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Building organisational integrity

Catherine Boardman and Vicki Klum

An organisation's leaders are the key to its operational effectiveness. They are its principal motivators. They provide focus, direction and inspiration. They set its ethical tone.

Why is ethical tone important?

Every public sector agency, from local councils to government trading enterprises, is established for a specific purpose. That purpose might be to provide municipal services to the local community or health services to regional areas, coordinate education services for the state, or ensure an adequate water supply to the capital. Whatever an organisation's purpose, it has a public duty to optimise the value of its services to the community.

Corruption and other unethical behaviour compromise the value of those services. Apart from affecting the cost, quality and availability of services, unethical behaviour can lead to a loss of public trust. Loss of public trust can further undermine the ability of public sector agencies to provide effective and equitable services, especially to those most in need.

Therefore, public sector agencies also have a public duty to reduce corruption risks and promote high ethical standards of performance. Furthermore, as major purchasers, as well as providers, of services in the community, they have the power to influence the behaviour of those they deal with. Therefore they have both the opportunity and responsibility to lead by example.

In New South Wales, the importance of ethical tone is acknowledged by the explicit requirement that state public sector leaders behave ethically and maintain high ethical standards in their agencies.¹

This chapter emphasises the ethical dimension of good management and its links to corruption prevention. Its focus is on building organisational integrity or completeness. Organisational integrity can be said to exist when an organisation's operational systems, corruption prevention strategies, and ethical standards are fully integrated to achieve its purpose.

Background

The benefits of maintaining high ethical standards

High ethical standards are not simply an end in themselves. There are significant benefits to be gained from raising the ethical tone of an organisation. Zipparo (1998) established that sound ethical practices contribute not only to an organisation's integrity, but also to its operational effectiveness. Zipparo demonstrated that the ethical tone of an organisation can affect

- efficiency and effectiveness
- decisionmaking processes
- staff commitment and job satisfaction
- staff stress
- staff turnover.

Given these findings, organisations that optimise their ethical performance will not only protect the public interest and improve their resistance to corruption, but are also likely to enhance

- their reputation
- their competitiveness
- their ability to attract and retain quality staff
- the career prospects of their staff
- their ability to meet new challenges
- their ability to serve the community well.

These are persuasive reasons for giving attention to the ethical dimension of good management.

The causes of unethical behaviour

In deciding how to promote and maintain high standards of ethical behaviour and corruption resistance it is worth looking at some of the causes of unethical behaviour.

Gorta (1998b) has shown that unethical behaviour, such as corruption, is likely to occur where there is

- opportunity—for example, through poor systems
- little fear of exposure or likelihood of detection—for example, lack of organisational reporting mechanisms, or an organisation's poor history in dealing with reports of corruption
- lack of ethical leadership and support—for example, unclear messages about what is acceptable, setting poor examples, failure to reinforce ethical behaviour
- cultural acceptance of aberrant behaviour, both within the organisation and the wider community (including self-excusing rationalisations—for example, 'it didn't hurt anyone', 'it's standard business practice', 'it's not illegal').

It also concludes that examining the context in which corruption and other unethical behaviour occurs (organisational culture) can aid corruption prevention.

Zipparo (1998) suggests that the ability to behave ethically in a workplace may be related more to aspects of the organisation than to attributes of the individual. It establishes that an organisation's ethical culture has a powerful influence over an individual's behaviour and, specifically, that people are more likely to behave unethically where

- their managers behave unethically
- organisational values are unclear
- ethical behaviour is not rewarded
- sanctions for unethical behaviour are not clear
- there is no practical ethics training.

These findings highlight the need for a multifaceted approach to reducing corruption risks and enhancing ethical performance. In fact, they point to the crucial importance of building organisational integrity to create a corruption resistant organisation.

Building organisational integrity

An organisation's systems, policies and procedures indicate what its leaders say they want done, but an organisation's culture determines what is actually done. An organisation's culture is strongly influenced by the ethical tone set by its leaders.

An organisation's leaders play the key role in building and maintaining a strong ethical culture. A strong ethical culture is a prerequisite to organisational integrity. Many of the management initiatives leaders introduce to ensure operational effectiveness also contribute to their organisation's culture. The focus of this section is simply to provide guidance on strategies to integrate the ethical dimensions of good management into

overall management objectives and practices. Many CEOs and senior managers will already be doing some or all of these things.

What does a strong ethical culture look like?

An organisation's culture evolves from a complex web of influences, and a strong ethical culture certainly doesn't just happen nor is it necessarily instantly recognisable.

However, ICAC research and experience suggests there are certain signs that an organisation has a strong ethical culture. These signs include

- a sense of common purpose
- wide recognition of the importance of individuals' contributions to achieving the common purpose
- a high level of trust amongst all staff and especially between management and others
- a strong sense of public duty and a natural tendency to use agreed values to guide actions and decisions
- a willingness to share responsibility for ethical performance
- a high level of willingness by staff to participate in decisionmaking, discuss concerns, seek advice about ethical dilemmas, suggest improvements, attend training, contribute to corporate activities and so on
- wide understanding of, and support for, mechanisms for handling complaints, grievances and reports of corrupt conduct
- a focus on how best to achieve desired outcomes rather than on unquestioning acceptance of 'this is the way we do it round here'.

Clearly, these signs have a lot in common with those a CEO or senior manager would be looking for to confirm their organisation's operational effectiveness.

What are the prerequisites of an ethical culture?

While there is no one-size-fits-all version of an ethical culture, an organisation's culture is determined by the underlying values and attitudes shared by its members. In turn, those shared values and attitudes are shaped by features of the organisation such as its functions, its structure, the quality of its systems and procedures, its staff profile, its history and, most importantly, the values of its leaders.

Do you know your organisation's existing culture?

Leaders seeking to build organisational integrity need to know what their organisation's existing culture looks like so that they can tailor the broad

strategies suggested in the next section to the needs of their particular organisation.

One way to find out about your organisation's culture is to carry out a survey. The ICAC has developed a survey, *Perceptions of Your Workplace*, for this purpose and has piloted the survey with a random selection of public sector agencies and local councils, with positive results. An *Ethical Culture Survey Kit* is available to NSW public sector agencies. It contains the survey, tips on conducting a successful survey, a report of results of the pilot, and practical guidance to assist organisations respond to survey outcomes.

Strategies for leaders

Obviously, a CEO or senior manager seeking to enhance the ethical performance and therefore corruption resistance of his or her organisation will need to acknowledge the particular features of the organisation that may have contributed to its existing culture.

For example, if an organisation has a history of failing to deal appropriately with allegations of corruption or hostility between management and other staff, strategies for building an ethical culture will need to acknowledge these issues through open and honest discussion about

- the fact that they occurred
- why they might have occurred
- what the organisation might do to overcome these problems.

This chapter does not propose to consider every possible obstacle a leader may face. Rather, its focus is on promoting broad strategies that can be adopted by all public sector leaders.

Leaders can demonstrate their commitment to creating and/or maintaining a sound ethical culture by adopting five key strategies.

- Identifying appropriate organisational values.
- Acting in accordance with those values.
- Promoting the values to others.
- Ensuring the values are built into every decision and action of an organisation.
- Striving for excellence.

Identifying appropriate values

Everyone has a personal set of ethical values and the vast majority of public officials have positive ethics. The focus here, however, is on organisational rather than personal values.

A set of values, whether stated or not, is implicit in the way each public sector organisation aims to operate. But the ICAC has found that the absence

of an explicit set of common ethical values or principles and a shared understanding of how they may be applied to an organisation's work can lead to inconsistent decisionmaking and poor resolution of ethical dilemmas. In the worst cases it can lead to corrupt conduct.

At the heart of public sector ethics lies the concept of public duty, of serving the public interest above all else. Public duty underpins the public sector's reason for being. It remains a principal objective of all public sector organisations—ranging from local councils and government departments to public sector boards and government trading enterprises—regardless of their purpose.

A range of values and principles already feature, in one form or another, as probity principles in ICAC publications and are implicit in the *Model Code of Conduct for NSW Public Agencies*. Both the Ombudsman's Office and the ICAC have provided guidance on values. The Ombudsman's Office has published *Principles of Administrative Good Conduct* and the ICAC has developed a Model of Public Duty that was published in its 1998–99 Annual Report (Independent Commission Against Corruption 1999b).

The ICAC model aims to identify a set of key ethical standards, give them some structure and provide a reference point for guiding public sector actions and decision making. The key ethical standards include

- serving the public interest
- acting with integrity by being honest, open, accountable, objective and courageous
- demonstrating leadership.

Identification of key values or principles is just a starting point. More important is the expression of those values, which is found in the quality of leadership, communication and support for staff and in the systems, policies and procedures an organisation chooses to adopt.

In NSW, the ICAC encourages all CEOs and senior managers to take the lead by adopting and promoting the values contained in the model both within their organisations and in dealing with clients, contractors and the wider community.

Acting in accordance with agreed values

People in organisations are far more likely to be influenced by what their CEO and senior managers do than simply by what they say. Therefore, CEOs and senior managers need to lead by example. Acting in accordance with your words is crucial to creating trust. A breakdown in trust will undermine the best efforts to build an ethical and effective organisation. Consider the effect on trust of the following examples.

- A CEO discusses budget cuts with staff and emphasises the need to trim costs, but makes no concessions himself, and continues to claim his full entitlements (such as first class air travel).
- A manager talks to staff about conflicts of interest that can arise from inappropriate relations with contractors, but regularly lunches with contractors herself.

Consider the following examples of leaders' actions that might flow from adopting the values outlined in the Model of Public Duty.

Public interest. Leaders should always put the public interest first by

- guarding against making decisions and taking actions that put their own or their organisation's interests above the public interest—for example, they should not form strategic alliances or accept speaking engagements simply on the basis that they may enhance future employment opportunities.
- always fully disclosing conflicts of interest promptly.
- acting to minimise the impact of perceived conflicts of interest.

Honesty. Leaders should be honest. In this respect, they should

- always comply, and be seen to comply, with an organisation's code of conduct, policies and procedures—for example, declare gifts and benefits without being asked.
- ensure their decisions are consistent with government policy and guidelines.
- examine their actions in the context of what they are asking others to do and make sure they are consistent—for example, leaders should always apply the same rigour to the recruitment of their own staff as they expect of other managers when they are recruiting.

Openness. Leaders should seek to be open; they should try to

- communicate openly, honestly and consistently with staff and those who deal with the organisation (words should always match actions).
- ensure they communicate with clarity and sensitivity.
- encourage staff to have an active part in an organisation's decisionmaking processes and acknowledge and consider diverse views, ideas and concerns—for example, leaders should involve staff early in corruption prevention planning initiatives (such as in identifying corruption risks and suggesting ways to minimise them) otherwise they may consider suspicion is being cast on them and therefore resist change.

- maintain a high profile and build informal opportunities for interacting with staff.

Accountability. Leaders should strive to be accountable, which involves

- practising ethical decisionmaking and being prepared to give reasons for decisions.
- Attempting not to hide actions and decisions from scrutiny or appearing to do so.

Objectivity. Leaders must always be objective. Thus, they must

- examine their decisions for consistency with agreed values or principles.
- consider only relevant issues and guard against the appearance of favouritism.
- ensure their decisions are fully informed.

Courage. Leaders must always demonstrate courage, by

- applying public duty principles consistently, regardless of pressure to do otherwise.
- providing frank and fearless advice.
- supporting staff even in the face of adversity (they must avoid making scapegoats).
- dealing properly with reports of suspected wrongdoing.

Of course, appropriate actions and decisions will reflect decisionmaking that has involved weighing up each of the relevant values. For example,

- brutal honesty in dealing with a staff error could inhibit future openness and accountability and should therefore be tempered with sensitive communication
- in dealing with disclosure of personal information, openness would be tempered with the need to protect confidentiality (where disclosure is not in the public interest).

Promoting the values to others

Acting in accordance with an organisation's values or principles is one way of promoting them to others. There are, however, other strategies that a leader can adopt to enhance understanding about the importance and relevance of the values.

Leaders can reinforce what they practice by

- translating abstract values into practical ethical issues that are relevant to the workplace and communicating these at every opportunity—for example, discussing the risk to the public interest and objectivity of accepting hospitality from a would-be contractor

- telling and retelling stories about appropriate and inappropriate ethical action until they become part of the organisation's history and signal the type of behaviour that is valued by the organisation
- ensuring the organisation has in place practical, relevant ethical awareness programs and that all staff have access to them
- ensuring that all training and development, whatever its focus (from computer or leadership skills to procurement best practice), covers relevant ethical issues
- ensuring the organisation effectively communicates the principles by which it operates and its expectations of its clients, contractors and suppliers.

Leaders can encourage others to share responsibility for maintaining high ethical standards by creating a culture founded on trust. Trust is confidence that an individual or organisation will do the right thing. Individuals are more likely to accept responsibility where

- they trust an organisation and its leaders
- they feel trust is placed in them
- breaches of trust by others in the organisation are swiftly addressed.

Trust does not exist in a vacuum. Leaders can help create an environment of trust, respect and cooperation by communicating with honesty, clarity and sensitivity.

Trust must have boundaries. Even the most trustworthy employee should be prepared to be subject to scrutiny. Unlimited trust can provide opportunities for corruption—for example, the ICAC's investigation into the conduct of a former purchasing officer at a Sydney council uncovered an example of excessive trust. In that instance, the officer was able to subvert the policy of obtaining three quotations, by creating false quotes or calling in favours from other contractors to submit excessive quotes, to ensure that particular suppliers were awarded contracts. There was unquestioning reliance on the officer's recommendations and, in the absence of reasonable limits on his discretionary powers (such as regular review of the purchasing process), the officer was able to act corruptly.

Leaders need to establish boundaries within which values can guide acceptable behaviour. Codes of conduct, systems (including reward and disciplinary systems) and appropriate policies and procedures provide such boundaries. For example,

- measuring an applicant's apparent suitability for a job against referees' comments
- checking the probity of new recruits

- requiring passwords for computer access
- having more than one person involved in tendering processes
- implementing performance measures that can test the degree to which staff carry out their responsibilities efficiently, effectively and ethically.

Appropriate boundaries that ensure public accountability enable an organisation to trust its staff to exercise reasonable discretion and to reduce its reliance on prescriptive rules.

Ensuring the values are built into every decision and action of an organisation

Identifying the right values, acting in accordance with them and promoting them to others goes some way towards establishing a culture of trust. But leaders should also examine other aspects of their organisation to ensure they reflect the values if they are going to build a sound ethical culture.

Policies, procedures, training programs, organisational structures and so on can be analysed in terms of the values they express. How consistent they are with the right values is likely to coincide with how resistant they are to corruption and how effective they are operationally.

An analysis of an effective corruption resistant tendering process would, for example, have integrity and the public interest as its guiding principles. **Public interest.** To the serve the public interest, the process would be competitive, selectors would be suitably qualified, conflicts of interest would be well managed, and the best value achieved.

A number of factors contribute to maintaining the integrity of a tendering process. These include

- openness—a corruption resistant tendering process involves advertising for tenders, disclosing selection criteria, and publishing decisions (key details of winning tender).
- honesty—the process complies with the letter and spirit of the law and relevant policies and participants disclose conflicts of interest promptly.
- accountability—the decisionmaking process is recorded appropriately (avoids hiding detail behind unjustified ‘commercial in confidence’ clauses), and tenderers are given reasons for decisions.
- objectivity—the tendering process establishes relevant selection criteria and engages independent participation in the selection process.

- courage—the process maintains probity even if stakeholders push for improper outcomes; the process refuses to take short cuts for the sake of expediency.
- leadership—the process promotes values to suppliers/contractors and indicates expectation that they will uphold them; it also strives for best practice.

However, individual policies or procedures, no matter how well they respond to corruption risks and reflect appropriate values, do not function in isolation. For example, public sector organisations are strongly encouraged by the NSW Protected Disclosures Act to have in place an internal reporting system to enable staff to report corruption and other unethical behaviour without fear of reprisals. A good CEO or senior manager, however, understands that the existence of a reporting system alone will not encourage reports. People will make reports only if they know about the system, understand what constitutes corruption and why it is important to expose it and, importantly, only if they are confident their report will be dealt with appropriately and that they will be protected from retaliation.

In other words, a good system depends on the support of

- leaders and managers (who clearly communicate a strong commitment to it)
- appropriate training and raising of awareness for both potential users and administrators of the system
- clear administrative and responsibility structures.

The same is true for any of the key corruption-prevention tools that the ICAC considers essential to enhancing an organisation's resistance to corruption. These include

- corruption prevention and corruption risk management plans
- a code of conduct
- internal reporting, grievance handling, complaints handling, recruitment, performance management, disciplinary, rewards, internal auditing and internal investigation systems
- gifts and benefits, conflicts of interest, secondary employment, procurement and disposal policies and procedures
- leadership and ethical awareness programs.

Their effectiveness is dependent on their content, the extent to which they are understood and used and the outcomes that they deliver, which are largely determined by the quality of leadership and organisational culture.

An organisation's leaders should be used to looking at the organisation as a whole and to determining the components necessary to enable the whole to perform effectively. It is worth looking at ethical culture the same way.

Mapping ethical culture

An ethical culture can be represented as a dynamic system of interdependent elements (illustrated in Figure 5.1).

Figure 5.1 takes the key elements identified in the ICAC research as critical to an ethical culture (values, communication and leadership) and sets them in an organisational context.

Corruption resistance depends on the key elements being supported by management tools, reflected in organisational structures and strategies and utilised to manage an organisation's external environment.

These key elements include

- 1 Ethical values, which underpin everything organisations do (the right values are a prerequisite to organisational integrity).
- 2 Leadership, which drives the development and integration of the values.
- 3 Communication, which ensures shared knowledge and understanding of the values and their impact on the organisation's operations.

Encircling this core are the tools and structures which support and reflect the key elements. By expressing an organisation's values in practical terms, they guide behaviour which will help an organisation achieve its goals.

Management tools should incorporate

- 1 Codes of conduct, which help communicate values and provide benchmarks for behaviour.
- 2 Systems, policies and procedures, which assist in maintaining shared values and translate them into practical, flexible and effective actions and decisions.
- 3 Training and development, which enable individuals to apply values effectively to their work.

Organisational structures and strategies should encompass

- 1 Corporate strategies, which translate values into 'big picture' plans of action.
- 2 Administrative structures, which contribute to the effectiveness of management based on values.
- 3 Resources, which ensure services are provided in accordance with values.

The external environment can include the government of the day, clients, contractors and the wider community, which can influence an organisation's ethical performance and exposure to corruption risks.

The ICAC encourages CEOs and senior managers to consider the interdependencies that exist in their own organisations—how changing a

Figure 5.1 Ethical culture

part will affect the whole. If the right values are to underpin everything an organisation does, there may be a need to change relevant systems and procedures and the way staff are managed, trained and supported.

For example, this may involve one or a number of the following activities.

- Reviewing the code of conduct for continued relevance.
- Updating corruption risk management strategies and corruption prevention plans.
- Changing the way the organisation communicates its values to, and manages the expectations of, its clients and contractors.
- Revising leadership training, induction, and general ethical awareness programs.
- Restructuring workgroups and functional areas.
- Reviewing job descriptions and duty statements.
- Revising policies and procedures such as those on auditing, conflicts of interest, gifts and benefits, and reporting wrong doing as well as those guiding operational tasks.

- Reviewing recruitment, performance management and disciplinary systems.
- Introducing new technology.

Striving for excellence

The final key to organisational integrity is a leader's commitment to the pursuit of excellence. This means aiming for best practice, especially as it applies to public duty and the obligations it imposes, and applying it consistently. As research has shown, strong ethical leadership will create an ethical organisational culture that has a positive impact on:

- efficiency and effectiveness
- decisionmaking processes
- staff commitment and job satisfaction
- staff stress and turnover
- organisational reputation and competitiveness.

Organisational integrity checklist

As a leader,

- do you know your organisation's culture or cultures? How?
- can you identify your organisation's values?
- do those values include, or are they consistent with, public duty principles?
- do you act in accordance with those values?
- do you promote those values to others? How?
- do those values underpin decisions and actions of the organisation? How do you know?

Have you ensured the organisation has

- sound corruption prevention and risk management plans?
- a clearly stated and understood code of conduct?
- sound corporate, strategic and business plans that are consistent with the organisation's purpose and values?
- clearly stated and understood roles and responsibilities?
- a commitment to, and strategies in place for, open and honest communication?
- effective awareness programs for staff, clients, contractors, suppliers and the community (including practical ethics training for staff, guarantees of service for clients, publicity on rights and responsibilities for clients, contractors and suppliers)?

- rewards for those who act ethically and punishments for those who act unethically?
- clearly stated and understood policies, systems and procedures that enable individual staff, clients, community members to have their concerns resolved without reprisals or detriment to themselves (including internal/ external reporting, grievance handling, complaints handling)?
- a commitment to recruiting the right people (those that most closely share the values of the organisation) and developing them so that they continue to provide high quality, ethical contributions and services (for example, recruitment policy and procedures, individual performance management, ongoing training and development)?
- sound internal boundaries to behaviour which reflect core ethical values (policies and procedures for organisation's operations such as gifts and benefits, conflicts of interest, procurement, contracting out, revenue collection) and that are conducive to high ethical performance (flexible and efficient, not rigid and overly bureaucratic)?
- sound audit processes?
- a commitment to and policies and procedures that encourage learning and enable continual improvements to the organisation's corruption resistance and ethical performance (monitoring and evaluation, participative decision making, training and development)?

How do you know that

- the messages you are sending about ethical behaviour are being received and accepted by staff, contractors, suppliers or clients?
- the strategies your organisation decides to use to promote ethical behaviour and enhance corruption resistance are effective?

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Note

¹ Executive Service Model Contract of Employment (Premier's Memorandum No 98 – 37) specifically requires CEOs to behave ethically and maintain high ethical standards. Therefore CEOs' performance agreements are likely to make them accountable for carrying out this responsibility effectively.