



INSTITUTE OF DIRECTORS
IN IRELAND

TONE FROM THE TOP

Boardroom Ethics in Ireland
2017



Research Report:

TONE FROM THE TOP

Boardroom Ethics in Ireland
Institute of Directors (IoD) in Ireland
April, 2017

TERMS OF REFERENCE

This report is based on the findings from an online survey, undertaken by members of the Institute of Directors in Ireland.

CONTENTS

Introduction	02
Findings Summary	05
Section 1: A Glimpse Inside the Boardroom	07
Section 2: Board Practice and Procedure	09
Section 3: Boards' Measurement of their own Ethical Standards	14
Section 4: When Things Go Wrong	19
Section 5: Tone from the Top – In their own Words	23
Overall Conclusion	25

INTRODUCTION

The question of ethics, or the 'right way to run a business', is central to the concept of corporate governance. At the same time, corporate governance - the board and directors' roles and responsibilities - lies at the heart of how companies are run. Behavioural attitudes and actions by business leaders, or the 'tone from the top', is paramount in setting and maintaining high standards of behaviour for the entire business.

The financial crisis in Ireland and increased scrutiny of businesses has focused attention on ethical behaviours and, as a result of this, business ethics have become part of the corporate governance agenda. More and more organisations are creating in-house ethics and values policies, and are delivering organisation-wide ethics training as a matter of course. The Companies Act 2014 and a range of new EU regulations and directives demand that company directors and senior executives make certain that higher ethical standards are met.

Focus on ethical behaviours is desirable and important, but what is the reality on a practical, day-to-day basis in businesses and boardrooms in Ireland? Indeed, are boardroom ethics a high priority for directors/senior executives in Ireland?

Providing a barometer of current IoD members' views through the *Tone from the Top – Boardroom Ethics in Ireland* survey, on how the board conducts itself and how the board and senior management choose to carry out their respective roles, can provide a benchmark as to the level of importance ascribed to ethical behaviour in businesses in Ireland.

Our sincere thanks again to our members who undertook this survey.

RATIONALE

Effective leadership and management of business are often challenging. Are structured, ethical processes and procedures in place in Ireland to help secure effective leadership, so that management risks are reduced and corporate governance is strengthened? It is easy to agree that ethical behaviour is important, but it is more difficult to conclude that ethical behaviour is firmly established in business and boardrooms.

AIM

The aim of this survey was to provide a measurement of our members' perceptions of the importance and reality of ethical behaviour in businesses and boardrooms in Ireland.

METHOD

The survey was created on the online platform, Survey Monkey, and a link was distributed to all IoD members (over 2,600) by email in mid-February 2017.

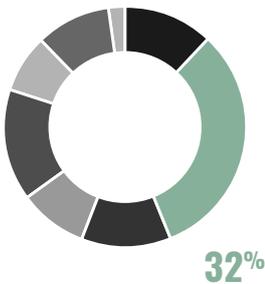
The survey question-types are a mix of open-ended, closed-ended and multiple-choice. Some multiple-choice questions allow more than one answer, and for others, only a single answer can be selected.

The response rate to this survey was 431 members; the highest ever response received by the IoD (17% of the IoD membership base).

DEMOGRAPHICS

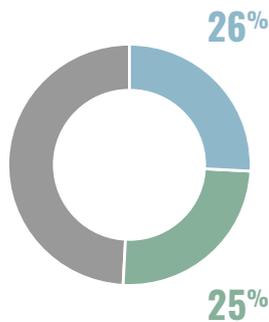
The survey demographics are as follows:

PRIVATE SECTOR



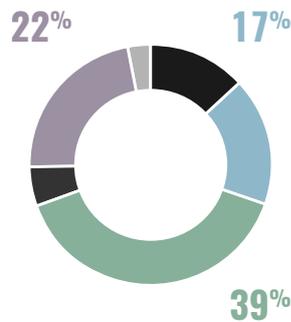
- Most respondents come from the **private sector (32%)**.

FINANCIAL SERVICES



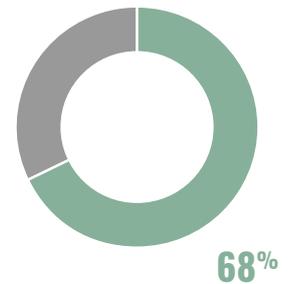
- In terms of industry sector, people from **financial services were the largest percentage of respondents to the survey (26%)**. The second largest cohort, **(25%) come from a variety of industry sectors**, primarily healthcare, pharma, education and construction.

CEO/MANAGING DIRECTOR



- In terms of role, the majority of respondents are **CEOs or Managing Directors (39%)**, with **Senior Executives (22%)** and **Non-Executive Directors (17%)** next.

BOARD MEMBERS



- It is noteworthy that **68% of respondents sit on a board**, most of whom fill **the role of CEO or managing director (39%)**. As such, within these findings, we have a first-hand account of what happens in the boardroom, primarily from board members.

REPORT STRUCTURE

This report examines IoD members' responses to the *Tone from the Top – Boardroom Ethics in Ireland* survey, so that the key survey question – are boardroom ethics a high priority for directors/senior executives in Ireland? – can be addressed.

The report is broken up into five sections, and each section contains findings and comments, and an interpretation of findings. The overall conclusion presents the aggregate results in general terms.

1. Findings Summary
2. **Section 1:** A Glimpse Inside the Boardroom
3. **Section 2:** Board Practice and Procedure
4. **Section 3:** Boards' Measurement of their own Ethical Standards
5. **Section 4:** When Things Go Wrong
6. **Section 5:** Tone from the Top – In their own Words
7. Overall Conclusion

- Throughout the report, percentages may be rounded up / down for illustrative purposes.

FINDINGS SUMMARY

THE GOOD NEWS

Today, boards are looking more seriously at corporate culture, and whether their organisations have the right ethics in place. They are more aware of what they need to do and are clearer on what constitutes ethical behaviour.

- **80% of respondents say that the board adheres to a specific ethics code or policy, 79% say that their organisation has a Company Values Statement and 74% say that the board has a Conflict of Interest Policy.**
- **70% say that the board on which they sit has either discussed company values, ethics and behaviour fully**, as a specific item on the board agenda, or has covered them but not as a specific item on the board agenda, within the past year.
- There is very high awareness (**97%**) of what constitutes a conflict of interest in boardrooms in Ireland.
- **86% of respondents definitely know, or know to a large degree, what is expected of their board in terms of ethical behaviour.**
- The vast majority (**86%**) of respondents believes that there is now a greater focus on ethical behaviour at boardroom level than there was ten years ago.
- There has been an increased focus by the board on business ethics recently because there is **greater awareness by the board of its responsibilities, say 77%**.
- Almost half (**47%**) of boards monitor their own compliance with ethical behaviour through board evaluation or internal audit processes.
- If respondents were asked to do something that breaches their business ethical standards, **88% of them would know what steps to take.**
- According to the majority (**82%**) of respondents, the board reacts appropriately to ethical or compliance failures.

AREAS OF CONCERN

While there is certainly more awareness of ethics and ethical behaviour, there is a lack of focus among boards and management to ensure compliance. Boards discuss behavioural risks and recognise the need for oversight, but there is not enough motivation to get a clear view of the nature and source of those risks, and/or creating a means of preventing them. Furthermore, public scrutiny is having a substantial effect on directors. Concern about potential reputational damage is stimulating greater emphasis on ethics in the boardroom. However, some 77% of respondents also mentioned awareness of responsibilities as a reason for increased ethical awareness at boardroom level.

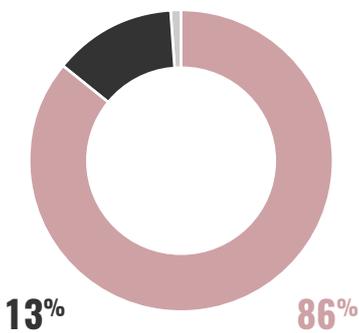
- **81% say that recent controversies and public scrutiny has increased boardroom focus** on ethical behaviour and **90% believe that reputational risk is a key driver for ethical behaviour.**
- Some **(44%) do not monitor their own compliance with ethical behaviour through board evaluation or internal audit processes.**
- **50% of CEOs/executive management say that ethics were not mentioned in their most recent annual report.**
- Half of respondents **(50%) believe there is a prevalence of conflicts of interest among boards in Ireland.**
- **The Conflicts of Interest Policy is attributed the least importance by the board, when compared with the Ethics Policy and the Values Statement.**
- **20% CEO/executive management respondents say that they never report to the board on ethical matters.**
- After the board as a whole **(33%)**, the board's Chair is the second lead for monitoring the Conflicts of Interest Policy **(26%)**. However, **40% of the respondents say that the Chair's ethical behaviour in itself is not monitored**, or that they are unsure whether it is or not.
- **Executive management does not have a way of measuring their own ethical behaviour according to 32%** of all respondents. However, when just CEO/executive management respondents are analysed, **42% say that they do not have a way of measuring their ethical behaviour.**
- Most Non-Executive Directors **(29%) do not know how often ethics are discussed in management settings.**
- Almost a quarter of respondents, **24% commented that ethics are "never" or "infrequently" an item for discussion on the board's agenda, or "as the need arises".**

SECTION 1

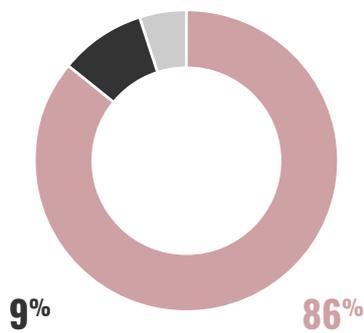
A GLIMPSE INSIDE THE BOARDROOM

This section offers a window into the ethical practices inside the boardroom and perceived expectations of the board when it comes to ethical behaviour.

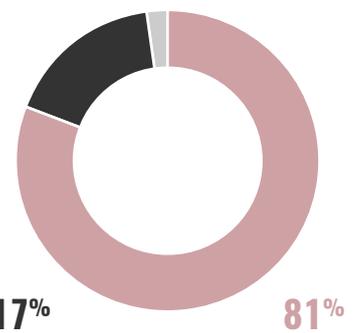
ETHICAL BEHAVIOUR: EXPECTATIONS AND FOCUS



- **86%** of respondents definitely know, or know to a large degree, what is expected of their board in terms of ethical behaviour.
- **13%** know to a medium or small degree what is expected of their board in terms of ethical behaviour.



- The vast majority (**86%**) of respondents believe that there is now a greater focus on ethical behaviour at boardroom level than there was ten years ago.
- **9%** say that there is not a greater focus on ethical behaviour at boardroom level compared to a decade ago.



- **81%** of respondents said that recent controversies and public scrutiny have increased boardroom focus on ethics.
- **17%** disagree that recent controversies and public scrutiny have increased boardroom focus on ethics.

When members were offered a set of one or more likely reasons for **why they believe recent controversies and public scrutiny have increased boardroom focus on ethics**, they indicated the principal reasons to be:

90%

Reputational risk

55%

Negative public relations

46%

Increased media focus

77%

Greater awareness by the board of its responsibilities

41%

Risk to profitability

48%

Increased stakeholder focus

COMMENTS

When asked to comment on ‘**why there is/is not a greater focus on ethical behaviour at boardroom level?**’, the following themes emerged from commentary: greater awareness of what constitutes good corporate governance, reputational risk, greater transparency and compliance requirements. The following comments are a representative picture of the answers offered:

Comments on why there is a greater focus

- “Fear of bad press: litigation”
- “High profile corporate governance failures”
- “Increased legislation and regulatory requirements”
- “Recent financial crisis and scandals has led to heightened scrutiny and awareness”

Comments on why there is not a greater focus

- “A degree of apathy amongst board members”
- “Doesn’t come up that often and the company has always been ethically led”
- “We had a strong focus on ethics 10 years ago also”
- “I think the board is still as ethical now as it was”

A GLIMPSE INSIDE THE BOARDROOM: INTERPRETATION

The majority of respondents know what is expected of their board in terms of ethical behaviour, and most of them also believe that there has been an increased focus on ethical behaviour at board level. However, the findings show that a key driver of this change appears to be the prospect of the outside world having a negative perception of the organisation (reputational risk, negative public relations, increased media focus).

In answer to the question on whether **recent controversies and public scrutiny have increased boardroom focus on ethics**, respondents resoundingly agree that the prospect of controversy and public scrutiny are key to an increased focus on ethics around the boardroom table, and the vast majority of the additional commentary also reflects this.

It would appear that the increased focus on ethical behaviour in the boardroom is not simply about doing ‘the right thing’. Boards are more conscious of being scrutinised and are therefore more likely to focus on ethical behaviour.

A positive aspect of the findings, however, is that many respondents indicate that an increased focus on ethics is due to the board having a **greater awareness of its responsibilities (77%)**.

CONCLUSION

A glimpse inside the boardroom brings a mixture of results. The results are positive, in that the focus on ethical behaviour has certainly intensified in the boardroom over the past decade, and there is generally more awareness on ethics. However, it is noticeable that slightly more respondents said this was due to fear of reputational damage compared to simply doing ‘the right thing’.

SECTION 2

BOARD PRACTICE AND PROCEDURE

This section explores the ethics-based documentation and practices of the board, and the means by which, and the extent to which, these are used.

ETHICS POLICY

80%

of respondents' say that **the board adheres to a specific ethics code or policy.**

14%

say that **the board does not adhere to an ethics policy at all.**

COMMENTS

Those who do not have a written policy, or maintain that their policy is ineffective, say the following:

- "The standards of the industry set the tone"
- "We do but we are lacking in not having a written policy in place on this topic"
- "Demonstrably yes but, in reality, can be selectively adhered to"
- "The board operates to a code of conduct and individual board members have to adhere to professional ethics, regulations and policies"

ETHICS AS PART OF BOARDROOM DISCUSSIONS

53%

of respondents say that ethics are scheduled as **an item for discussion** on the board's agenda once or twice a year.

10%

In the past year, **10% have discussed company values, ethics and behaviour** as a procedural item only.

60%

According to respondents, **company values, ethics and behaviour are communicated to the organisation's executive management** mostly via internal communications (intranet / management meetings etc.).

16%

say that ethics are **an item on the agenda at every board meeting**. 8% do not know. 24% comment in the 'Other' section (see comments below).

6%

In the past year, **6% have not discussed company values, ethics and behaviour at all**.

10%

say that **the audit committee Chair briefs senior management on company values, ethics and behaviour**.

70%

say that the board has either **discussed company values, ethics and behaviour fully, as a specific item on the board agenda, or covered them, but not as a specific item on the board agenda, within the past year**.

60%

say the **policy document setting out company values, ethics and behaviour**, was discussed by the board (either fully as a board item, or covered it, but not as a specific item).

37%

After internal communications, the second most common means of **communicating company values, ethics and behaviour to management is through training (37%)** or via a company directive (22%).

8%

In the past year, **8% have discussed company values, ethics and behaviour fully, in committee**, but not by the whole board.

18%

The **document was discussed as a procedural item for approval by 18%**. 8% say that they have not discussed such a document at all within the past year.

10%

say that **company values, ethics and behaviour are not communicated to executive management at all**.

COMMENTS

In answer to the question **'How regularly are ethics an item for discussion on the board's agenda?'** almost a quarter (24%) of respondents bypassed the following answer choices; **'at every board meeting', 'twice a year', 'once a year' 'I don't know'** but offered commentary in the 'Other' section. The most-cited answers were generally **'never', or 'infrequently' or 'as the need arises'**. The following comments are a representative picture of the answers offered:

- "Currently not at all but it will become a regular feature"
- "Not often enough"
- "As the matter arises"
- "Never"
- "Embedded in normal activities"
- "Sporadically"

POLICY AND PROCEDURES

79%

of companies have a Company Values Statement. 17% do not.

10%

say a Company Values Statement was created within the past six months.

41%

of respondents say that **ethics were mentioned in their most recent annual report.**

48%

Almost half of respondents say the **Company Values Statement was created within the past decade.**

69%

The majority (**69%**) say the **Statement was approved by the board. 15% did not have the Statement approved** by the board and **9% do not know** whether they did or not.

41%

say that **ethics were not mentioned in their most recent annual report.**

27%

27% of respondents, say their Company Values Statement was created within the past year.

47%

Executive management is held to account in terms of the Company Values Statement via **training (47%)** or via **oversight from the HR manager (20%).**

BOARD PRACTICE AND PROCEDURE: AN INTERPRETATION

What structures are in place in the boardroom regarding ethical behaviour?

80%

Although the large majority (80%) of respondents say **the board adheres to a specific ethics code or policy, 14% do not**, and this is a concern. Furthermore, while **53% of respondents say that ethics are scheduled as an item for discussion on the board's agenda between once a year and twice a year**, it should be noted that almost a quarter (**24%**) indicate in the 'Other' section that ethics are generally noted on the board's agenda either infrequently, never or as the need arises.

79%

Although the majority (**79%**) of companies have a **Company Values Statement, 17% do not**. When CEO/management findings are analysed alone, almost a quarter (**24%**) of them say that the board does not have a **Company Values Statement**.

69%

The majority of Statements (**69%**) were formally approved by the board as is good practice, but **15% did not have the Statement approved** by the board and **9% do not know whether they did or not**. When CEO/management findings are analysed alone, **23% say that the Statement was not approved by the board**.

85%

of Company Values Statements were created within the past ten years, which endorses the perception (seen in Section 1) that over the past decade, there has been more focus on ethics in businesses and boardrooms in Ireland.

41%

of respondents say that ethics were mentioned in their most recent annual report and 41% say that they were not mentioned. When CEO/management responses are analysed alone, **50% say they were not mentioned**. So, while documents like Ethics Policies and Company Values Statements may be in place by the majority of organisations, the question appears to be, are these documents, and other matters related to ethics, taken seriously?

HOW ARE DISCUSSIONS AROUND COMPANY VALUES, ETHICS AND BEHAVIOUR COVERED?

70%

A positive finding is that the majority of respondents (**70%**) indicate that **discussions around company values, ethics and behaviour do take place**. However, **24% say that either the whole board does not discuss these matters**, the discussion does not take place at all, or discussion is just a tick-box exercise. From a governance point of view, this is a concern. Another concern is that **8% say that this discussion happens in committee, not at the full board**.

DOES THE BOARD ACT ON DISCUSSIONS AROUND COMPANY VALUES, ETHICS AND BEHAVIOUR?

60%

While the findings show that **60% have discussed an actual document setting out the board's values, ethics and behaviour in the past year** in a meaningful way, they also show that these were only discussed as a procedural item for approval by 18% of respondents. This is of concern, as is the fact that **8% say that they have not discussed such a document at all within the past year**.

HOW DOES THE BOARD COMMUNICATE A POLICY DOCUMENT AROUND COMPANY VALUES, ETHICS AND BEHAVIOUR?

60%

say that there is an **established process to communicate these policies** (eg. internal communications, training, company directives) to management and this is a positive finding.

10%

However, 10% say that **the chair of the audit committee briefs senior management on company values, ethics and behaviour**. Furthermore, it is interesting to note that, while 70% discussed company values within the past year, **10% say that the outcome of these discussions is not communicated to management at all.**

CONCLUSION

Overall, there is a general awareness of the procedures that need to be in place in order to achieve optimal results regarding ethical behaviour. The findings also indicate that more work is required to ensure that there are proper processes in place and that ethical awareness is translated into clearly articulated policies, which are then owned and embedded into these businesses.

Policies and procedures are required in all boardrooms so that regular discussions on ethics, values and behaviour, are specifically covered by the entire board and are then fully and efficiently communicated to executive management in an effective way.

SECTION 3

BOARDS' MEASUREMENT OF THEIR OWN ETHICAL STANDARDS

This section explores the ethics-based documentation and practices of the board, and the means by which, and the extent to which, these are used.

BOARDS' SELF-EVALUATION

47%

of boards **monitor their own compliance with ethical behaviour.**

44%

do not monitor their own compliance with ethical behaviour.

COMMENTS

In answer to the question **'How does the board monitor its compliance with ethical behaviour? And if not, why?'** the most-cited answers were generally **'internal audit'; 'annual review'; 'independent evaluation; not done yet'**. The following comments are a representative picture of the answers offered:

Comments on how the board does monitor its compliance with ethical behaviour

- "Through Internal Audit"
- "Annual review"
- "Regular audits"
- "Independent evaluations"
- "Self-evaluation"

Comments on why the board does not monitor its compliance with ethical behaviour

- "Work in progress"
- "Does not place a high enough value on it"
- "Not sure why"
- "Young company. Don't have the bandwidth yet..."
- "Small company with one non exec who is ethically aware"

COUNTERING CONFLICTS OF INTEREST IN BOARDROOMS

97%

In terms of respondents' roles, there is a very high awareness (**97%**) of what constitutes conflict of interest.

26%

say that the **Chair ensures that this policy is adhered to.**

74%

The majority of boards (**74%**) have a **Conflict of Interest Policy.**

16%

say that the **Company Secretary ensures that this policy is adhered to.**

20%

do not have a Conflict of Interest Policy.

6%

say that the **CEO ensures that this policy is adhered to.**

33%

say that the **whole board ensures that this policy is adhered to.**

BOARD MONITORING OF POTENTIAL CONFLICTS OF INTEREST

21%

In answer to the question, how are potential conflicts of interest, involving either the board or management monitored by the board, 21% say that a regular review is conducted by the Audit (or similar) Committee.

20%

say that a regular review is conducted by the Chair.

35%

35% say that the board is briefed by CEO / senior management as appropriate.

27%

say that a company-wide obligation to disclose conflicts of interest is announced.

PREVALENCE OF CONFLICTS OF INTEREST AMONG BOARDS

50%

Half of the respondents (50%) believe that conflicts of interest are prevalent among boards in Ireland.

23%

say that they are not prevalent among boards in Ireland.

25%

say they don't know whether conflicts of interest are prevalent or not among boards in Ireland.

COMMENTS

In answer to the question **'In your view, are conflicts of interest prevalent among boards in Ireland?'** 3% commented in the 'Other' section and the following quotes are a representative picture of the answers offered:

- "Occasionally; difficult to handle if not acknowledged by the person with the conflict of interest"
- "Probably one of the weakest areas of Irish boards"
- "Potential conflicts are a reality given the size of Ireland, actual conflicts handled differently by boards"
- "On some boards but less so than in the past"

BREACHES IN COMPLIANCE WITH ETHICAL BEHAVIOUR

49%

of respondents say that the board deals with breaches by either a board member or management via a formal investigation.

13%

say that the board deals with breaches in compliance by terminating employment.

24%

say that the board deals with breaches in compliance by giving appropriate training.

23%

indicate 'Other' when asked how the board deals with breaches by a board member or management (see comments below).

COMMENTS

In answer to **how the board deals with compliance breaches by a board member or management**, 23% commented in the 'Other' section. The most-cited comments were, **'no breaches to date'**, or **'hasn't arisen'**. The following comments are a representative picture of the answers offered:

- "It has not arisen"
- "It hasn't happened yet"
- "Has never occurred. Would be asked to resign"
- "We have yet to encounter one"
- "Depending on the situation, investigation or dismissal could result"

BOARDS' MEASUREMENT OF THEIR OWN ETHICAL STANDARDS: AN INTERPRETATION

98%

To put the findings of this report in context, almost all respondents (**98%**) **have an explicit awareness of what constitutes conflicts of interest in their role.**

BOARDS' CONFLICTS OF INTEREST

50%

Half (50%) of respondents believe that conflicts of interest are prevalent among boards in Ireland.

A quarter either do not know, and a further **23% believe conflicts of interest are not prevalent.** Altogether, these findings suggest that, at best, there is a lack of understanding when it comes to the level of conflicts of interest in the boardroom.



Also, in terms of how potential conflicts of interest are monitored by the board, **the overall response shows a high degree of ambiguity and lack of structure because there is not a clearly defined mechanism for monitoring.**

20%

Conversely, this circumstance is plausible when **20% of all respondents say the board does not have a Conflicts of Interest Policy and 28% of CEO/management respondents say that the board does not have a Conflicts of Interest Policy.**

CONFLICTS OF INTEREST POLICY

The Conflicts of Interest Policy is attributed the least importance by the board, when compared with the Ethics Policy and the Values Statement.

74%

For those who do have a Conflicts Of Interest Policy (**74%**), **it is good practice that the whole board ensures that this is adhered to**, and the overall results reflect this. **33% say that the whole board ensures adherence.** However, a concern from a governance point of view, is that in **22% of instances the CEO (6%) or the Company Secretary (16%) undertake this role.**

26%

Furthermore, according to **26% of respondents, the Chair ensures that this policy is adhered to.** However, when the Chair survey respondents' were analysed alone, **41% of those Chairs say that they themselves ensure the policy is adhered to.** This is a major departure from the general perception. Considering that almost 70% of survey respondents are made up of board members, it may be concluded that Chairs have a different view of their role as monitor of adherence to the policy, when compared to other board members' views.

DEALING WITH BREACHES IN ETHICAL BEHAVIOUR

13%

In terms of the board dealing with breaches by both board members and management, **findings show that termination of employment is the third-ranked solution (13%).**

44%

In consideration of the findings, it is of concern that **44% of respondents say that the board does not monitor its own compliance with ethical behaviour.** In fact, when the CEO/managing director responses are analysed alone, **53% say the board does not monitor its own compliance with ethical behaviour.** Absence of self-monitoring is a concern, especially considering the perception that conflicts of interest are common and there is an apparent lack of understanding around this issue.

CONCLUSION

Certainly, when it comes to the boards' measurement of their own ethical standards, this survey's findings suggest that there is still work to do.

One fifth of respondents say that they do not have a conflicts of interest policy, and there are divided views when it comes to monitoring matters relating to conflicts of interest in the boardroom. All of this information is set against the backdrop of almost half of the respondents saying the board does not evaluate its own compliance with ethical behaviour.

SECTION 4

WHEN THINGS GO WRONG

This section offers a picture of the 'Tone from the Top' when issues relating to misuse of property/information, monitoring and compliance are considered.

MONITORING MISUSE OF COMPANY PROPERTY OR INFORMATION

31%

say that **the board ensures signature of a non-disclosure agreement (NDA).**

17%

say that **there is use of ad hoc audits.**

79%

Faced with actual misuse of company property or information, the most common course of action is to **use appropriate disciplinary procedures (79%), or to take advice and subsequent appropriate action (81%).**

59%

say that **the board ensures inclusion of a confidentiality clause in contracts of employment / appointment.**

38%

say that **misuse of company property or information is monitored by CEO/management, not the board.**

28%

say that **an internal Audit Committee monitors potential misuse of company property or information.**

8%

do not know how the board monitors potential misuse of company property or information.

MONITORING THE CHAIR

53%

say that the ethical behaviour of the Chair is monitored.

26%

say that the ethical behaviour of the Chair is not monitored.

14%

do not know if the Chair's ethical behaviour is monitored.

29%

For those who do monitor the behaviour of the Chair, much of this monitoring is done by individual board

members (29%).

14%

say that the **Senior Independent Director is responsible for monitoring** the Chair's ethical behaviour.

13%

say that the **Company Secretary is responsible for monitoring** the Chair's ethical behaviour.

11%

say that the **CEO / senior management is responsible for monitoring** the Chair's ethical behaviour.

10%

do not know who monitors the Chair's

ETHICS IN MANAGEMENT SETTINGS

17%

The regularity of the **discussion of ethics in management** settings is broadly similar across the following time periods; **monthly (17%), quarterly (19%), twice a year (17%) and less than once a year (18%).**

55%

say the **management has some way of measuring whether they are behaving ethically** and **32% say that executive management does not have a way of measuring** their ethical behaviour.

23%

Company management reports to the board quarterly (23%) on ethical matters. 19% do so less than once a year.

17%

of company management never reports to the board on ethical matters.

79%

The vast majority of respondents (**79%**) **have had no disciplinary issues regarding ethical behaviour** in the past twelve months. **15% said there had been disciplinary issues within their organisation over the past 12 months.**

COMMENTS

Of those respondents (15%) who said there had been disciplinary issues within their organisation over the past year, the following comments are representative of issues experienced:

- "Investigation in accordance with procedure and action up to and including dismissal as appropriate"
- "Any such matters are investigated and action taken by HR"
- "Full investigation took place and the person was fired"
- "Investigation, review of both sides of story - eventual dismissal"
- "Investigation leading to a demotion and a termination"

WHEN THINGS GO WRONG: AN INTERPRETATION

CHAIR AND MONITORING

40%

When the above findings are examined, a number of issues become apparent, most significant is the finding that **40% say that the Chair's ethical behaviour is not monitored or that they do not know if it is or not**. As seen in Section 3, survey findings show that while there is a **perception of significant levels of conflicts of interest at board level (50%)**, the **Chair is responsible for ensuring that the Conflicts of Interest Policy is adhered to according to 26%** of respondents (second highest percentage after 'the whole board'), and according to 41% of Chairs themselves. So where there are conflicts of interest, there is a central role for the Chair in dealing with the matter, though it would appear that the ethical behaviour of the Chair is in itself not adequately monitored.

FINDINGS OVER MISUSE OF PROPERTY

31%

The findings show that when it comes to protecting organisations from potential misuse of company information or property more attention is given to misuse of information over property. Most respondents say that there are structures in place, which serve to **protect organisations from potential misuse of exclusively company information eg. a non-disclosure agreement or a confidentiality clause**.

38%

Some 38% say that monitoring potential misuse of information and property is the responsibility of the CEO/management team.

79%

The most common reaction to actual **misuse of company property or information, is pointed out as being disciplinary action (79%)**. Using disciplinary action and termination was also indicated in Section 3 as being the usual action to be taken. The cited commentary provided a detailed picture of the disciplinary steps that are taken.

INFREQUENT DISCUSSION AROUND ETHICS IN MANAGEMENT SETTINGS

29% Highlighted again, is the **failure to have regular scheduled discussion on ethics in management settings**. This was also seen in Section 2 in terms of discussion in the boardroom. Here, in answer to the question, 'how often does company management report to the board on ethical matters?', the indicated times are very similar. There are no explicit structures in place to ensure such discussion happens in management settings on a consistent and regular basis. Also, when Non-Executive Directors are analysed separately, most of them **(29%) do not know how often ethics are discussed in management settings**.

17% It is a concern that **17% say that company management never reports to the board on ethical matters**. When CEO/management results are analysed separately, **20% say that they never report to the board on ethical matters**.



Also, the question could be asked, **how can documents/policies with an ethical basis be regularly reviewed in terms of content, application and implementation**, if discussion on the issues is not consistent and structured?

MANAGEMENT AND MONITORING ETHICAL BEHAVIOUR

32% Respondents say that **executive management does not have a way of measuring their ethical behaviour**. When CEO/management results are analysed separately, **42% say that they do not have a way of measuring their ethical behaviour**.

47% In Section 2, we see that, typically, **executive management receives training so that the Company Values Statement is specifically observed (47%)** and **training is the second most popular way for the board to communicate the organisation's values, ethics and behaviour to executive management (37%)**. Thus, evidently it is the case that management is broadly trained, but many of them do not have a means of measuring the impact of this training on ethical behaviour, or indeed whether ethical behaviour is common practice among management. Also, the finding that disciplinary instances are rare, with **79% reporting no issues at all in the past year**, may highlight deficiencies in monitoring and measurement.

15% Conversely, the **15% of respondents who have experienced disciplinary issues regarding unethical behaviour within their organisation is a concern**.

CONCLUSION

When things go wrong in the context of ethical breaches, there are obvious consequences, but what is unclear is the robustness of these preventative measures. Of the measures that are in place, deficiencies are evident.

SECTION 5

tone from the top - in their own words

This section offers a picture of how directors and business leaders perceive their own position, and that of the board, in ethical terms, and how they see the way forward.

66%

of respondents say that **there is no gap between what companies' ethics policies say, and how they are implemented. 22% say that there is.**

82%

In the view of almost all of the respondents (**82%**), **their board does react appropriately to ethical or compliance failures. 6% do not think their board does so, and 7% do not know.**

57%

57% of respondents agree that greater board diversity has delivered a greater level of ethical behaviour at board level. 22% do not agree. 19% don't know.

88%

of respondents say that **they would know what to do if they were asked to do something that challenges their ethical standards. Just 7% would not.**

85%

Employees are **free to raise ethical and compliance issues without fear of retaliation, according to 85%** of respondents. **Just 4% disagreed, and 8% didn't know.**

COMMENTS

Respondents answered the question **'How can the ethical climate in business in Ireland be improved generally?'** in a number of different ways, but the most consistent four themes to arise are; **more training, more board diversity, more openness and accountability and culture change.** The following comments are a representative of the answers offered:

- "Keep a focus on ethics at regular intervals"
- "Education and training"
- "Raise awareness and introduce proper training & procedures"
- "More transparency. Exemplary behaviour by all those entrusted with the most significant responsibilities. Plus effective auditing process"
- "More NEDS, diversity"
- "More openness at board level"
- "More openness, general shake up of board composition, restriction of number of directorships held"
- "Greater awareness of both executive and non-executive responsibility"

TONE FROM THE TOP - PERSONAL OPINION: INTERPRETATION

22%

Despite a majority of respondents stating that there is no gap between what companies' ethics policies say, and how they are implemented, findings also show that **22% of respondents believe that there is a gap**. Consequently, although respondents generally have the correct documentation in place (ethics policy, Values Statement and Conflicts of Interest Policy), **there is a substantial risk that those documents are not implemented as they should be**.



On a positive note, in terms of beliefs around practice, **respondents would largely know what steps to take if they were asked to do something in their role as director that challenges their ethical standards and they feel free to raise ethical and compliance issues without fear of retaliation**. The vast majority also believes that the board reacts appropriately to ethical or compliance failures.

57%

Board diversity has delivered a greater level of ethical behaviour at board level according to well over half (57%) of respondents and this is a positive development. However, there is still a sizeable number **(22%) saying that diversity does not make any difference when it comes to bringing a greater level of ethical behaviour to the boardroom**.

OVERALL CONCLUSION

Tone from the Top offers a glimpse inside the boardroom bringing a mix of results - some results are positive, in that the focus on ethics and ethical behaviour has certainly intensified in the boardroom over the past decade. There is generally more awareness around ethics and ethical behaviour with greater public scrutiny proving to be a driving force in improving boardroom behaviour. If practising ethical behaviour was found in businesses and boardrooms as a matter of course; if it was embedded in culture and work processes, there may be a motivation to behave ethically purely for the sake of it.

In terms of **board practice and procedures** regarding ethical behaviour, overall, there is a general awareness of the processes that need to be in place in order to achieve optimal behaviours. We see from the findings, however, that there is still a way to go before all boards ensure that these procedures are fully implemented and adhered to.

Ethics documents are commonplace in many boardrooms, but more is required to ensure that they are fully understood and observed. This requires effective communication, monitoring and compliance.

Structures and processes should be put in place in boardrooms so that regular discussions around ethics, values and behaviour, are specifically covered, or covered so that they permeate discussions in board meetings, by the whole board, and are fully and efficiently communicated to executive management in an effective way.

Certainly, when it comes to the **boards' measurement of their own ethical standards**, this survey's findings suggest that there is still work to be done.

There is a perception of **high levels of conflicts of interest in the boardroom**. One fifth of respondents say they do not have a conflicts of interest policy, and there are divided views when it comes to monitoring matters relating to conflicts of interest in the boardroom. All of this information is set against the backdrop of almost half of respondents saying that the board does not evaluate its own compliance with ethical behaviour.

When things go wrong, in the context of ethics, monitoring and compliance, there are obvious concerns, and not enough preventative measures. Of the measures that are in place, deficiencies are also obvious.

To conclude, boards and businesses in Ireland have come a very long way in terms of beliefs around, and awareness of, ethical practice. There is a new confidence in the procedures that have been created specifically to engender ethical behaviour. There is also a sense of empowerment among those who understand what they need to do if their ethical standards are challenged.

The knowledge is there, but the systems are not always working correctly (eg. unstructured policy reviews, policy monitors who are themselves not monitored and unregulated processes).

If directors and business leaders were wholly committed to bringing ethical behaviour to the top table, if matters were raised and discussed on a regular basis, if motivations were pure and agreement was reached on processes, then the data presented in this report can actively encourage ethical behaviour in the boardroom.



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