Important is the training of Ethics Champions who can serve as resources of ethics advice.

A *whistle-blowing reporting sequence* should take account of the realities of the organization, but may include the following:

- Approach an immediate manager first
- Discuss the issue with one's family
- Take it to the next level

- Contact the organization's Ethics Officer
- Consider going outside the chain of command
- Go outside the organization (anonymous, outsourced whistle-blowing line)
- Leave the organization.

5. Integrate formal systems and informal cultures

Institutionalized formal systems (4 above) should be made to work. They can come alive by focusing on the following:

- The Board, executives and senior management should have clearly stated commitments to ethical values and ethical conduct required by those values
- Senior leadership should practice what they preach, lest their motives be perceived as expedient, self-serving or window-dressing
- Ethics discourse should be legitimized throughout the organization by making ethics a routine business consideration, thus countering the mistaken notion that ethics is a “soft issue” (ethical risk that materializes may lead to catastrophic organizational failure and great harm to a variety of stakeholders — the “Enron option”)
- An ethics education and training strategy should make the Code of Ethics a living document and make ethics resources readily available
- An ethics communication strategy should be directed at a common understanding of the practical consequences of subscribing to core ethical values or standards as well as the availability of resources for dealing with ethical dilemmas and making ethical choices
- Formal systems and informal systems (organizational culture — “the way things are done here”) should be harmonized and mutually supportive, and standards should be applied uniformly
- Rewards and disciplinary measures should be aligned with the requirements of the Code of Ethics
- Reaction to critical events in the organization is crucially important for creating an organizational “mythology” about how it deals with unethical conduct (A classical example is the Johnson & Johnson case, where Tylenol pills were poisoned, causing deaths of consumers. The Board decided to be guided by the first commitment of their code which proclaimed that the customer always comes first. J&J withdrew Tylenol from the market, developed tamper-proof bottles, and, after initial loss of market share, the company came out stronger in terms of both financial indicators and reputation.)

E. Conclusion

An ethics program is a coherent approach to building an ethical culture in an organization. It is directed at shaping a values-based organization and actively managing risk of ethical misconduct — such as theft, fraud, corruption, dishonesty, disrespect, or lack of transparency.

*Pretoria, South Africa
22 November 2005*