



PRINCIPIA

The Ethics Study 2023

Business leaders on the ethics gap
and how to close it

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Foreword

Long before anyone invented corporate labels like ESG (Environment, Social and Governance), CSR (Corporate Social Responsibility) or conscious capitalism, there was ethics.

At its most basic, ethics means a commitment to behave responsibly and to fulfil our obligations to others. The past few years have shown just how volatile the ethical environment can be – and the devastating potential of ethical lapses. Managing complex organizations in an ethical way has become a defining expectation of leaders.

This report presents our understanding of the ethical environment in 2023, based on original survey data and interviews with a range of leaders across multiple sectors, as well as the experiences of our partners and clients. It captures insights on the challenges that businesses see on the horizon and learnings from leaders on how to build strong and resilient ethical organizations.

In our work, we see how boards and leaders are overcoming difficulties by focussing on three critical domains. The first is ensuring they have the skills and capabilities to get the big strategic calls right. Modern businesses are facing an avalanche of difficult values and ethics challenges. This fact is reflected in the wide range of issues identified in our survey as a likely triggers for a future ethical crisis, with the most commonly highlighted being the implications of geopolitical instability and conflict, and the risk of complicity in wrongdoing by clients or customers. Each of these issues involves navigating complex values trade-offs, high levels of ambiguity and competing demands from different stakeholders. Many of these issues touch areas of critical – sometimes existential – importance for businesses, and navigating them requires new leadership skills.

The second area of focus is ensuring consistent behaviour, conduct and delivery by every employee throughout the organization, day-in and day-out. Traditionally conceived as a compliance or legal issue and delegated to stand-alone functions, the most successful organizations understand that compliance and conduct must be embedded in a broader understanding of organizational and ethical culture. The 'hardware' of rules and processes must be supported by the right 'software' of culture and ethics. How to consistently build such a culture, cultivate and preserve it has been a major focus of our conversations for this year's study. Our interviewees reveal many creative and innovative approaches to achieving this.

The final area of focus for leaders is embedding ethics into new and legacy business and innovation practices. Doing so enables organizations to be agile and drive impact, while minimizing future risks by ensuring that progress is built on responsible foundations.

Another key development of the past year has been an emerging backlash against some forms of ESG activity with, for example, some US states moving funds away from investment managers that espouse ESG principles. A growing number of leaders are recognizing that ethics can offer a way to address and move beyond some of these criticisms. As a field of study and critical enquiry spanning several thousand years, across cultures, beliefs and traditions, ethics is neither left nor right, conservative nor liberal. It provides a set of tools and resources and embodies a certain mental, organizational and emotional orientation: a commitment to reflect seriously on what we owe to others and to use the remarkable resources of the modern organization in a responsible and justifiable way.

Welcome to the 2023 report. We hope very much that you find it both useful and illuminating – and that it inspires you to build ethics into your organization's journey, and your own personal leadership journey, in new ways.

David Rodin
Founder and Chair, Principia

What is organizational ethics?

Ethics means a commitment to behave responsibly and to fulfil our obligations to others. It is also a critical business capability. Building ethics into organizations provides a foundation of stakeholder trust, brand reputation and competitive market positioning. Ethical organizations master three critical domains:

1

First, they equip boards and leaders to set the bar and make robust ethical decisions, enabling them to navigate complex trade-offs, competing demands and conflicting stakeholder interests.

2

Second, they ensure that the organization's culture and systems support consistent employee behaviour, interactions and outcomes.

3

And third, they embed ethics into new and legacy business and innovation practices, capturing the full opportunity to be agile and drive impact, while minimising future risks by ensuring that progress is built on responsible foundations.

What is ethical risk?

A central concern identified by this study is the management of ethical risk, with 65% of leaders in our survey saying they believe ethical issues will have a 'severe' impact on companies in their industry in the next three years.

Ethical risk is the chance of material harm to an organization's profits, reputation, stakeholders and/or third-party partners if it fails to meet its ethical responsibilities and duties consistently.

These risks arise from a wide and unpredictable range of circumstances, from seemingly remote geopolitical events to tensions within internal organizational culture.

The invasion of Ukraine in early 2022, for example, led to organizations from pharmaceutical companies to coffee chains facing calls to cease trading in Russia – or risk being seen as complicit in the war by providing material or moral support. Businesses which failed to respond immediately (and in ways deemed appropriate) risked public censure and action from stakeholders, from customers and employees to investors.

That invasion was beyond the power of individual organizations to control, but the origins of some risks are closer to home. In the years since the financial crisis of 2008, there have been multiple instances of unacceptable behaviour from financial institutions, from the mis-selling of products to the manipulation of markets. While these actions can harm customers, investors and other market participants, ultimately the institutions responsible also risk reputational damage, fines and regulatory action.

As these examples illustrate, ethical risk can be multifaceted. Even when trigger events seem remote (such as geopolitical upheaval) or innocuous (like a culture of pushing boundaries to drive sales), ethical risks can still materialize with a speed and significance that is hard to predict.

The question of how to frame and manage organizations' responsibilities and duties in relation to different ethical issues can be complex. Where an issue is unprecedented – such as the Covid-19 pandemic or the invasion of Ukraine – the greatest challenge in mitigating risk can be deciding on the 'right' course of action, while balancing expectations of various stakeholders.

In other cases, it may be easy to know the 'right' thing to do but there may be hurdles in putting this into practice. Banks should not sell loan payment protection insurance to customers who cannot claim against it, for example. Yet it may be hard to maintain consistent high ethical standards when lines become blurred by the pressures, messages and motivations within an organization's culture.

The best defence for organizations is a combination of vigilance – looking ahead to identify ethical risks and their potential implications; and readiness – ensuring that the organization builds in capabilities to respond effectively and be resilient in the face of crisis.

What leaders say about ethics in 2023

Sarah Miller – Chief Executive, Principia



The ethical environment is increasingly volatile

Leaders are working in a context of heightened emotions, low levels of resilience and increasing expectations from different stakeholder groups – putting their behaviours and decisions under significant pressure and scrutiny.

People are angry

‘There is a heightened emotional space at the moment,’ says the leader of one international organization. ‘There is a lot of anger, resilience levels are low. Cumulatively people are tired.’

This reflects a sentiment we have heard from many leaders in the course of compiling this study. Stakeholder groups – from employees to customers, investors, governments and regulators – come up a lot in the discussions we have around ethics. But the last few years have been difficult for the majority of people in all of these groups, as they faced the repercussions of a series of global crises, most obviously the Covid-19 pandemic and war in Ukraine.

This state of mind has made people – stakeholders – less tolerant of perceived failures by organizations to live up to their responsibilities and duties. It has made them more likely to judge any given corporate action harshly, assessing performance more strictly. It has also made them more likely to assume bad intentions when things go wrong.

Ethics is the capacity to act responsibly and fulfil our obligations. Increased anger among stakeholder groups has made applying this skillset to business much harder than it was three years ago. Our survey shows [eight out of ten leaders believe the events of the last three years have required their companies to address more complex ethical questions than before – and to make hard judgment calls where the right thing to do was not clear.](#)

Organizations are stretched

The geopolitical events which placed additional ethical demands on organizations have also constrained their ability to act. Organizations are made up of people, many of whom are struggling to find the mental and emotional resilience to rise to further challenges.

In many cases, organizations are still adjusting to new working practices that, while bringing benefits, also exacerbate some of these issues. Return to work and managing hybrid cultures, as well as growing engagement with employees on the changing nature of wellbeing and the workplace, creates a new context for ethics. ‘We continue to be in a time of experimentation,’ says Nhlamu Dlomu, Global Head of People at KPMG International. ‘That means we have an opportunity to build on the lessons we learned during the pandemic – for example, how we build connection and empathy – while also thinking about how we can make work more sustainable for our people. When we get this right, we’ll enable our people to thrive and our business to succeed.’ Leading companies are exploring the ‘future of work’ and the lens of wellbeing not just as a talent strategy, but as a business strategy.

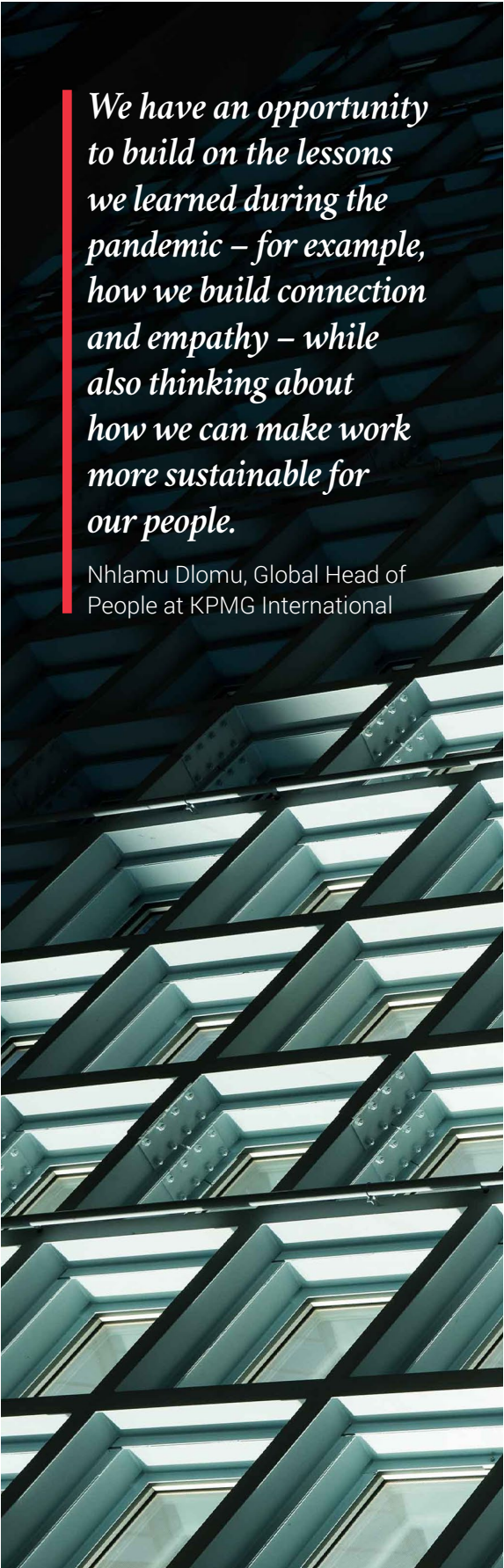

The ability to tackle ethical demands effectively, within the very real constraints of the changing nature of work and difficult market conditions, will be a defining feature of successful organizations in the coming year. Our survey shows [96 per cent of leaders say the ability to address ethical issues will be critical to success in their industries and 84 per cent say their companies see ethics as a competitive differentiator.](#)

Expectations have increased

Not only has navigating the ethical landscape become harder, but the landscape itself is growing ever larger and more contoured. Recent crises have accelerated the emerging trend for consumers to look to businesses to address societal issues. Leaders recognize this and are responding: our survey shows the most common motivating factors cited for building a more ethical organization are 'brand, trust, and reputation' and 'consumer demand'.

'The environment is dominated by complexity,' says Antoni Ballabriga, Global Head of Responsible Business at BBVA. 'Decision making is getting more complex, in part driven by stakeholder capitalism, and the need to take into account all the impacts of all our decisions. That requires a clear method for making decisions, with clear standards for how we behave and a culture of accountability and self-questioning.'

Such complexity is reflected in the fact that leaders believe one of the greatest barriers to building a more ethical organization is the need to manage competing priorities. Our survey reveals they also identify a broad range of issues which risk triggering an ethical crisis.



We have an opportunity to build on the lessons we learned during the pandemic – for example, how we build connection and empathy – while also thinking about how we can make work more sustainable for our people.

Nhlamu Dlomu, Global Head of People at KPMG International

Leadership requirements have transformed

The world has changed significantly – and executives recognize that the requirements of world-class leadership have changed with it.

Leaders require ethical expertise

The new and challenging ethical environment demands a variety of responses from organizations, often starting with demands on leadership. Indeed, our research shows leaders identify 'strategy and leadership decision-making' as the top priority in equipping their companies to fulfil their ethical commitments, followed by 'board governance and oversight' and 'development and training for senior leaders'.

'Pressure continues to build on leaders,' says Melanie Richards, Non Executive Director. 'With ever-changing societal expectations, the ethical bar keeps moving and one of the biggest challenges is to know where it is. The penalty for leaders who are seen to fail in this is severe.'

Increasingly, leaders are recognizing the need to develop ethical leadership as a skill, building on their own expertise, as opposed to simply putting systems and processes in place and ensuring a strong compliance function. No amount of systems and processes, however well designed, will encourage people to act ethically consistently if they do not trust that leaders are doing so as well.

Authenticity is a skill

'Leaders need to take time to update their skills. We need to unlearn and relearn,' says Harriet Green, Executive Chair of Mission Beyond and former Chair and CEO, Asia Pacific, at IBM. She highlights authenticity and empathy as key to modern leadership. 'There are very few rockstar leaders from five years ago who have the full repertoire of skills needed today,' she adds.

In the past, such skills might have been disparagingly referred to as 'soft' but are now seen as critical to an organization's performance. Without them, and broader emotional intelligence, organizations fail even to get to the starting line when it comes to ethics because they lack the ability to understand the issues that are important to stakeholders, the limitations and challenges faced by their people, and the expectations that are placed on them.

Some experienced leaders tell us they are finding it an understandable struggle to switch into a new management 'mode' after years of developing their leadership skills in a world with different priorities. For decades, success in senior roles has been measured by simple goals: make money, keep the business going and abide by the rules. Now, many leaders feel they are being required to be more authentic, better at listening and open to different perspectives, for example, but feel they are not equipped with the skillset to do this – or to know how to apply these approaches to their existing responsibilities.



Organizations need different data

Leading organizations are also evolving the way they collect data to inform their ethical commitments and actions. Ethical foresight exercises combine ethical analysis with strategic planning and methods drawn from futures thinking. Marjolein van Hellemond, CCO at Santander believes different approaches like these are vital in today's world. She says: 'We did stress testing and scenario planning, but events like the Russian invasion are always extremely difficult to predict.'

There are several aims of conducting these exercises. One is to predict ethical dilemmas and crises before they happen. Given the degree of uncertainty that such events can take, however, a more significant aim is to keep the organization alive to the wide range of challenges that could occur – and ensure that it is prepared to respond quickly.

The next ethical crisis – just like the last – is unlikely to be easy to predict. 'Everything we focused on [before] was very predictable,' continues van Hellemond. The aim of the new approach, she says, is to increase agility of mind when fresh challenges arise. '[The goal is] to be able to take new challenges and work through them very quickly, under enormous pressure.'

An evolution in data-gathering can also be seen in the way leading organizations gather internal feedback. While large and detailed exercises have their place, 'business as usual' feedback is increasingly done in real time, with low employee burden and quick turnaround, often generating recommendations and action within one to two weeks. This enhanced responsiveness is important: four out of five leaders note that a heightened focus on ethics has placed pressure on their organization's ability to monitor the health of organizational culture and to ensure appropriate conduct and behaviour by employees.



Leaders are wrestling with ethical stances

Not only are organizations increasingly expected to ‘take a stand’ on societal issues, they must equip themselves to navigate a wide range of complex and often conflicting expectations.

Taking a stand

How, if and when to take a position or speak out on an ethical question is one of the greatest challenges facing senior executives in 2023 – and one of the greatest sources of pressure. It is hard enough to make difficult decisions when taking each issue in isolation, but it is harder still to ensure consistency and integrity is maintained across all potential issues, over time, across an organization.

‘Our leaders are increasingly expected to have a point of view on ethical questions,’ says Adrian Gore, CEO of the Discovery Group. ‘[As an organization], we need to support them in forming that point of view and in ensuring we take a consistent perspective as a team.’

In this context, leaders are increasingly recognizing the need to get ahead of the issues and define a clear ethical stance for their organization that can be the basis for consistent and timely decisions on how and when to speak out.

Moreover, leaders are increasingly recognizing that taking a stand does not always mean speaking out. ‘You always take a position,’ says Chrissie Hanson, CEO at OMD USA. ‘Even if you choose not to comment you are saying something and you have to take responsibility for that. We have to be aware that not engaging in and of itself can be a position that stakeholders hold us accountable for.’

Reacting is not enough

‘How we do business is absolutely more relevant than ever,’ says Antonio Ballabriga, Global Head of Responsible Business at BBVA. ‘Corporates in general need to understand these new contexts and ensure that we consider all stakeholder interests in our strategy – in what we do, and in how we do it.’

In the past, a feasible strategy for businesses has been simply to listen to the expectations of relevant groups as they arise or are expressed, and to respond to each in turn. Yet this approach is no longer workable, in part because of the sheer volume and complexity involved, but also because it is inevitable that the expectations of different groups will conflict. Our research shows leaders increasingly feel they must engage with multiple stakeholder groups on ethical questions, while managing competing priorities is seen as one of the greatest barriers to building an ethical organization.

One leader explains: ‘In the context of everything we’re facing now, where there is pressure on fundamental questions like: “What should the price of food be?”, giving an answer is not straight forward.’ Businesses increasingly recognize that it is necessary to put a stake in the ground and say they stand for something – and then to draw on that stance as the need arises. Having the foundations in place, rooted in purpose and values and their code of ethics ‘gives us a perspective to ask – and start to answer – the question: “What is the ethical thing to do?”’

Managing trade-offs

An ethical stance gives an organization the basis for determining the ethical thing to do, however even the best articulated position cannot avoid the fact that sometimes trade-offs are necessary. A leader from the financial sector, for example, reflecting on the challenges of responding to the war in Ukraine, says: 'We have a policy not to finance exports of weapons to conflict areas – but what does this mean for our support of Western governments aiding Ukraine?. Our policy was not written for this: it requires judgment.'

Indeed, 80 per cent of leaders agree that the events of the last three years have required their company to make judgment calls where the right thing to do was not clear. Recognizing this enables organizations to build and embed the capabilities needed to become ethical leaders, making sophisticated ethical decisions through good judgment, while acknowledging that even the best set-out ethical position in theory will sometimes require delicacy and finesse to see through in reality.

As always, practice is key. Working through examples – such as scenarios based on possible future challenges highlighted by foresight exercises – can help build the muscles necessary to act quickly and decisively when the time comes.



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Chrissie Hanson,
CEO at OMD USA

Ethics in 2023 is multipolar

Leaders are reflecting on what ethics requires in multicultural, multinational organizations, as well as recognizing that the global, systemic nature of ethical challenges means they are often hard for any single organization to address alone.

Look for the 'golden thread'

Leaders of complex, multinational organizations are used to having to balance the drive for consistency with the need to accommodate the distinctiveness of local markets – and nowhere is this more true than in defining approaches to ethics.

In searching for this balance, leaders talk of looking for the 'golden thread' that runs through their organization's ethical position: the strands of consistency around which different parts of the business can tailor their own bespoke approaches to ethics.

Such approaches may start with a local interpretation of principles and practices endorsed at a global level, but also go beyond this to capture what it means to operationalize – and live – these on a day-to-day basis in different parts of the world.

Every perspective has blind spots

Often, approaches to ethics within business organizations are constructed – explicitly or implicitly – from a single point of view. This is mirrored in the NGO sector according to Janti Soeripto, President and CEO of Save the Children US, who notes 'our frameworks are rooted in a "global north" perspective, based in an architecture set up after WWII'. She adds it is 'important to recognize this' – and the 'blind spots that come with it'.

Leaders are increasingly recognizing the need to address this openly and examine the extent to which stakeholders in their organizations identify with these approaches. They are also exploring how stakeholders' different perspectives can deepen and broaden an organization's understanding of, and approach to, ethics. Indeed, diversity, equity, and inclusion (DEI) remains one of the issues on which companies will be focusing their ethical commitments in the coming years.

James Pogue, CEO of diversity consulting firm JP Enterprises, urges leaders to employ the same approach to managing ethics as they use for other aspects of managing multinational businesses. Giving local leaders the ability to feedback on global positions is important, for example, but they should be allowed to implement those positions in the context of the business. 'Give them a budget that makes sense, because, let's be clear, there are going to be costs,' he says. He believes it is also important to set the expectation of results. This means 'going beyond empowerment', and 'making [ethical leadership] a part of performance evaluation connected to compensation'.

One size does not fit all

Leaders commonly tell us of the need to be aware of 'blind spots' in their understanding of ethically-charged challenges. A central part of exercising ethical leadership is to approach these challenges with a degree of humility and willingness to listen and learn. For example, the leader of one multinational organization tells us that her organization has reassessed a 'head office' concept of ethics that did not always resonate with subsidiaries, partners or clients rooted in very different cultures. As an example, she notes that while human rights are the foundation of much international ethics, such ideas can be perceived as 'colonial' tools used by developed countries to enforce their will and expectations on other parts of the world.



An awareness of the importance of multiple perspectives does not, however, require organizations to adopt an approach to ethics that is bland, confused or that lacks distinctiveness. 'We need to strongly assert our own originality and character, while at the same time accommodating social changes and diversity,' says Yasuhiro Aoyama, CMO at Mazda.

Collaborating to address systemic challenges

From global climate change and systemic risk in the financial system, to food and water security, many of the hardest ethical challenges are ones that will not be addressed by single organizations acting alone. 'There's a huge need for collaboration,' says Sarah Bentley, CEO of Thames Water. 'We can only address the triple challenge of ensuring compliance, environmental improvement and community impact through coordination across the sector and with stakeholders, especially in local and national government.'

A similar picture emerges in the financial sector: 'I talk with many other heads of compliance,' says Rocio Perez, Global Head of Compliance at BBVA. 'We are competitors, but we shouldn't compete on ethics and integrity – we should join together and raise the standards for doing business with customers and with other stakeholders.'

Increasingly, leading organizations are recognizing that part of their responsibility in these cases is to look for – and actively promote – cooperation with other organizations both within and across sectors and geographies. 'This is the only way really to enhance standards,' says Perez.

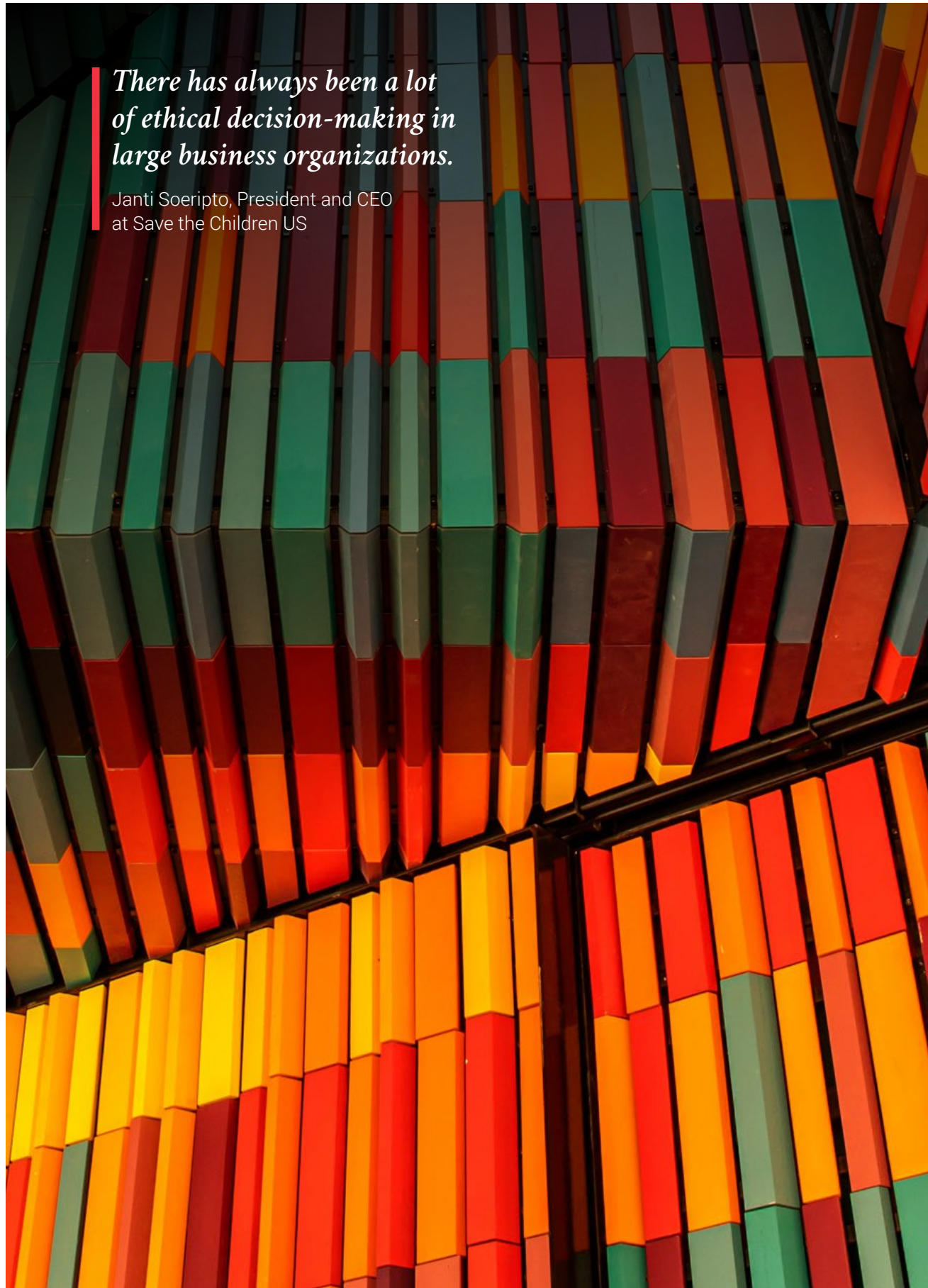


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Yasuhiro Ayoama,
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Janti Soeripto, President and CEO
at Save the Children US



An NGO perspective

Ethics is about taking responsibility for difficult decisions

'Working in complex humanitarian crises, consideration of ethics has always been at the forefront – it is just becoming harder and more frequent,' says Janti Soeripto. For her, ethics means focusing on the challenges of decision-making under pressure.

In high-stakes situations, there are often multiple conflicting priorities, including tensions between the interests of different stakeholder groups. For example, she asks: 'Are our staff safe? Are we making them targets in doing our work?'. These issues must be considered alongside questions of impact: 'Are we able to do the work? Do we have the access we need?'. Reputational and financial risks and costs are further factors that must be considered.

Her focus is on taking ownership and responsibility. 'The most important thing I want us to internalize around these trade-offs is that we always have a choice. Even doing nothing is a choice,' she says. 'We have to own it – and recognize and accept the choices we're making. We can't be the frog in boiling water.'

Acknowledging that significant ethical decision-making is an unavoidable part of day-to-day organizational management is central to her approach. She also recognizes that there is 'much more transparency, much more visibility' in today's world and this makes it harder for leaders to 'navigate dilemmas'. That, however, she argues is a good thing: 'This is our job as leaders.'

Ethical decision-making in business is getting harder

There are many similarities between the demands made of her organization and those of businesses, Soeripto reflects. 'There has always been a lot of ethical decision-making in large business organizations,' she notes, pointing to how the interests of employees, communities and the bottom line require careful balancing.

However, just as with NGOs, ethical decision making in business is becoming 'much harder, much more multifaceted', she adds. And this is in large part because there are 'many more stakeholders who demand a voice – many more stakeholders full stop'.

The likelihood of deteriorating economic conditions through 2023 will, she believes, provide a significant test for businesses, with a backlash from some stakeholders – in particular shareholders – putting pressure on organizations' capacity to make balanced, ethical decisions.

Janti Soeripto

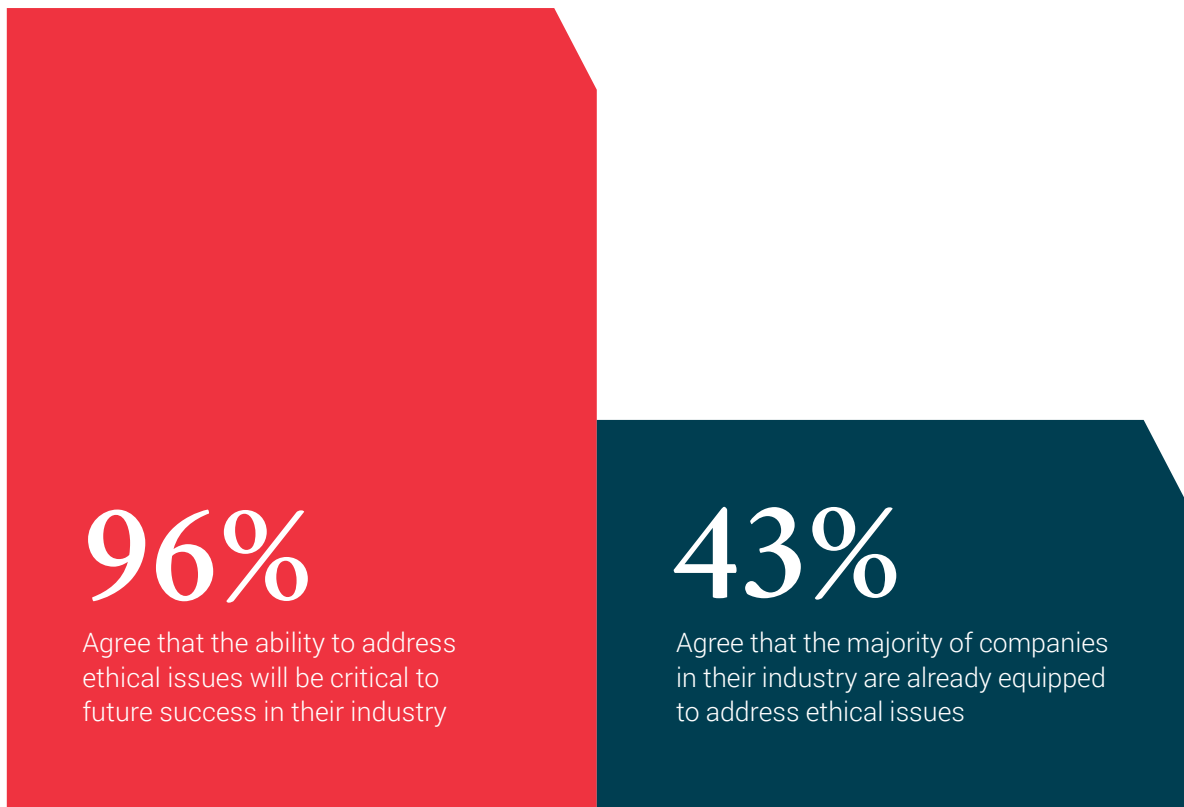
President and CEO at Save the Children US



Ethics in numbers

Our quantitative survey of business leaders paints a stark picture of the mounting ethical challenges facing organizations in 2023, with **a persistent gap remaining between organizations' assessment of the risks they face and their capabilities to respond**. Yet the results also show there is optimism and inspiration to be found in the opportunities leaders are seeing – and the actions they are taking – to build ethical organizations.

Leaders are overwhelmingly convinced that addressing ethical issues is critical to future success in their industries, with 96% agreeing with this statement. However, only 43% believe that companies in their sector are sufficiently equipped to deal with the complexity of the current environment.



Where should companies focus their efforts to address this gap? Four out of five **leaders surveyed identify strategy and leadership decision-making** as the most important capabilities for equipping their companies to fulfil their ethical commitments, followed by board governance and oversight, and development and training for senior leaders.



Items most frequently selected when asked to name top three most important to fulfilling ethical commitments (% of respondents selecting out of 10 options)

While the ability to fulfil ethical commitments is critical, so is the ability to identify those commitments and how they should be applied. Here our survey highlights a potential area of mismatch in respondents' answers. While **geopolitical instability and conflict and complicity in wrongdoing by clients/customers** are identified as the top two potential triggers of ethical crisis, **only 17% and 10% of leaders are focusing application of their ethical commitments on these areas**. Instead, the areas most commonly chosen as top priorities are: climate change and natural resource scarcity (chosen by 50% of respondents), diversity, equity and inclusion (45%) and the environmental impact of products and services (42%).



Items most frequently selected when asked to name top three issues on which ethical commitments will be focused (% of respondents selecting out of 14 options)

This mismatch matters, as it is clear that the ethical environment has become more challenging, with **65% of leaders saying they believe ethical risks in the next three to five years will be 'severe'**. At the same time, 85% of leaders agree that organizations are having to address more complex ethical questions than they were three years ago and 80% say they are having to make judgment calls where the right thing to do is not clear.

80%

Agree that the events of the last three years have required their company to make judgement calls where the right thing to do was not clear

88%

Agree that the events of the last three years have raised the importance of ethics for their company

85%

Agree that events of the last three years have required their company to address more complex ethical questions

65%

Say that the potential impact of ethical issues on companies in their industry over the next 3-5 years is existential or severe

These challenges are reflected in leaders' assessment of the strain under which key organizational capabilities are now operating. **Four out of five leaders agree that a heightened focus on ethics has placed particular pressure on their company's ability to determine their position on social and political issues**, to ensure appropriate conduct and behaviour by employees and to monitor the health of organizational culture. Three quarters of respondents also agree that it has made it harder to manage the tensions between the interests of different stakeholder groups.

Respondents agree that a heightened focus on ethics has placed particular pressure on their company's ability to:

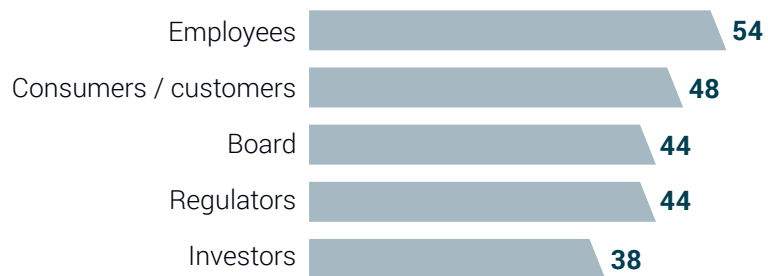


The complexity of the current operating environment is reflected in the broad range of issues that leaders identify as potential ethical crisis triggers. **Geopolitical instability and conflict** is selected by 36% of leaders as a key risk, closely followed by **complicity in wrongdoing by clients/customers (33%)** and the **environmental impact of products and services (31%)**. In all, ten distinct sources of risk are selected by at least 10% of respondents.



Items most frequently selected when asked to name top three likely to trigger a future crisis (% of respondents selecting out of 13 options)

Leaders expect to engage with a broad range of different stakeholder groups when determining their approach to ethics, illustrating the increasingly complex nature of these decisions. Although **employees and customers are the most commonly cited, selected by 54% and 48% of leaders respectively**, respondents also recognize the importance of the **Board, regulators, and investors**, with more than a third placing at least one of these in their top three.



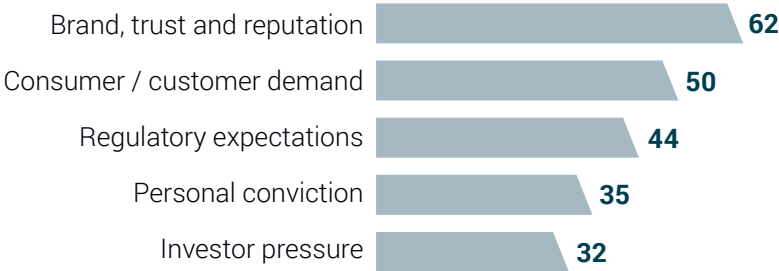
Stakeholder groups most frequently selected when asked to name top three with which they will engage most (% of respondents selecting out of 9 options)

While ethical challenges may generate risks, leaders are also seeing them as opportunities and are acting now to take advantage. Of those surveyed, **85% agree that ethics is a competitive differentiator in their industry**. Ethics is already being integrated into **growth strategy** by 77% of respondents, as well as into **recruitment and retention** by 79%, and **branding and marketing** by 83%.

Respondents say that they are already integrating ethics into:

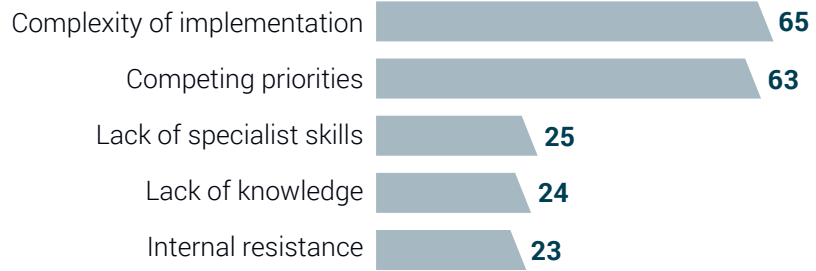


Brand, trust and reputation is the most commonly cited factor that is motivating leaders to invest in building an ethical organization, closely followed by **customer demand**, which half of leaders choose as one of their top three motivations. One in three say **investor pressure** is a significant factor.



Items most frequently selected when asked to name top three motivations for building an ethical organization (% of respondents selecting out of 9 options)

When asked about the greatest challenges to building an ethical organization, leaders point primarily to **complexity of implementation** and **competing priorities**, with nearly two thirds of respondents saying these are among their top three barriers. **Lack of specialist skills, lack of knowledge** and **internal resistance** are also considered major challenges by around a quarter of respondents.



Items most frequently selected when asked to name top three barriers to building an ethical organization (% of respondents selecting out of 8 options)

Ethics and reputation

Ethics is key to ensuring brands remain a valuable strategic asset

‘One CEO said to me: “We cannot lie in today’s world”,’ says Gonzalo Brujò. ‘A few years ago, there wasn’t the same transparency. Now, ethics and integrity are fundamental pillars for today’s businesses.’

It is clear from the conversations Interbrand has had with its clients that ethics and integrity have become ‘critical’ for brands. Brujò explains that in our hyperconnected world, customers are more engaged in activism and are expecting more of businesses. ‘We are in a moment of change,’ he adds. ‘CEOs are having to answer many more questions than they used to. Citizens are asking for more.’

Increased expectations are placing CEOs under pressure

Whether it’s asking what an organization is doing to tackle inequality, climate change or over-consumption, or demanding action in the face of pandemic, war or humanitarian crisis, it’s clear that consumers and stakeholders are now concerned with more than just shareholder value, says Brujò. ‘These are not traditional day-to-day CEO concerns – but now the expectation is that they will have a position. Given these expectations, the ability to address them is a critical element of the strategy of CEOs and companies in the future.’

As CEOs are seen as champions of the brand, they are the most exposed to criticism. Having a long-term ethics and integrity strategy can help manage these pressures, he explains.

‘Speaking with so many CEOs, I realized how stressed they are,’ he adds. ‘They feel they are overexposed, that they need to know everything. There are so many moving pieces. Ethics as a way of managing these challenges and complexities is going to play a huge role in CEO leadership going forward.’

Great brands take ethics seriously

‘We know that many of the best brands that collapsed in the past had a gap [between what they said and did] on ethics, integrity or trust,’ says Brujò.

Previously, it was difficult to articulate or prevent those failings, he explains – but now there is a solution. ‘To be a great brand requires not just making the right promises, it requires keeping them as well. And that is the role of ethics.’

Gonzalo Brujò

Global CEO at Interbrand

Interbrand





How to act now

It is one thing to understand the risks and opportunities that the ethical landscape of 2023 presents to businesses. It is another – often harder – task to know how to act. Two thirds (65%) of survey respondents identify complexity of implementation as one of the greatest barriers to building an ethical organization.

Most leaders feel they have invested significantly in ethics in the past few years, but that there is a growing urgency to reimagine what ‘good’ looks like. They speak about the pressure of rising expectations and scrutiny, and the complexity of navigating tensions between different ethical commitments. All see the clear requirement to maintain and strengthen the basics of ethical conduct and culture to avoid risk. More varied is the appetite to position ahead of the curve and build new and leading capabilities, but a growing number of leaders see ethics as a source of competitive advantage – and are initiating acts of leadership that set them apart.

We have pulled together advice from senior leaders from around the globe as to how organizations can determine what issues to lead on, live up to ethical commitments made externally and integrate ethical action across an entire organization in a single ‘golden thread’. Organizational integrity will be a key test of ethical leadership for the coming years.

Our research show organizations wanting to achieve this should focus on these five key areas.

1. Develop widespread employee engagement with and ownership of ethics


Why?

Leaders are clear that rules alone are insufficient and that the strength of an ethical culture is dependent on the extent to which people understand expectations and are equipped to make judgement calls. Every leader we consulted identified a clear need to focus on enabling people throughout the organization to internalize the right kinds of behaviours and the reasoning behind them. Ownership of behaviour also motivates people to act well and follow rules, without the need to resort to becoming overly rigid or relying on threats and sanctions.

How?

- ◆ Involve people across the organization in co-creating, reviewing, debating and discussing the concrete application of ethical principles and policies.
- ◆ Provide guidance and practical exercises to empower people to engage with the grey areas in which they can – and must – use their own judgment and discretion.
- ◆ Create spaces for open discussion on ethical dilemmas, challenges and learning from past failures, reinforcing a culture where people feel encouraged to talk about challenging ethical issues.
- ◆ Prioritize and measure alignment with ethical values, particularly in rapidly growing companies or post-integration of significant acquisitions.





*We work very closely with the front line...
Tone at the top is important, but tone in
the middle and execution in the trenches
is what matters most.*

Marjolein Van Hellemond, Group Chief Compliance Officer
at Banco Santander

Case study: Inspiring employee engagement with ethics

The challenge

Novartis realized that in order to embed desired behaviours consistently across its business, as well as improve retention, it needed organization-wide engagement with and ownership of ethics.

‘People want to work in a company where they have clarity on ethics and compliance,’ says Klaus Moosmayer, Chief Ethics, Risk and Compliance Officer.

His team wanted to inspire ethical engagement throughout all levels of the company, and through that drive consistent ethical behaviours. In doing so, he found that talent retention also improved.

The solutions

Co-create ethical policies

Employees are motivated to engage if they are involved in creating a company’s ethics, risk and compliance function, believes Moosmayer.

His team initiated an organization-wide collaboration process, using remote tools to engage thousands of staff members in the co-creation of key ethical policies, as well as getting input from behavioural science advisors. ‘Our ethical principles were jointly discussed, voted and formulated, as were our further ethical commitments,’ he says.

The idea was to create a culture where ethics was embedded in day-to-day operations. ‘In a crisis, organizations tend to increase the “hardware” of compliance – the rules, the policies – and people do what they’re told because there’s a crisis,’ he explains. ‘But then when the crisis dies

down, they go back to doing what they were before. They don’t internalize the “why”, the reasons, the ethics. This is why you also need the “software”: the culture.’

Another step was to encourage employees to consider ethics from day one by building ethical dilemmas into the recruitment process. He adds: ‘The feedback I get is that candidates are surprised but they are also inspired.’

Use engagement data to bring about change

The wide-scale engagement with the collaboration project created a wealth of material which Moosmayer’s team used to develop further case studies and tools to encourage people to think through dilemmas and challenge biases. ‘We use this to create an open environment where people are free to speak. We have seen engagement increase hugely. Our people say: “We know what the company stands for, and we know what we stand for”,’ he says.

Enhanced engagement also generates data that enables Novartis to take concrete action quickly. For example, it swiftly put measures in place when it identified a problem with retaliation, where individuals were using their powers to negatively affect other employees who had spoken out. As a result, ethics is not an abstract idea but something that brings a positive solution to real life challenges.

‘The code of ethics is the constitution. The policies are the next layer of detail – you need to have them. But the third layer is how you translate these in a way that’s easy to use into the organization,’ Moosmayer adds.



Case study: Empowering employees to act ethically

The challenge

Santander needed to create a balance between enforcing rules and giving staff discretion and freedom to act. It has sharpened its focus on the social and corporate governance aspects of ESG, in order to fulfil the promises of its Responsible Banking programme.

‘We use the term “responsible banking” when thinking about our ethical framework,’ explains global chief compliance officer Marjolein van Hellemond.

The solutions

Foster skills needed to exercise judgement within frameworks

‘We work very closely with the front line... Tone at the top is important, but tone in the middle and execution in the trenches is what matters most,’ says van Hellemond.

Santander has implemented frameworks giving its people clear guidance on where their decision-making power ends and when things should be escalated. For example, employees know they can use discretion if necessary when dealing with a vulnerable customer.

But this has required staff awareness and skills training on how to navigate the balance between exercising judgement and adhering to boundaries. One practical step has been to provide dilemma sessions based on real cases. ‘A lot of discussion and thought goes into conveying the message that there are red lines but there are also grey lines,’ van Hellemond adds.

Build behaviour targets into performance reviews

As well as its publicly-tracked responsible banking metrics, Santander internally tracks several key performance indicators (KPIs) relating to compliance around customer conduct, to help it detect risks of mis-selling and other misconduct.

Staff performance goals are split 50:50 between hard targets and soft targets focused on behaviour and living the company’s values. ‘We have an anonymous internal reporting line, but we can’t rely only on these tools. Having an open culture where people feel free to speak up every day is more important,’ says van Hellemond.

Integrate commercial goals and responsible banking

‘Commercial goals and doing the right thing are two sides of the same thing,’ says van Hellemond. ‘We don’t just do it because we think it’s good for the world, we do it because we strongly believe that we can make a difference for our customers and still do it in a commercially viable way.’

The bank has particularly seen benefits when applying this philosophy to its customer experience programme. She explains: ‘Treating your customer fairly is not only the right thing to do – there is a very commercial drive behind it. Happy customers mean repeat customers.’

2. Build awareness of ethical issues on the horizon – and get ready to engage with them

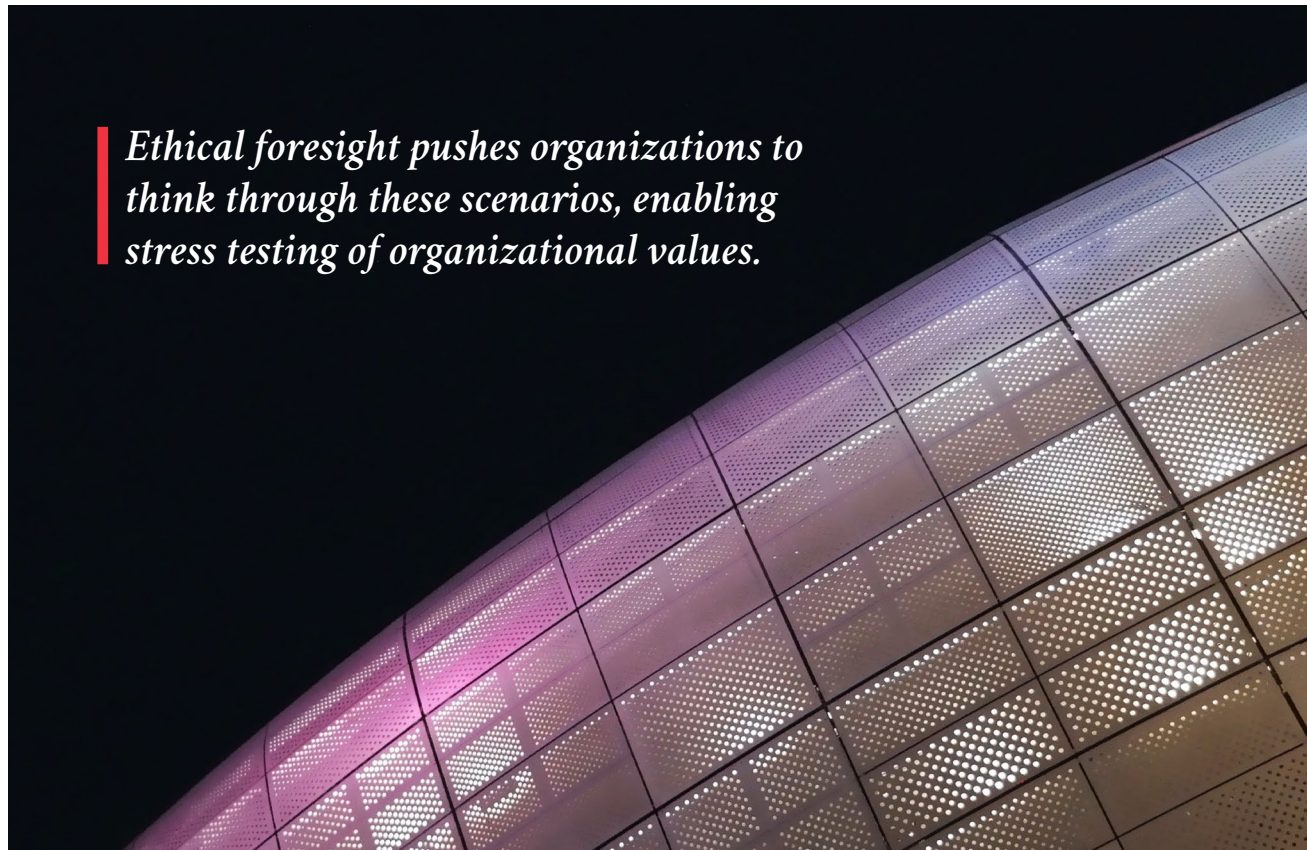
Why?

Engaging regularly in thinking about the future enables organizations both to anticipate predictable ethical shocks and to build capabilities for reacting quickly to the unexpected. This is critical given that the biggest ethical challenges that organizations face are usually unpredictable.

How?

- ◆ Employ futures methods that enable the organization to think beyond what is likely, to what is possible.
- ◆ Consider events that might result in fast, radical change, not just an evolution of the status quo.
- ◆ Think beyond the short-term to consider how things may change as far as 20 years ahead.
- ◆ Create hypothetical scenarios to test the resilience of your current capabilities in a wide range of possible future events.
- ◆ Engage in concrete ethical foresight exercises with Boards and leadership teams to reveal blind spots, build leadership alignment and develop readiness to act ethically in moments of volatility or crisis.

Ethical foresight pushes organizations to think through these scenarios, enabling stress testing of organizational values.



Using ethical foresight

‘We frequently convene national and international experts in AI [artificial intelligence] ethics to improve our thinking on key risks and challenges,’ says Taeko Yamamoto, CMO at Fujitsu. ‘It helps us predict future risks and to put in place the standards that will be necessary to address them — for example by engaging with international standard-setting committees and campaigns.’

We spoke to a range of leaders who have recently engaged in ethical foresight activities. They identified three key benefits of carrying out these exercises:

Improve anticipation of future ethical challenges

‘Anticipatory ethical evaluation’ is an important element of responsible innovation where an organization works to ascertain, in advance, the ethical challenges that a product, service, policy, or intervention will engender and then responds proactively. Any attempt to anticipate ethical challenges will rely, either implicitly or explicitly, on a vision of possible futures. Ethical foresight enables organizations to develop this vision systematically and intentionally.

Stress test organizational values or principles

Organizations often operate with an implicit view that their values will not substantially come into conflict with each other, or with important ethical concerns external to their organizational vision. As a result, organizations, especially those with an avowed ethical purpose, tend to underestimate or ignore possible futures where there are significant value conflicts or trade-offs — and are subsequently caught out when they occur. Ethical foresight pushes organizations to think through these scenarios, enabling stress testing of organizational values.

Build ethical resilience in strategic deliberation

When done well, ethical foresight doesn’t typically describe or predict a single future, but helps organizations develop the capacity to think ethically across a large possibility space. Ethical foresight will only rarely predict a crisis — such as Covid-19 or the invasion of Ukraine — but it can prepare organizations to think well when crisis strikes. Building appropriate habits of mind and action, including horizon scanning, means a change in circumstances can trigger innovative responses.

3. Define why, when and how to take a stand

Why?

With organizations facing greater demands to respond to societal problems than ever before, operating in a reactive mode on ethical issues is no longer sustainable. Not all expectations are reasonable and some will be conflicting, so leaders are increasingly seeing the need to define clearly where they will take a lead on ethical issues, in line with the company's purpose and stakeholder responsibilities. A clear ethical stance gives an organization a coherent position from which to meet, respond to, and in some cases push back on, the expectations placed upon it. For some leaders, taking an ethical stance is increasingly not just about responding but also a way of defining which acts of brand and industry leadership to invest in, stand behind and be known for.

How?

- ◆ Collate the ethical positions taken in the past and learn from them.
- ◆ Consider what questions the organization may face in the future and how it will address them, taking into account brand identity, reputation and expectations of different stakeholder groups.
- ◆ Reflect on how decisions are made when important ethical commitments conflict.
- ◆ Recognize different perspectives and tensions amongst leaders.
- ◆ Build structured mechanisms to deliberate efficiently but swiftly.
- ◆ Develop a coherent organizational position for engaging with ethical issues and communicate this to all stakeholder groups.



We need to shift to a more proactive approach — “active ethics” — in order to craft better companies.

Taro Fujie, President and CEO of Ajinomoto

Replacing reactivity with proactivity

‘In the business world “passive ethics” is the norm,’ says Taro Fujie, President and CEO of Ajinomoto. ‘However, society is always changing and we must actively evolve our ethical perspective as well, to respond adequately and promote a better society. We need to shift to a more proactive approach — “active ethics” — in order to craft better companies.’

In our conversations, leaders shared with us how they are moving away from ‘reactive mode’, with their approaches centred on the following key steps:

Start with existing commitments

Defining a stance begins with the commitments an organization has already made. Start from the ethical foundations of the organization: its principles, values, purpose. Consider how these have been applied to answer ethical questions in the past and how they are being applied now.

Anticipate future demands

Consider what questions or expectations might require a response in the future. What are the next live issues? How might the expectations of different stakeholder groups evolve? What patterns are emerging from ethical foresight exercises? Determine how to answer these questions and what stance to take. Build those answers into an overall ethical position.

Incorporate ethical decision-making

Be prepared to make difficult decisions when important ethical concerns are in tension with each other. Reflect on the ethical decision-making processes employed within the organization and how these are used when important commitments come into conflict. Include an articulation of this process, and the considerations drawn upon, when explaining what the organization stands for.

Communicate clearly and early

Finally, communicate. Avoid waiting until the organization is under pressure on a particular issue to explain what is important to it and why. It is easier to be clear and set expectations when there is little immediately at stake. Doing so also helps avoid accusations of disingenuity if there is a need to push back on certain demands.


4. Develop new people leadership skills and behaviours

Why?

Operating environments in 2023 are calling out for leaders with skills and capabilities that have not necessarily always been at the top of the list of development priorities: empathy, authenticity and emotional intelligence. People now expect leaders to be role models for value systems in the organization and to foster environments where it feels safe to raise an ethical concern, challenge a mainstream opinion, ask for help or admit a lapse in judgement.

How?

- ◆ Create mechanisms for leaders to listen to the perspectives of different groups and constituencies.
- ◆ Facilitate open discussions and debates on ethical issues and share examples of past failures or near-misses.
- ◆ Communicate openly about the range of perspectives on ethical issues and demonstrate that messages have been heard.
- ◆ Communicate honestly about any tensions or challenges — avoid dressing up difficult messages as this often appears dishonest.
- ◆ Build expectations of acquisition and demonstration of ethical skills into performance criteria and review.



*Have you made the right decisions?
Done the right thing? Been good to
people and looked after them?*

Suki Sandhu, Founder and CEO at INvolve

Case Study: People-centred leadership

Combine objectivity with a recognition of diversity

Asked to summarize what a people-focused approach to leadership looks like, Suki Sandhu says: 'There is no science to people. People react to change very differently. You have to constantly adjust your style and approach to make sure you do the best for people – and get the best out of them.'

A flexible approach to managing people does not, however, entail a lack of focus in leading an organization: decisions must be made in both a human and an objective way, making the right decisions at the right time for the business.

Striking this balance has become harder in the last few years with changes to working practices. 'I've had to have some really hard conversations virtually,' says Sandhu. 'This dehumanizes the experience, and isn't what we're used to, but you just have to be as human and empathetic as possible.'

Practice using judgement

As with all other areas of leadership, being people-centred requires a significant element of judgement. But judgement is a skill which can be developed.

'Have you made the right decisions? Done the right thing? Been good to people and looked after them?' Sandhu asks. Answering these questions requires practice and skill, as well as processes. And getting it right means balancing a range of concerns. You can treat people well yet still demand high performance, he says, adding: 'The two are not mutually exclusive. You can do it in an ethical, empathetic, human way.'

Be accountable

Making public commitments is a good way to show employees that promises are genuine and leaders are prepared to be held to account. Having a senior leader with responsibility for diversity and inclusion is an example, as is the publishing of specific and high-profile goals on representation.

For organizations starting to develop their position, Sandhu recommends looking for existing accountability mechanisms: 'Legislation obviously creates opportunities for companies to take diversity more seriously,' he says. For example, the EU's Women on Boards directive which is designed to ensure more transparent recruitment processes.

Suki Sandhu

Founder and CEO at INvolve

involve
the inclusion people


5. Actively manage your ethical culture

Why?

Ethical culture is what underpins the understanding of ethical awareness at every level of an organization on a day-to-day basis. It is the environment that either enables or hinders people from recognizing ethical issues as they arise and acting appropriately. 'Most of the time people don't do [something] because you tell them,' says Ade Ayeyemi, Group CEO of Ecobank International. 'They do it because they understand why.'

How?

- ◆ Make the concept of 'culture' concrete, identifying the levers that enable or hinder ethical thought and action.
- ◆ Equip leaders with a common way of talking about and modelling ethical commitments and practices in day-to-day interactions and decisions.
- ◆ Engage people to identify what good looks like in interpersonal interactions, in group settings and in the way that broader organizational systems and processes reinforce positive ethical behaviour.
- ◆ Build culture indicators (objective assessments of the cultural levers identified) into data-gathering and action-planning cycles.
- ◆ Follow leading companies by taking a weekly or monthly pulse check, identifying emerging points of vulnerability and checking in with leaders for proactive, preventative measures.
- ◆ Assign ownership for cultural performance at a senior level, integrating it as a core business priority and responsibility for all leaders, not just those in HR.



Most of the time people don't do [something] because you tell them. They do it because they understand why.

Ade Ayeyemi, Group CEO of Ecobank International

Building an ethical culture

Leaders shared with us how they are developing a concrete conception of how ethics works within 'culture.' While approaches vary, they can be summarized into three core considerations:

Encouraging responsibility

To develop the idea of 'responsibility' and to determine how far it is embedded in their organizational culture, leaders are measuring their ability to communicate clear and feasible expectations, setting out what is required of every member of the organization. They are also focusing on accountability: considering how successful they are at encouraging people to take responsibility for their decisions and actions; as well as building in an explicit expectation to consider ethics, values, and principles in decision-making. A final crucial element is to empower people at every level to challenge authority constructively, introduce new ideas and engage in deliberation and debate.

Building capability

Developing awareness of ethically-charged decision points is, for many organizations, the starting point in creating a culture where people have the knowledge, skills and support to do the right things. After all, it is hard to act on an ethical issue if it is not recognized as one. Once awareness is achieved, leaders can focus on building a foundation of core professional skills and the ability to deliberate on broader ethical aspects to make the right decisions.

Motivating positively

Many leaders we spoke to share a focus not just on ethical deliberation, but on creating a culture that motivates individuals to act. Typically, a good starting point is to consider whether the organization has a clear purpose that defines the value it creates for society. Motivation, however, also depends on the individuals the organization selects and develops, as well as the ability to identify those who are aligned with the organization's values and are driven to behave in virtuous and responsible ways. Finally, even a clear purpose and motivated individuals are unlikely to be sufficient if incentive schemes send the wrong messages about which behaviours are valued and expected. Ensuring incentives schemes are in line with the organization's values – and that they assess performance beyond traditional financial metrics – will go a long way towards creating a positive ethical culture.

Interviewees

We are grateful to the many business leaders who have generously given their time and perspectives to inform our research. While we cannot hope to do justice to the richness of every conversation within the scope of this study, their participation and guidance have been crucial.

Ade Ayeyemi
CEO, Ecobank Group

Adrian Gore
Founder & CEO,
Discovery Group
Limited

Antoni Ballabriga
Global Head of
Responsible
Business, BBVA

Atsushi Koizumi
Special Fellow,
Consumer Products
Business

Boris Schucht
CEO, Urencio

Chrissie Hanson
CEO, OMD USA

David J. Muenz
Director, Managing
Executive Officer,
Kao Group

Dorothy Hisgrove
Partner, People
and Inclusion,
KPMG Australia

Futoshi Itani
Senior Managing
Executive Officer,
Sumitomo Mitsui
Trust Bank / Holdings

Gonzalo Brujò
Global CEO,
Interbrand

Harriet Green
Executive Chair,
Mission Beyond

James Pogue
President and CEO,
JP Enterprises

Janti Soeripto
President and CEO,
Save the Children US

John P. Davidson
CEO, Options
Clearing Corporation

Klaus Moosmayer
Chief Ethics, Risk
and Compliance
Officer, Novartis

**Marjolein Van
Hellemond**
GCCO, Santander Group

Matthew Bland
Director & Group
General Counsel,
Jardine Matheson

Melanie Richards
Non Executive
Director

Michael Pearce
Managing Director,
Pearce Hillman
Limited

Ofra Strauss
Chair, Strauss Group

Peter Simpson
CEO, Anglian Water

Pierre Antoine Badoz
Global CCO, Orange

Rocio Perez
Global Head of
Compliance, BBVA

Ryoko Shimokawa
Group Chief
Sustainability Officer,
SVP and Executive
Officer, SOMPO

Sarah Bentley
CEO, Thames Water

Satoshi Yamahata
Executive General Manager of Human Resources
and General Administration Unit, Yamaha Music

Suki Sandhu
Founder and CEO,
Involve

Taeko Yamamoto
CMO, Fujitsu

Taro Fujie
CEO, Ajinomoto Group

Yasuhiro Ayoama
Director and Senior
Managing Executive
Officer, Mazda

Yosef Kebede
Bureau of Water
and Waste Water,
Baltimore City DPW

Contact us

Principia is the leading global network of academics, consultants and practitioners dedicated to building ethical organizations. Our team brings together some of the world's most renowned thinkers operating at the cutting edge of research with experienced experts in strategy, organizational design and ethical culture. Through combining academic insight with hands-on experience, we help our clients to transform their organizations and deliver long-lasting, sustainable change.

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About the research

The Ethics Study is based on two main strands of research conducted between August 2022 and January 2023.

First, a series of 32 one-on-one interviews with senior business leaders from different industries and geographies, as well as academics and experts on ethics in business.

Second, a quantitative survey (consisting of rating scales and multiple-choice questions) of 162 business leaders from around the world, in different industries. Survey participants were drawn from the networks of our partners at The International Chamber of Commerce, INvolve and Interbrand, as well as clients of Principia.

In collaboration with:



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