

## Publication Event

# Setting the Tone: A New Zealand Perspective on Ethical Business Leadership

Thursday 17 May 2018

This publication launch introduces the IBE's first publication on business ethics in New Zealand: *Setting the Tone: A New Zealand Perspective on Ethical Business Leadership*. Based on interviews with influential business leaders in New Zealand, *Setting the Tone* explores what ethical business leadership means in practice.

This research took place in a context where trust in business is at an all-time low which means that business leaders have a responsibility to not only do the right thing, but to enable the right thing to be done. Rebuilding trust is essential if a business is to maintain its social licence to operate.

## Introductions

**Ewen Stevenson**, CFO of the Royal Bank of Scotland, which supported this event, highlighted the importance of ethical leadership in business. He spoke in particular about the importance of ethical leadership in the financial and banking sector and shared some insights on how RBS is using employee surveys to assess, among other things, how employees view leadership performance. RBS carries out two employee surveys annually, by which RBS attempts not only to measure the overall organisation culture and how comfortable employees would be in raising a concern, but also to what extent the tone from the top disseminates through the whole business.

**Philippa Foster Back**, Director of the IBE welcomed and introduced the audience to the topic of this event in more detail. The IBE has been working on business ethics in New Zealand for the past eight years. She highlighted that one thing which stands out about business ethics in New Zealand is the vacuum of open discussion on the topic. Although the publication shows that business ethics has made significant progress in New Zealand over the last few years, questions around relationships with stakeholders, corporate responsibility and setting tone from the top are not yet as openly discussed as elsewhere.

**The Rt Hon Sir Jerry Mateparae GNZM, QSO, KStJ** addressed the audience. He opened his speech by reiterating that how individuals act is largely influenced by the actions of their leaders, whether in government, in business or society as a whole. It is therefore a timely and valuable topic to discuss how we look at ethical leadership more generally, whether in New Zealand, the UK or globally. While New Zealand is redefining its economic and political relationships with the rest of the world, leaders have a crucial part to play.

He reminded the audience of New Zealand's long-standing relationship with the UK. While this is most often seen in a historical perspective, it is also a very contemporary one with shared interests in sports, economics, environmental protection and sustainability. At the heart of this relationship are people and values should be the bedrock to it.

Sir Jerry also pointed out that values are often used interchangeably with ethics. However, they are not the same thing. While values enable individuals to decide what is wrong and what is right, ethics shows what it means to act according to those values collectively. According to Sir Jerry, ethics is what is more visible, while values cannot always be seen. New Zealand is keen to form a progressive and inclusive trade agreement with the UK and ethics and values have to be the foundation of any such agreement. It is therefore crucial that ethical business leadership is encouraged.

**Simon Walker**, CBE, addressed the audience by drawing their attention to the value of this publication. In his view to promote good business, leadership must get things right. Rather than ticking the boxes for compliance, ethical leadership means creating an open and transparent organisational culture. Ethical leadership means giving individuals the power to make their own decisions and to also give them the confidence to talk freely and speak up about their concerns. Directors not only take a lead in this but also need to perform an active monitoring role.

## Main presentation

### 1. Setting the Context:

Jane Arnott and Guendalina Dondé summarised the main themes of *Setting the Tone*. They introduced the audience to the basis and the framework of the publication. Although New Zealand has recently undergone a number of significant regulatory changes such as the FMA 2014 handbook for directors, executives and advisers (Corporate Governance in NZ: principles and guidelines) and the NZX Code of Corporate Governance (2017) which highlight the importance of business ethics for good corporate governance, the presenters pointed out that New Zealand's business ethics journey is still largely in its infancy. To understand the challenges that businesses in New Zealand face, they outlined the main characteristics of New Zealand's economy:

- Small, family run businesses make up 97% of the New Zealand's businesses
- Co-operatives feature strongly in New Zealand's economy and make up 20% of the country's GDP
- A diverse business environment with rising levels of immigration and a multicultural working society

### 2. Setting the Tone

The presenters outlined the main themes which are discussed in the publication:

- **Ethics does not equal compliance.** Merely ticking the boxes is not helpful in fostering an ethical culture. In New Zealand compliance is well understood but ethics as a business function is still rare and often not even specified.
- **Ethical Leadership supports individual decision-making.** Empowering individuals to do the right thing is crucial in promoting ethical business practices.
- **Ethical Leadership promotes an open culture.** Talking and discussing ethics is often regarded as not necessary in New Zealand and people can be complacent about it. Leadership has to facilitate this more actively and build a culture which recognizes ethics, establishes trust among employees and translate their words on ethics into practice.
- **Boards have to be considerate about how they promote and assess culture.** As reflected in the interviews, in depth reporting on culture to the board is still not very well understood. The publication provides guidance on how the board can fulfil this responsibility more effectively.

Creating an ethical culture should start by clearly defining the organisation's values. They have to be the foundation of everything that the organisation does and it is important that leaders consistently refer and reinforce the organisation's ethical values. Having a strong set of ethical values empowers employees to take responsibility and do the right thing, especially when they face challenging situations.

The IBE has created a *Business Ethics Framework* which can support leaders in embedding the values into their organisation.

A code of ethics is an essential part of an organisations' approach to business ethics. As confirmed by many interviewees, codes of ethics are becoming more popular among organisations in New Zealand. The publication provides guidance on what a code should entail and more detailed information about developing and implementing an effective code of ethics can be found in the IBE publication *Codes of Business Ethics – examples of good practice* (2016).

Building upon the code of ethics, are training and mechanisms to reinforce the code, an effective strategy of communicating and supporting ethics (such as speak up lines to ask for advice or report a concern) and continuously monitoring and (re)assessing risks. The interviews reflect that while training and formal leadership support are given more attention, organisations in New Zealand are not necessarily assessing and monitoring risks on a frequent basis. As effective long-term ethical risk management is crucial to long-term sustainability, organisations have to pay more attention to how they manage risks.

### 3. Conclusion

In conclusion, the way in which business is done in New Zealand has evolved significantly over the recent decades. The findings of this publication show that leaders have realised that they need to take personal

responsibility and drive the ethics message forward. At the same time, more needs to be done in building and embedding an ethical culture throughout the organisation. Implementing the processes and framework required to do so are crucial to embed the organisations core values in practice.

## Questions

Following the presentation, the audience discussed the following questions:

- What is the impact of immigration on company ethics in New Zealand?
- How has globalisation of business impacted business ethics in New Zealand and vice versa?
- Are there generational differences when it comes to business ethics among millennials and older generations in New Zealand?
- Does the small size of New Zealand's business community and the fact that a few directors sit on many boards create inherent ethical problems for businesses in New Zealand?