

# Urgent Update on Developing an Ethical Corporate Culture



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Toronto, October 18, 2016

# What's Urgent – where were we?

- In 2012, when *Ethics & Governance: Developing and Maintaining an Ethical Corporate Culture, 4e*, was launched, **the rationale was positive**. A culture of integrity was attractive because:
  - Good ethics are good business.
  - Good ethics can support a competitive advantage.
  - The enthusiastic support of some employees, customers, and other stakeholders depends on a culture of integrity.
  - Employees at all levels, and company agents, need guidance about values or integrity expectations to make decisions that protect and further the company's strategic objectives.
  - Company reputation and future profits depend significantly on demonstrating good corporate values.
  - Sound risk management is based on ethical principles.

# What's Urgent – what has changed?

1. Now, a culture of integrity is essential to save the company, the investors' stake, and the careers of executives. Why?
  - **Massive fines** now for old unethical behavior:
    - 2007-8 sale of asset-backed investments
      - Deutsche Bank AG - \$14 billion
    - 2012 LIBOR rate manipulation – Deutsche Bank >\$3 bill.
  - **Massive ethical disasters** due to faulty cultures:
    1. Wells Fargo – 2 mill. fake accounts, CEO forgoes \$41 mill.
    2. VW – cheats on emissions tests – est. cost > \$20 billion
    3. GM – faulty ignition switch scandal
    4. Mitsubishi & Hyundai mileage scandals

# What's Urgent – what else has changed?

2. **Proposed changes are underway to Enterprise Risk Management that will require strengthening your culture of integrity.** Do you know how?
3. **Increased personal liability** for executives – 2015 Memo from Sally Quillian Yates, Deputy Attorney General, U.S. DOJ, <https://www.justice.gov/dag/file/769036/download>
4. **New Ethics & Compliance Initiative (ECI) benchmarking & assessment initiatives,** <https://www.ethics.org/home>

# Scenarios

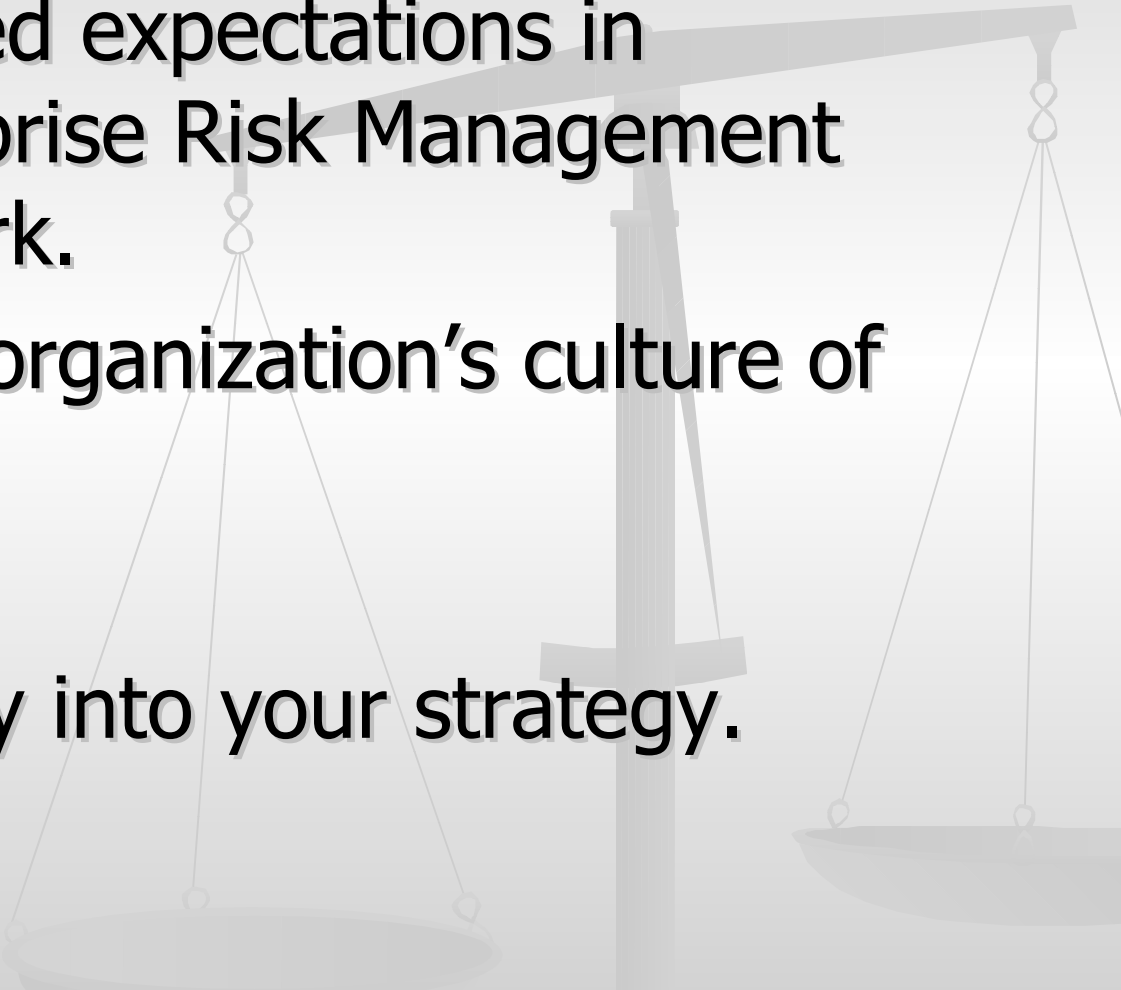
- Tire distributor
- VW
- Heinz
- Goldman Sachs, etc.
- Wells Fargo



# What went wrong?

- Code not operationalized – ethical art? tires
- Many people knew, but did not blow whistle – VW, GM
- Faulty incentives – Wells Fargo, Heinz
- Integrity/Values are not strong enough – Fin. Crisis – Wall Street and all above
- Risk assessment is faulty – VW, GM
- Integrity is not part of strategic planning – Goldman Sachs

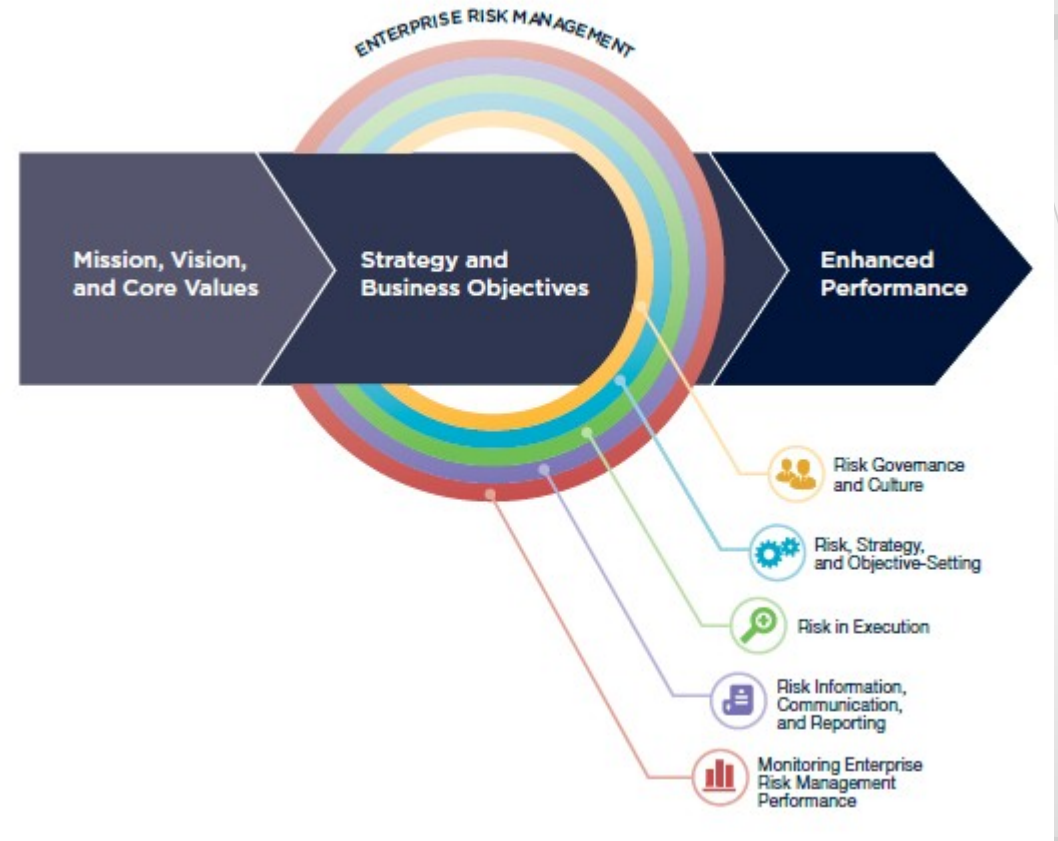
# What needs immediate attention?

- Review of revised expectations in proposed Enterprise Risk Management (ERM) framework.
  - Review of your organization's culture of integrity.
  - Benchmarking
  - Building integrity into your strategy.
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# ERM is Changing



Figure 5.1: Enterprise Risk Management Components



Images are from existing and proposed COSO ERM documents



# Proposed ERM Changes



- COSO Exposure Draft June 2016, *Aligning Risk with Strategy and Performance*, see <http://erm.coso.org/Pages/viewexposuredraft.aspx>
- Emphasis shifting ERM to provide a clear path to creating, preserving, and realizing value.
- ERM will be integrated into planning strategy to assess how an organization may achieve its mission and vision, and to apply its core values to adapt, survive, and prosper.
- ERM will recognize the likely impact of culture and capabilities

# ERM to Focus on Ethics

- ERM is to assess: *The **culture, capabilities, and practices**, integrated with strategy-setting and its execution, that organizations rely on to manage risk in creating, preserving, and realizing value.*"
- ERM assumes that: "An entity's mission, vision, and **core values** define what it strives to be and how it wants to conduct business."
- "Core Values: **The entity's beliefs and ideals about what is good or bad, acceptable or unacceptable, which influence the behavior of the organization.**"
- Core Values mean ... Ethical Values
- Is your organization ready?

# Concluding Thoughts

- Corporate culture and corporate values are critical to corporate and personal success, now more than ever. It's urgent!
- Be proactive
- Are you sure the right values are integrated into your corporate culture, strategy, performance monitoring and risk management?

# Comments or Questions

*For Future Contact*

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