

AAT ethics guidance note

Ethical leadership and culture

Please note – this document and its contents are for guidance only and do not form part of the AAT *Code of Professional Ethics*. They are designed to provide further information on particular topics of interest that may not be covered in detail within the *Code*. Nonetheless, they do provide insight on best practice and may be used in conjunction with the *Code* when considering matters relating to disciplinary breaches.

Why is it an ethical issue?

Poor leadership and culture within organisations allow bad behaviours to go unchecked and to flourish. When staff see their business leaders disinterested in ethical behaviour, or even actively engaged in unethical activity, then it is of little surprise that this view will be reflected in their own actions. Some well-known examples of organisations where unethical behaviour has been exposed include: Enron; Wells Fargo; Carillion; Miramax; Barings Bank; FIFA; Volkswagen; Cambridge Analytica; BP; Royal Bank of Scotland; Credit Suisse.

Conversely, strong leadership and having a clear purpose for your business will lead to a culture where ethical activity and decision-making become endemic. Some people consider the following companies to be examples of those driven by ethical principles: Nomura Bank; TOMS shoes; Cadbury; The Body Shop; Wegmans; Panasonic; Tony's Chocoloney; Interface Inc; Swarovski; Rowntree; Hilti; Taylors of Harrogate; Brown-Forman; Johnson & Johnson.

Business benefits.

Having a clear purpose is beneficial in ensuring business decisions truly drive the organisation in the agreed direction, and a positive purpose is likely to result in greater staff engagement and motivation with the associated productivity benefits.

A defined and visible ethical culture will discourage bad behaviours and the associated dangers of regulatory or professional compliance breaches. Invariably, the costs to rectify such breaches, whether in fines or internal policy and practice changes, can be a significant burden on your business. On a macro level the fallout of scandals and ethical breaches may include negative media coverage, damage to reputation and brand, political shaming, consumer boycotts and a collapse in market share. Expectations change and it is historic and previous actions that can catch up with organisations, even if they have since updated procedures

A reputation for acting honestly, fairly and ethically attracts clients and helps recruit and retain the very best personnel.

Enabling ethical practice can also free up innovation within the organisation, freeing staff up to pursue options that best serve all stakeholders. It naturally leads to looking ahead more and thinking about long term goals and output rather than short termism.

What can/should I do?

Ensure that your firm has a clearly defined **purpose** (not just what, but why). This need not be complex or world changing. It can be as simple as 'help clients thrive by providing the best accounting services available' but that provides a clear expectation for staff which would be very different from, for instance, if your stated purpose was 'to become that largest accounting firm in the country'. They

are both valid aims but are likely to drive quite different behaviours among the staff. Increasingly, firms will strive to define their purpose in terms of adding social value, rather than the more traditional Keynesian model of a firm's only purpose being to make money. [Research suggests](#) that businesses with 'higher ideals' grow faster than their competitors.

Once you have established your purpose, you are in a position to understand the values and behaviours that will lead you to achieving that purpose. Think of this as setting the moral compass and clarifying 'the way we do it here'. Once again, there is no particular 'right' set of values but they will often include things like honesty, integrity, fairness, sustainability, decency and respect. We would recommend considering adding things like 'openness'; 'insight'; 'courage' and 'strong voice'.

In larger, more complex organisations, these might be made more explicit in a code of ethics.

Involve staff in the development of *Codes of ethics and values*. Develop real life case studies to bring to life how ethics work in your organisation and how to resolve dilemmas.

Be prepared for the cynics and the knee jerk reactions which can include: suggesting an impact on commercial activity, sales and income; competing resources or budgets; suggesting there will be an impact on success.

Importantly, purpose and values are worthless if they are not lived, and a programme of induction, training, communication, appraisal and feedback is key to fostering a true understanding. Equally, values and purpose should not be static and need to be able to respond and change according to various factors, both internal and external, which will affect the business as time goes by. It is important to establish a zero-tolerance policy for non-conformity and be very clear about the priority that is placed on ethical practice throughout the business. Communication loops to promote honest feedback are also essential. If purpose and values are spelled out, but not lived, then you probably have either the wrong values or the wrong staff.

Vitality, leaders must walk the walk. There is no shortage of cases where leaders have behaved in ways that suggest '...one rule for them...', and it is clear how that behaviour undermines any other messages they may be trying to communicate. Leaders and managers will need training to help them be authentic when role modelling ethical practice and the organisation's values. When developing strategy, focus should be placed on long term outputs as well as short term wins.

Consider appointing and training ethics champions to support the messaging from leadership and demonstrate the importance being placed on ethical practice.

Clarity of purpose is important not only for the business, but also for the individuals within it. Clear, accurate job descriptions and regular appraisals give employees focus. Work that is monotonous, highly pressured, undertaken in isolation, or lacks responsibility have all shown to be more open to employees taking shortcuts and undermining the ethical approach of the organisation. Certain types of incentive and reward schemes may also have a similar effect.

Ensure that regular communications echo the expectation that employees and representatives of the organisation can honour both their home self and work self and not leave their morals at home when they come to work.

Organisations must find the sweet spot between enforcing ethical practice and enabling it. Enforcement includes demonstrating how adherence takes place and identifying where standards have not been met or upheld, perhaps through ethics audits and taking action.

Enabling means establishing tools and resources for staff to practice ethically including decision making frameworks, time and resources to properly consider decisions strategy and tactics, exploring ways to resolve ethical dilemmas or conflicts and giving staff the space to acknowledge when things do wrong to avoid cover ups. It's vital that all employees feel empowered to speak up when they find ethical wrongdoing, safe in the knowledge that they will be listened to and protected. To do so, companies should have clear '[speaking up](#)' policies and procedures which support everyone. Those who speak up are not punished and the senior leadership team feedback to the organisation what action has been taken in response to concerns that have been raised.

When things do go wrong, organisations must be transparent and communicate honestly. It's essential to resource an exploration of what happened, what risks were taken, what are the lessons learned and what needs to be implemented to prevent the same thing(s) happening again.

Checklist

Getting started

1. Purpose and values are clearly set out, both to staff and stakeholders.
2. Develop case studies and use these in communications.

Implementing

3. Leaders are set ethical objectives and are asked to demonstrate how they role model ethics.
4. Leaders and managers are provided with training on messaging a commitment to ethics through: written; spoken words; inaction and action and how to use language and symbols effectively.
5. Members of boards and committees are also required to adhere to the Codes, values, policies and procedures of the organisation.
6. Staff are developed to deploy problem solving skills in their work and equipped with decision making frameworks to enable them to deal with ethical conflicts and dilemmas.
7. Incorporate values assessment in your recruitment through values-based competencies and interview questions.
8. Ethics champions/ethics committee.

Embedding

9. Put ethics on agendas regularly.
10. Regularly review bureaucracy in the organisation and its fit for purpose.
11. Review decision making in the organisation and ensure that an evidence-based approach is taken.
12. Attention is paid to motivating and valuing staff with compulsory and regular training on ethics in both induction and throughout their career with the organisation.
13. Issue regular inspirational communications that are not abstract and can be applied to the real-world experience of staff.

14. Speaking up against bad behaviour is encouraged and supported.
15. Staff surveys are regularly issued to staff and ask for feedback on: the speak up mechanisms and how effective they are; whether leadership are perceived to be role modelling the values and consistently; how decision making really happens and the effectiveness of compliance policies and bureaucracy.
16. Ethical objectives are set for both the organisation and for individuals and progress against these objectives is regularly reviewed and reported on.
17. Conduct risk assessments and internal audits regularly.
18. Where failures or breaches occur, they are acknowledged to the organisation and the responsive action is communicated to ensure full transparency and trust.
19. Customer feedback is sought and obtained regularly, and reviewed by senior leaders.
20. The moral compass is recalibrated regularly, to ensure it is fit for purpose with multi data points reviewed for the effectiveness of the ethics programme.

Resources and further reading

[CIPD – *Ethics at work: an employer's guide*](#)

[CIPD – Ethical behaviour](#)

[University of Texas – Ethics unwrapped](#)

[Harvard Business Review – Ethical management](#)

[Transparency International – *Incentivising Ethics*](#)

[The Independent – Nudge theory](#)

[Ethics Toolkit for Managers](#)