



## Organising for Ethics

**How should companies organise for ethics? In this publication, we attempt to set out some of the issues and provide helpful advice based on our research and experience, but we call it a ‘discussion paper’ because we don’t claim to provide all the answers. We would therefore be interested in others’ views. Is there anything important that we’ve missed? Is there anything we’ve got wrong? How might we build on what we’ve written here? Please let us know your thoughts, either as part of your usual interaction with us or via [info@ibe.org.uk](mailto:info@ibe.org.uk). We look forward to hearing from you.**

### Introduction

Many organisations now have a team responsible for leading on their ethics programme. While most will have responsibility for things like the organisation’s code of ethics and ethics training, the size and responsibility of the ‘ethics function’ can vary greatly. So, too, can the way it fits into the wider organisation. Some organisations have standalone ethics functions, while in others ethics is combined with compliance or another function. Ethics is distinct from compliance in that it goes beyond the legal and regulatory minimum and deals with questions of purpose, values and culture. It is also crucial in navigating ‘grey areas’ or issues where regulation is unclear or still catching up with technological developments; ethics begins where compliance ends. It is about embedding core ethical values into decision-making and shaping the desired ethical culture.

Experience shows that the idea that ‘one size fits all’ is a non-starter when it comes to organising for ethics. An ethics function necessarily has relationships with many areas of the business and must mobilise leadership, capabilities and activity that are unlikely to all sit in one place in the organisation design. Ethics programmes must also be tailored to the specific needs and risk profile of the organisation in question and the sector in which it operates. Despite the lack of a universal, one-size-fits-all best-practice approach, it is possible to highlight some of the key issues to address and to highlight the advantages and disadvantages of different approaches. In this discussion paper, we seek to do just that.

This paper is intended as a resource to help organisations think through how they ‘organise for ethics’ – in particular, where the ethics function is located and how it is connected to the wider organisation. Drawing on our research and the knowledge that we have built up through working with a wide variety of organisations, we address some of the key issues and discuss the advantages and disadvantages of various approaches. To keep things practical, at the end of each section we provide a set of issues to think about.

## 1

## The role of the board

### Board involvement

The board should be central to the governance of ethics. In our research and our experience of working with all kinds of organisations, we have seen a great deal of variety in terms of the nature and scope of boards' involvement with ethics programmes. Boards should consider culture and ethics for several reasons, including: because doing the right thing is important in itself; because of reputational risk; and because of regulatory requirements. Key amongst the latter for UK companies is the UK Corporate Governance Code and its declaration that boards "*should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture*".

One key consideration is whether there is a committee (or subcommittee) of the board with an explicit remit for oversight of the ethics programme, or with ethics in its terms of reference. Many large companies operate a board committee with significant responsibility for the ethics programme, ethical issues, compliance and/or corporate responsibility. In some cases, ethics is explicitly featured in the terms of reference, while in other instances it is a more implicit responsibility.

The absence of a board ethics-related committee could be a bad sign (that the board is not interested in ethics), but it could perhaps be a good sign (that the board thinks ethics so important that it does not want to delegate responsibility). If a board has taken the trouble to set up a relevant committee, there is necessarily some degree of recognition of the importance of monitoring business ethics practices and establishing a relationship between the board and the relevant function. It is important, however, that the existence of a committee does not give the board a false sense of security that ethics is all being looked after elsewhere. The use of one or more committees is to help the board discharge its responsibilities for ethics effectively, not to enable it to abrogate them, and sufficient space should be found on the main board agenda to consider the work of the relevant committees and for the board to come to its own considered conclusions.

For many large organisations, the appropriate approach will be to include ethics in the remit of a board committee. In such cases, the key issue will be to decide which committee that should be and to reflect ethics appropriately in its terms of reference. If more than one committee has some responsibility for ethics, it is important to draw up the terms of reference with care, to avoid inappropriate or inefficient overlaps. Shared secretarial support can also ensure good coordination between two committees.

Recent IBE research into FTSE 100 companies' governance of business ethics found that 51% operated a committee with a significant and wide-ranging ethical remit, while a further 15% operated committees with a more limited responsibility for matters of ethics and culture. The names of these committees vary widely. Some examples include Responsible Business Committee, Sustainability Committee, Corporate Responsibility Committee and Ethics and Compliance Committee. Many others have combinations of these, for example, Corporate Compliance and Responsibility Committee, or Safety, Ethics and Environment Assurance Committee. In some cases, multiple committees share responsibility for different aspects of ethics and compliance programmes.

For example, one organisation we've worked with operates a CSR Committee, a Sustainability Committee, and a Community Investment Committee, all of which have responsibility for various activities that could all be considered part of the organisation's business ethics programme.

## Committee remits

Not surprisingly, the precise remit of these committees also varies significantly – even, our research shows, amongst identically named committees (for example, some audit committees have responsibility for Speak Up systems, while others do not).

The framing of ethical remits in committees' terms of reference is variable. Sometimes, responsibility for business ethics processes or ethical issues is presented first and foremost as a brand health and/or profit maximisation/risk reduction concern. Many organisations may not have a committee named for ethics, or a committee with the term ethics in the terms of reference, but instead prefer alternative terminology such as 'integrity' or 'culture'. Risk committees also commonly cover off the 'ethics' or 'ethics and compliance' areas, or it might fall to the audit committee in the absence of another committee with that specific responsibility.

## Ethics as a matter reserved for the board

An alternative approach we have observed in our research and experience is for ethics and the monitoring and assessment of ethics programmes to be a matter reserved for the board itself, without delegation to a committee. In these instances, we would expect to see an independent non-executive director who is the identifiable lead on these matters. In organisations with a committee, this lead role is played by whoever chairs the relevant committee. Board members will not be involved in the detail of the day-to-day operation of the ethics programme. Their involvement should be one of oversight and as values-driven as possible.

Values and purpose should be the starting point of any ethics programme.<sup>1</sup> The structure and mechanics of an ethics strategy are of course important, but they must be based on underlying principles which are regularly discussed and kept at the forefront of leaders' thinking on ethics.

Beyond the relationship with the ethics function, leadership has a broader role to play in driving ethical culture. Boards should be role models for employees and should demonstrate and communicate a commitment to maintaining the highest ethical standards. In turn, employees will be encouraged to show a similar commitment and the importance the organisation places on ethics will be impressed upon them. There are several elements to explore in terms of how leadership fits in when organising ethics programmes.

### Issues to think about

- Decide whether there should be a committee with explicit responsibility for ethical issues and ethical culture, and ensure appropriate terms of reference.
- Ensure that issues of ethics, values and purpose are covered on the full board agenda.



<sup>1</sup> For more on this principle, see IBE (2014) Board Briefing, [Ethics, Risk and Governance](#).

### Issues to think about *continued*

- Maximise engagement and communication between the ethics function and the board and its relevant committees.
- Is there a particular board member with responsibility to lead the board's activities on ethics and culture or liaising with the ethics function?

## 2 Reporting lines

Communication between the ethics function and the board is crucial. Achieving and preserving independence for the ethics function is a key consideration in organisational design for an effective ethics programme. A strong relationship with, and direct line of communication to, the board is key to achieving this independence. Many organisations we have been in contact with suggest that being able to report directly to the board allows for an unfiltered upward flow of information capable of informing decision-making at the highest level.

As mentioned earlier in this paper, the UK Corporate Governance Code outlines a key role for the board, requiring that they actively assure themselves that the organisation's values are embedded effectively. As the function primarily responsible for embedding those values, the ethics function is a key contact point for the board in fulfilling the role required of it by the Code.

Access to a supportive senior executive leadership team is also crucial. The tone from the top sets the standard for the whole organisation; if leadership figures are vocal about ethical issues and make it clear that the organisation's values are central to its strategy, this sends a powerful message both internally and externally. In our conversations with ethics practitioners and leaders of ethics functions, one of the most common themes raised is the role of leadership and the importance of a good relationship between senior leaders and the ethics function.

The role of the organisation's leadership and their level of engagement with ethics are critically important. But while having leaders with genuine engagement with business ethics is always beneficial, those benefits will be limited in the absence of efficient communication and a good working relationship with the ethics function on the ground.

We've come across examples of (and had discussions with) ethics practitioners who report directly to their organisation's CEO. The feedback we get is that this dynamic is incredibly beneficial from the practitioners' point of view. It demonstrates keen engagement with ethics at the top of the organisation, imbues the ethics function with authority derived from senior leaders, and makes communicating strategy, success and failures easier. Conversely, we have also come across situations where the head of the ethics function has essentially no relationship with senior executives and the line of communication from the ethics function is exclusively downward.

Naturally, a downward line of communication is near-universal while direct access to the upper echelons of the organisation is not. Communication with the broader employee base is of course important, for example promoting the code of ethics and ensuring people are aware of their responsibilities. An ideal ethics function is in touch with both senior leaders and staff across all levels and areas of the organisation. In order to understand, assess and steer the company's culture as well as possible, being plugged in up and down the organisation is key.

## Issues to think about

- Ensure effective lines of communication between the head of the ethics function and the chief executive (or other appropriate member of the senior leadership team).
- Does the reporting line facilitate access to the CEO and senior leadership team?
- Does the relationship with the board effectively facilitate objectivity and independence for the ethics function?
- Ensure the ethics function has the means to effectively communicate 'downwards', i.e. with staff on the ground – for example, to promote the code of ethics, or to communicate the existence of training modules and Speak Up procedures

### 3

## Structure and positioning of the ethics function

While there are a considerable number of organisations running completely standalone ethics functions, it is also common for ethics to sit within a joint function, or to be closely aligned with another function. Examples from our research and conversations with practitioners include HR, Legal, Compliance, Risk, and more. There is no one-size-fits-all or 'correct' approach – different organisations' needs and approach depend on a multitude of factors like their risk profiles, employee demographics, budget, and so on. We wouldn't necessarily argue that one model stands above the others as preferable. In some instances, ethics being aligned with a function that has significant influence clearly would have value and might help the ethics team exert greater influence over the company's behaviour and culture. Likewise, being aligned with or subsumed into a less influential function presents problems. On the other hand, being associated with a powerful function might lead to the ethics message being swamped.

### Ethics and HR functions

One trend we've observed is ethics functions sitting within HR. There is a clear logic to this; both functions are concerned with monitoring and shaping employees' behaviour and, increasingly, with helping to steer organisational culture. Communication of policies and authority over training and

people development typically sits within HR. These channels are really important for building an ethical culture. Likewise, HR staff benefit from close collaboration with specialist ethics practitioners in that HR is often tasked with handling Speak Up complaints, safeguarding issues and so on, which can be addressed and reduced through comprehensive and effective ethics programmes. So, this pairing of ethics and HR can be mutually beneficial and work well for many organisations.

## Ethics and compliance functions

Ethics functions' relationship with compliance is another frequent arrangement. The two are often conflated; practitioners of either will understand the difference, but it is perhaps not as widely understood as it should be. This is not to say that combined ethics and compliance functions cannot work well. There is certainly a significant degree of overlap in their responsibilities, and both teams can benefit from close collaboration with the other.

There is, however, a risk of ending up with a 'compliance dominated' function, in which the values-based focus of ethics is swamped by the much more legalistic, rules-based regulatory compliance approach. Given the importance of legal compliance and the potential consequences for organisations of being caught on the wrong side of the law, compliance (or legal) functions can be extremely influential within an organisation. This presents a double-edged sword in terms of what it means for ethics teams aligned with or subsumed into these functions. Influential functions can provide a great vehicle for communication and promotion of ethics, values-based decision-making, the code of ethics, and so on. However, there is a danger, particularly if the ethics side is under-resourced in comparison, that the defining values-based approach of ethics functions is lost or drowned out, with potentially harmful consequences.

It should also be noted that the balance to be struck here can be quite sector-dependent. Some areas, such as financial services, are extremely heavily regulated compared to others. The relative regulatory burden on organisations operating in different sectors may lead them to settle on different relationships and balances between ethics and compliance. The relative regulatory burden on organisations operating in different sectors may lead them to settle on different relationships and balances between ethics and compliance.

### Issues to think about

- Consider the advantages and disadvantages of having a standalone ethics function and decide which approach suits your organisation best.
- Ensure the positioning of ethics within the organisation facilitates access to senior executives and the board.
- Look at what competitors are doing – this can ensure the approach is tailored to the specific needs and profile of your organisation and sector.
- What steps can be taken to ensure ethics is not 'swamped' by compliance?



## 4

## Scope and role of the ethics function, and relationship with other functions

Everything discussed so far can be seen as laying the groundwork for an effective ethics function. Getting senior leadership involvement, structure and reporting lines right sets things up, but what do the ethics team actually do? What are their responsibilities and how do they go about them? What people actually do makes all the difference. Once again, there is no blueprint for what exactly an ethics function should do, which responsibilities should sit with it exclusively, and which should be shared with other functions. We would suggest, however, that a fairly full programme for the ethics function is preferable to a more threadbare one if it is to be taken seriously as a contributor to the development of an ethical culture.

Ethics functions, in the IBE's experience, can differ significantly from one another in terms of their responsibilities and their approach to those duties. The IBE Business Ethics Framework<sup>2</sup> sets out the key principles, elements and relationships to take into consideration when thinking about designing business ethics programmes to embed the desired organisational culture. Key considerations for any good ethics programme (and things that we would typically expect to fall under the remit of the ethics function) include developing ethical leadership and role-modelling (by senior leaders and middle managers), ownership of the code of ethics and responsibility for its distribution and uptake, the Speak Up function, and ethics training.

### The code of ethics

Perhaps the most obvious responsibility of ethics functions is the code of ethics. This document sits at the core of any good ethics programme. Many ethics functions are also directly responsible for the code's communication and enforcement, although these responsibilities may be shared with other areas of the business.

IBE research<sup>3</sup> indicates that the primary and prevailing purpose of a code of business ethics is to create a shared and consistent culture within an organisation. This indicates a shift in the primary purpose of codes; previous IBE research for many years indicated that the most common reason companies adopted codes was 'to provide guidance to staff' – which is still important. This shift reflects an increase in awareness that codes cannot provide guidance for every situation. Instead, by seeking to create a culture based on ethical values and decision-making principles, codes can be a useful resource even in situations where they do not provide instructions on how best to proceed. As the guardian of the code, an ethics function must ensure the document is geared towards not only providing specific issues-based guidance but outlining values, principles of behaviour and decision-making tools that help to embed the desired organisational culture.

### The Speak Up system

Overall responsibility for the Speak Up system often, but not always, lies with the ethics function. In many organisations, other functions like compliance or HR assume responsibility for the Speak Up system. It is very common for the contact line itself to be run by a third party; this may be for cost reasons, or because it is perceived as easier for employees (and perhaps others) to raise a concern or complaint to a neutral third party, without fear of identification or retaliation. Speak Up systems should be broad in their scope, offering a means to ask questions about guidance in the

<sup>2</sup> IBE Business Ethics Framework

<sup>3</sup> IBE (2020) Report *Embedding Business Ethics*

code or other policies, to seek advice on a particular decision, or to raise generic concerns about business practices as well as make specific complaints about individual behaviour. A potential exception is instances where the reporting individual is also the victim/subject of the misconduct. In those cases, then the grievance procedure via one's manager or the HR function is typically the best route.

As custodian of the core values and the code, the ethics function is typically best placed to deal, at least initially, with these kinds of concerns and questions. In fact, the more specific allegations including breaches of applicable legislation might be best handled by ethics alongside another function such as compliance or legal (or even handed to those teams altogether after triage). Once again, each organisation must find what works for them, factoring in risk profile, geography, size and the scope of the Speak Up system.

It is important to ensure that the investigation of issues reported through the Speak Up line is conducted in a fair and objective manner, independent of line management. Furthermore, following up with those who make reports to keep them informed of developments and check in that they are not being subjected to retaliation or backlash of any kind is crucial to creating an environment in which people feel comfortable raising their concerns and reassured that they will be taken seriously and that they will be protected from retaliation.

## Leadership and shared responsibility

The role of ethics functions in developing leadership covers more than just senior leaders; in our advisory work, we always advocate for codes of ethics to emphasise the shared responsibility for ethics that binds all employees, based on the principle that any one person's actions can have consequences for an entire organisation. From this, it follows that middle managers (supervisors, team leaders, etc) have a particular responsibility to lead by example. This is not a direct responsibility of the ethics team as such, given that the onus is on managers, but ethics functions can play an important support role in communicating with managers to support them in the ethics-related duties within their role. Those issues which are not direct areas of *responsibility* for an ethics function should remain areas of *interest* and *influence*. Ethics functions need to engage in dialogue with, and be able to influence, many different areas of the business in order to ensure ethical behaviour and outcomes.

## Evaluation and monitoring

Evaluation and monitoring of ethics outcomes is a necessity in any organisation with a serious commitment to doing business ethically. It does not, however, have to sit fully with the ethics function. HR can be a key partner function on this; staff interviews, staff surveys and analysis of Speak Up data are some of the mechanisms by which an organisation might seek to understand the successes and areas for improvement in its management, communication and delivery of an ethics programme. Staff surveys on ethical standards, in particular, might commonly be conducted by or alongside an HR function.

## Sharing responsibilities with other business functions

Ethics training, while clearly a key component of the ethics programme, sometimes sits within HR or a similar function with responsibility for people development. Likewise, fields like diversity and inclusion or corporate social responsibility sometimes fall under the remit of ethics functions,

whereas in other organisations they are assigned to other departments (diversity and inclusion is another example of an ethics-adjacent or ethics-related concern which is often chiefly run and monitored by HR rather than the ethics function itself).

Other functions often have remits that overlap somewhat with ethics functions or share tasks with them. For example, legal or compliance functions may be responsible for investigating breaches of the code with legal or regulatory implications. Risk and internal audit functions are also important partners for ethics teams. A good ethics programme is tailored to the risk profile of the organisation in question. These functions will be able to feed in significant amounts of information to ethics teams, which will be helpful in deciding which areas need to be addressed in the code and policies, how to address them, and how to measure success.

Ethics training might often be 'outsourced' to HR, but a good ethics function should be closely involved in the design of these training modules, to ensure that employees are receiving ethics training to the satisfaction of the ethics specialists and in line with the organisation's values and approach. Conversely, an area like diversity and inclusion is more 'optional' for ethics functions in the sense that, while it is necessary that somebody has responsibility for it, many organisations may find that HR is better equipped than ethics to lead on this form of training.

However, just because an issue (such as diversity) is covered by, or outsourced to, another function, it is important that the ethics function does not neglect the issue because primary responsibility for it lies elsewhere. Diversity is not just about the moral imperative for avoiding discrimination or unconscious bias, but proactively harnessing diversity of thought as a source of operational benefit. A diverse set of experiences and backgrounds, combined with an open culture of Speaking Up, helps an organisation consider all the implications of a decision and identify potential issues before they escalate. Diversity and inclusion and its relationship to diversity of thought and Speak Up culture is just one example of why it is important for ethics functions to keep a close eye on, and retain involvement with, certain areas even if they do not hold overall responsibility for their management.

## Issues to think about

- Within the structural framework in which it sits and its strategic goals, what are the ethics team's operational responsibilities and how do they go about them?
- Ensure the positioning and scope of the ethics function is tailored to the specific needs and risk profile of your organisation and sector.
- Look at the remit of your ethics function, and consider whether certain responsibilities might be better served by another function, or by sharing responsibility.
- Ownership and authorship of the code of ethics is typically with the ethics function. Beyond this, look at what the ethics team is doing to promote awareness of and compliance with the code.



### Issues to think about *continued*

- What mechanisms are in place for evaluation and monitoring of ethics outcomes? How could these mechanisms be more informative and practically useful?
- When monitoring processes uncover problems or concerns, what procedures are in place to understand them better and address them?

## 6 Resourcing

### Resources and staff backgrounds

Our research programme and interaction with hundreds of organisations over the last 30 years have revealed a great degree of variety in the scale and nature of resources (and personnel) allocated to business ethics programmes. Naturally, this will depend on many of the previously discussed factors; if the responsibilities of the ethics function are quite narrow and many are shared with other functions, a lower headcount in the ethics function itself may suffice. Ethics teams also come from diverse professional backgrounds; individuals with a legal background are commonly found working in ethics departments, as are those with audit experience. Individuals with a background in these areas may be accustomed to working with a heavy focus on legal and regulatory compliance, as opposed to the focus on culture and values more commonly associated with ethical thinking. While expertise in compliance is certainly no disadvantage to an ethics function, a well-balanced ethics team facing a broad agenda is likely to need other skills, including expertise in understanding human behaviour and organisational culture. There are two ways to do this; either by recruiting people with the desired skills or by developing the expertise of current staff through appropriate training.

### Ethics ambassadors

Another potential tool in an organisation's armoury is the use of 'ethics ambassadors'. The terminology can differ (ethics representatives or ethics liaisons, for example), but the concept is simple; a network of individuals in each location or arm of the business who dedicate some of their time to communicating and reinforcing ethics, while carrying out their usual role. These individuals provide a point of contact to the centralised function and act as advisers to local staff. In a large organisation whose activities are geographically widespread and take place in different regulatory and cultural contexts, the centralised ethics or equivalent function may be based out of a head office location, removed from the regulatory and cultural variations that come with geographically widespread operations. Deploying ethics ambassadors can be a great way to ensure that the central message and ethical values are dispersed around the organisation and permeate all parts of its activity in a locally appropriate way.

## Issues to think about

- Could a network of ethics ambassadors benefit your organisation? If you don't have one, what other measures can you take to make the ethics programme accessible and ensure the core values are understood across the business?
- Ensure the ethics programme is appropriately resourced. Consider what areas might benefit from additional funding or personnel.
- Consider the diversity of the ethics team in terms of professional background. Try to avoid a lack of specialists trained in ethics relative to those with a legal or compliance background.
- Explore external training, and how it might benefit your ethics function.

## 6

### People – putting it all together

The various structural factors discussed so far – resourcing, reporting lines, and so on – are important considerations in creating a successful ethics programme, and by extension, an organisation with a sound ethical culture. Without certain crucial provisions in place (such as a well signposted Speak Up line and protections against retaliation, for example), any attempt to build a genuinely ethical culture will be severely hindered. All of the structural factors discussed here can be enablers or facilitators, but they can also be inhibitors to positive outcomes if they are got badly wrong. They provide a framework, but the behaviour and actions of the team determine outcomes in the final analysis. The IBE makes no sweeping judgments on different approaches to organising for ethics. As long as certain key elements, such as an open dialogue between senior leadership and ethics practitioners and an effective Speak Up system are in place, there are many strategies that can work well, but whichever approach is chosen, it is made to work through individual behaviours and attitudes.

## Conclusion

This discussion paper has covered many of the issues in organising for ethics. As we have established, there is no single blueprint for exactly what a good ethics function looks like, but there are certain elements that are key. It is important to choose a suitable location for the ethics function within the organisational structure, with appropriate links to other functions. Perhaps even more important is ensuring that it is well resourced and enjoys influence and authority derived from its relationship with the board and senior management. Key individuals including the Chair and Chief Executive must proactively lead on embedding ethical values.

It is important that ethics avoids being the poor relation of compliance. Nevertheless, this does not mean that a joint ethics and compliance function cannot work well. Indeed, in some situations, perhaps because of regulatory pressure, compliance might be a powerful vehicle for ethics – as long as ethics is allowed to flourish as a set of perspectives and policies based, crucially, on values.

The precise tasks of ethics functions differ, but there are key responsibilities and considerations: the code of ethics, related policies, leadership development, ethics training, communication, the Speak Up channel, and ethics monitoring and evaluation. Any good ethics function should either be responsible for these areas or help to ensure they are done by others to the satisfaction of the ethics team and the board.

Finally, we hope that you have found this discussion paper to be a helpful and thought-provoking document. We have sought to summarise some of the key issues and provide some helpful advice based on our research and experience. We are interested in others' views on the issues discussed here, whether we've missed anything, and how we might build on what is written here. Please feel free to join the discussion, either as part of your usual interaction with us or via [info@ibe.org.uk](mailto:info@ibe.org.uk). We look forward to hearing from you.