Organisational Ethics:
Making the intangible tangible

Sally March and Jane Mitchell
25th March 2018

SCCE™
Society of Corporate
Compliance and Ethics

"It is not an adequate ethical standard to aspire to get through the day without being indicted."

Richard Breeden,

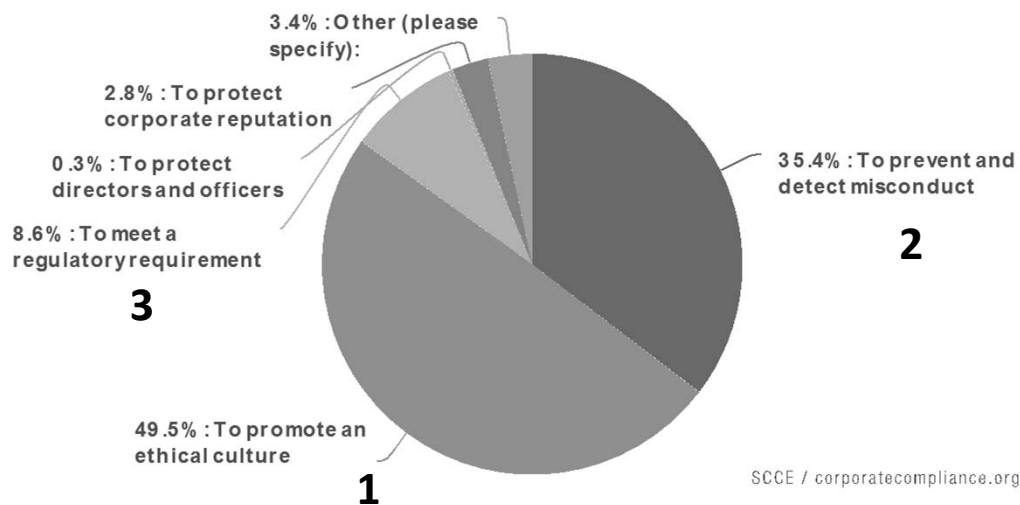former chairman of the Securities and Exchange Commission

Board of Directors

"One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct 'tone at the top'. The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organization. This will help prevent misconduct, unethical practices, and support the delivery of long-term success."
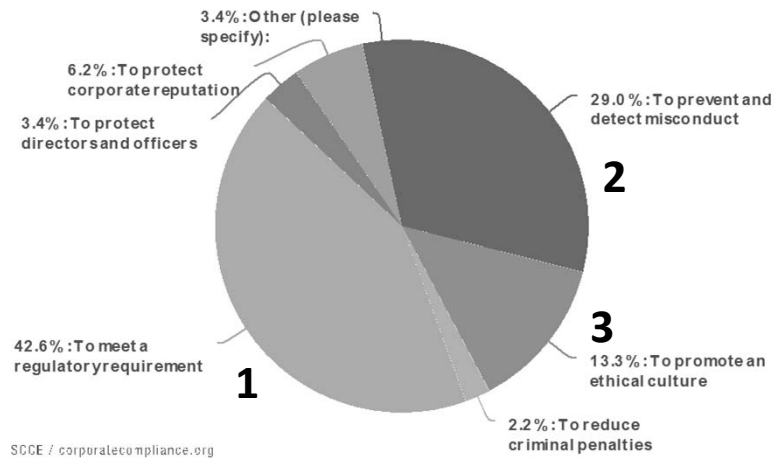
Preface to UK Corporate Governance Code

Making the Intangible Tangible©Sally March & Jane Mitchell 2018

3

YOU

What do you see as the primary objective of your ethics & compliance program?

3.4% : Other (please specify):

2.8% : To protect corporate reputation

0.3% : To protect directors and officers

8.6% : To meet a regulatory requirement

3

49.5% : To promote an ethical culture

1

35.4% : To prevent and detect misconduct

2

SCCE / corporatecompliance.org

Making the Intangible Tangible©Sally March & Jane Mitchell 2018

4

MANAGEMENT

What do you think your organization's management sees as the primary objective of your ethics & compliance program?

3.4% : Other (please specify):
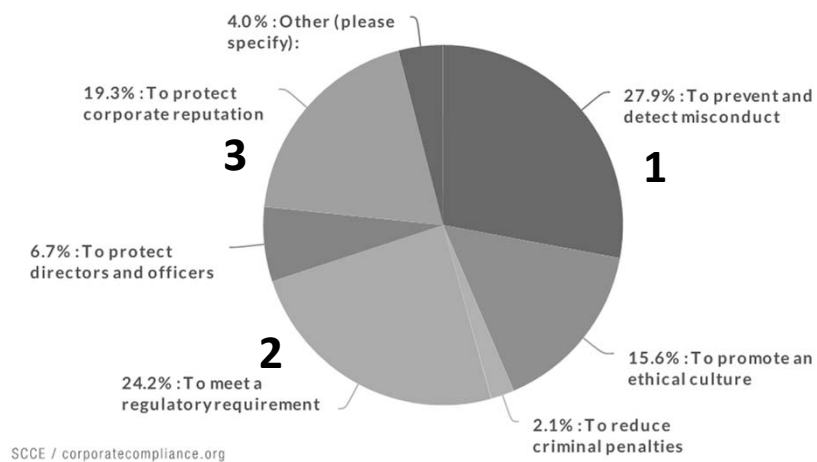
6.2% : To protect corporate reputation

3.4% : To protect directors and officers

29.0% : To prevent and detect misconduct

2

3

13.3% : To promote an ethical culture

42.6% : To meet a regulatory requirement

1

2.2% : To reduce criminal penalties

SCCE / corporatecompliance.org

Making the Intangible Tangible©Sally March & Jane Mitchell 2018

5

THE BOARD

What do you think your organization's board of directors sees as the primary objective of your ethics & compliance program?

4.0% : Other (please specify):

19.3% : To protect corporate reputation

3

27.9% : To prevent and detect misconduct

1

6.7% : To protect directors and officers

2

24.2% : To meet a regulatory requirement

15.6% : To promote an ethical culture

2.1% : To reduce criminal penalties

SCCE / corporatecompliance.org

Making the Intangible Tangible©Sally March & Jane Mitchell 2018

6

South Africa's King Code of Governance

Governance Element	Principle	Recommended Practice
1. Ethical Leadership	and corporate	citizenship
Responsible Leadership	1.1 The board should provide effective leader- ship based on an ethical foundation	Ethical leaders should: 1.1.1. direct the strategy and operations to build a sustainable business; 1.1.2. consider the short- and long-term impacts of the strategy on the economy, society and the environment; 1.1.3. do business ethically; 1.1.4. do not compromise the natural environment; and 1.1.5. take account of the company's impact on internal and external stakeholder

How Beneficial Is An Ethical Culture?

	US	Europe
Attractiveness to employees	87 %	69 %
Employee Motivation	77 %	66 %
Relationship with investors	72 %	62 %
Attractiveness to Customers	76 %	61 %
Reputation with Analists	73 %	58 %
Overall business performance	77 %	58 %
Competitive advantage	66 %	41 %
Share Price	53 %	39 %

Those answering 4 or 5 on a 5 point scale , with 1 being not at all beneficial and 5 being very beneficial

Source: CFO Europe Research Services -

Performance Improvements =

Errors ➕ **Insights**
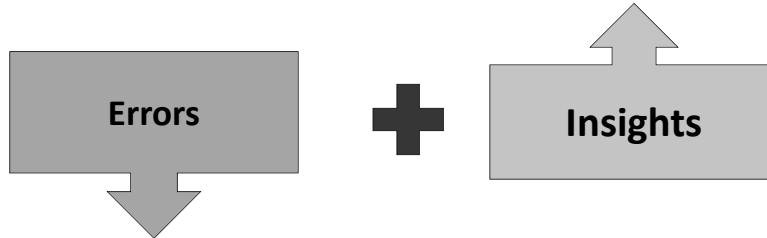
Source - ©GaryKlein: Seeing What Others Don't

Risk Management

serco

PEOPLE RISKS

Failure to act with integrity

Being found to have engaged in a significant corrupt or dishonest act (bribery, fraud, misreporting, cheating, and lying) leads to customers being reluctant to do business with such organisations. Such behaviour might arise through the actions of rogue employees or as a result of pressures individuals feel they are being placed under (culture). Such acts might lead to the loss of existing business; restrictions on our ability to bid or win new business; our ability to attract high-quality people or partners; and an adverse impact on shareholder, investor and financial institutions' confidence in Serco.

Key risk drivers:

Failure to communicate – if we do not define and communicate our Values and expected standards adequately, our staff and third parties will fail to understand these, which may result in inappropriate leadership actions and low engagement with our Values.

Our ways of working do not align with our Values – staff or third parties being unaware of and/or not reflecting our Values may result in poor decision making, unacceptable business conduct, and unethical or illegal behaviour bringing our operations into disrepute.

Direct or indirect contribution to human rights abuse – staff either directly or indirectly contributing to human rights (including slavery and forced labour) abuses may result in a breach of laws/regulations.

Material controls:

- Top level commitment/tone from top.
- Strong, meaningful and understood Values.
- Code of Conduct.
- Corporate Governance with oversight by the Corporate Responsibility Committee (CRC).
- Delegated Authority Register (DAR).
- Serco Management System (SMS).
- Financial controls and processes, with segregation of duties for core financial controls.
- Gifts and Hospitality process and registers.
- Risk management procedures.
- Third party due diligence.
- Leadership Academy.
- People development and remuneration.
- Speak Up process (Independent provider).

Mitigation priorities:

- Implementation of on-line Conflict of Interest registers.
- Refinement of divisional compliance risk assessment.
- Clarification of ethics roles and investigation responsibilities.
- Embed the new third party due diligence tool.
- Refresh Serco Essentials Plus training.
- Continue with divisional Anti-bribery and Corruption reviews.

Making the Intangible Tangible©Sally March & Jane Mitchell 2018

11

Risk Management

serco

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

Serco is subject to numerous laws and regulations as a result of the complexity and breadth of the sectors and jurisdictions in which it operates. Failure to comply with laws and regulations may cause significant loss and damage to the Group including exposure to regulatory prosecution and fines, reputational damage and the potential loss of licences and authorisations, all of which may prejudice the prospects for future bids and the retention of existing business. Defending legal proceedings may be costly and may also divert management attention away from running the business for a prolonged period. Uninsured losses or financial penalties resulting from any current or threatened legal actions may also have a material adverse effect on the Group.

Key risk drivers:

Lack of governance and oversight – may result in a failure to identify potential or actual breaches to legal requirements and result in a failure to respond appropriately, or weaken our ability to confirm compliance with legal and regulatory requirements.

Failure to comply with the SMS and contractual obligations – may result in compliance failures for Group-wide material legal and regulatory requirements.

Failure to identify and respond to material changes in legal and regulatory requirements – may result in key subject matter experts within the business not remaining up to date and we then fail to comply with material legal and regulatory obligations.

Lack of awareness by employees of the legal and regulatory requirements placed upon them – may result in lack of identification and subsequent compliance to requirements.

Inadequate provision of systems and tools – may result in ineffective methods to support the management of legal and regulatory compliance.

Material controls:

- Automated alerts on material legal and regulatory obligations and changes.
- Investment Committee process and governance.
- Third party due diligence.
- Serco Management System (SMS).
- Legal Tracker case management software.
- Gift and Hospitality process and registers.
- Legal training.
- Serco Essentials training.
- Compliance Assurance Programme (CAP) reviews.
- Business Lifecycle Review Team (BLRT) process and governance.
- External regulatory audit.
- Bi-annual reporting to Board and Executive Committee on new laws across the Group.
- Speak up process and case management system (EthicsPoint).

Mitigation priorities:

- Use of trend analysis and analytics from Legal Tracker software.
- Launch of revised Code of Conduct and Supplier Code of Conduct.
- Complete and embed General Data Protection Regulation (GDPR) readiness programme.
- Refresh Serco Essentials training programmes.
- Implement revised Group Standard Operating Procedures (GSOP).
- Develop and implement new GSOPs including export controls, parental guarantees and conflicts of interest.
- Continue with contract and compliance assurance reviews.
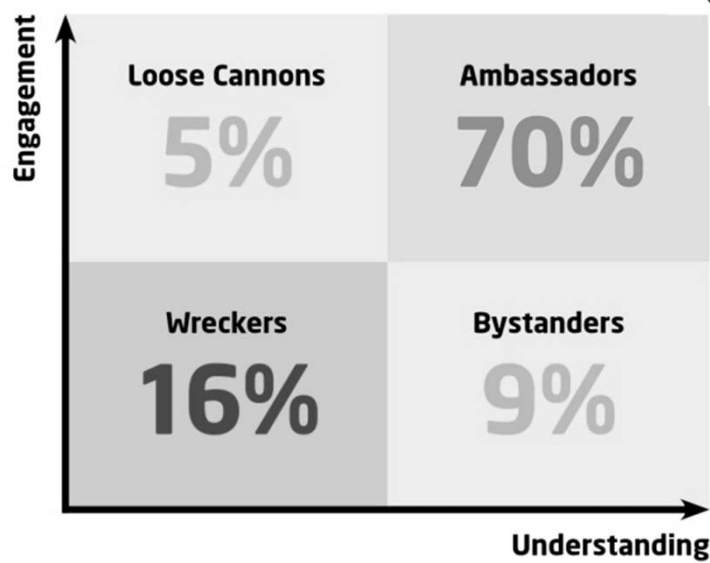- Embedding and sustaining the Corporate Renewal Program.

Making the Intangible Tangible©Sally March & Jane Mitchell 2018

12

6

The Dimensions Of Cultural Analysis

13

Engagement Matrix

14

7

Sources for more information

Slide 3 – UK Corporate Governance Code – www.frc.org.uk

Slides 4-6 – SCCE: www.Corporate Compliance.org

Slide 7 – King report on Corporate Governance: http://www.iodsa.co.za/?kingIII

Slide 8 –Benefits of an ethical culture
http://www.accaglobal.com/documents/coporate_ethics_europe.pdf

Slide 9 – Gary Klein-Seeing what others don't: https://www.gary-klein.com

Slides 10-12 – www.Serco.com

Slides 13/14 – www.karianandbox.com