PRINCIPIA

The Ethics Study 2021

Business leaders on
translating aspiration into action

Contents

In collaboration with:

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ibe Institute of Business Ethics

Foreword

Over the past twelve months, the COVID-19 pandemic has forced leaders to make tough judgement calls in the most challenging of circumstances.

As attention begins to turn towards recovery, there is widespread demand for business to address complex and rapidly evolving societal, political, and ethical issues. Simply following the letter of the law is no longer seen as sufficient. Instead, companies are expected to demonstrate how their values and principles are integrated into the decisions they make.

At the centre of this debate is a renewed focus on ethics. At its most simple, organizational ethics means the ability to do the right thing: discerning the right course of action and making a commitment to act in line with what is known to be right, just, and proper.

Over the past decade, discussions of ethics, responsibility, and the right thing to do have been embraced by many of the world's largest companies. The financial crisis exposed the limitations of an approach centred on what companies *could* do and forced leaders to think instead about what they *should* do. And an increased focus on sustainability, encompassing environmental, social, and governance issues, has encouraged leaders to consider the impact of their companies beyond the bottom line.

Despite this growing acceptance of the need to do business better, translating intent into impact is not straightforward. Many leaders, while highly visible in committing to ambitious agendas for greater societal impact, still struggle to embed ethics into the long-term strategy and day-to-day operations of their organizations.

Against this backdrop, we hope that the Ethics Study will offer a unique insight into how leading companies are responding to new challenges. By exploring leading-edge approaches to embedding ethics into business, the study aims to help leaders better understand how they can translate intention into action.

We are grateful to Clifford Chance, the International Chamber of Commerce, GlobeScan, INvolve, and the Institute of Business Ethics for their partnership in this important endeavour, as well as to the business leaders who generously gave us their time and perspectives to inform the Study.

David Rodin
Founder & CEO, Principia

About the research

The Ethics Study draws on two principal streams of research conducted between June 2020 and February 2021.

First, a series of one-to-one interviews with more than 80 business leaders across industries and geographies, together with conversations with academics, researchers, non-profit leaders, and others interested in the evolution of ethics in business. Some conversations were conducted as on-the-record, video interviews — highlights can be seen at principia-advisory.com/ethics-study — and others as confidential discussions with leaders on the most significant challenges they face in integrating ethics across their organization.

Second, a quantitative survey of 750 business leaders across 90 countries, with representation across regions and industry sectors. Survey respondents were drawn from the executive networks of our partners, the International Chamber of Commerce, GlobeScan, and the Institute of Business Ethics, as well as clients of Principia and Clifford Chance.

Throughout our research, we have endeavoured to include a broad and diverse range of voices. We are grateful to our partners for opening up their networks to ensure that our interview series and survey benefitted from contributions across industries and regions, and for helping to make connections to leaders from underrepresented groups — especially women and leaders from black and ethnic minority backgrounds, who remain significantly underrepresented in senior leadership roles — in order to assemble a diverse range of perspectives.

We owe sincere thanks to all those who have participated in the research; any insights are theirs, while any errors are our own.

Introduction

Over the course of this first Ethics Study, conducted by Principia in partnership with Clifford Chance, the International Chamber of Commerce, GlobeScan, INvolve, and the Institute of Business Ethics, we have had the opportunity to speak one-to-one with some of the world's most prominent business leaders to explore their perspectives on the role of ethics in business, and on what it will take to usher in a new era of responsible, ethical capitalism.

As with every other interaction in our professional and personal lives throughout 2020, these conversations took place online. And whether driven by interacting with leaders in their home environment, or by a deeper shared sense of grief for the past and uncertainty on what the future might bring, the discussions were characterised by a thoughtful, reflective tone: this was not a group of leaders reading from briefs prepared by corporate communications teams.

Instead, our interviewees offered broader reflections on the purpose of business and the future of the corporation; the contribution that business can make to pressing societal challenges; the difficult decisions and dilemmas that leaders have faced through the pandemic, and their sense of personal responsibility to do the right thing; and the role of ethics, values, and principles in giving leaders a roadmap to navigate the crisis.

Why launch a new research study focused on ethics in business? In a landscape of overlapping studies of business leaders' attitudes towards environmental, social, and governance issues, sustainability, and responsible business, what additional value is to be gained through a focus on ethics?

In a volatile, uncertain environment, ethics gives us a lens to ask: What is the right thing to do? How should we balance our responsibilities to those who rely on us? How should we navigate complex dilemmas where the answers are not determined by law?

Ethics also gives us a route to an honest accounting of benefits and harms: What is the purpose of our organization? What benefits do we create for society? What risks do we impose — and how can we minimise societal harms?

As they reflect on their experience of the pandemic, coming at the end of a decade in which business has made limited progress in scaling up its impact on the UN's Sustainable Development Goals, leaders see a pathway to translate frustration into action. Faced with increasingly complex decisions in determining the right thing to do, leaders are looking to ethics as an approach that can drive consistency and transparency in decision making.

And if, in the words of Matthew Taylor of the Royal Society of Arts, "the faultlines of crisis can be the foundations for change," this year's Ethics Study offers both solace and hope. Business leaders are clear on the need to integrate ethics into their organizations, seeing both a moral imperative and an opportunity to reorient their business to better tackle the challenges of tomorrow.

But they are equally realistic about the scale of the challenge in ensuring that purpose, values, and principles are genuinely lived across their organizations. We hope that this Study offers a contribution to leaders seeking to make their own difference by embedding a revitalised spirit of purpose, values, ethics, and responsibility into every interaction and every decision, every day.

Marta Ciszewska & Rob Hayward
Study Leads

Executive summary

Business leaders are increasingly facing difficult decisions on the right thing to do

Business leaders are looking to a new era of ethical and responsible business, in which the right thing to do must be routinely informed not only by the law, but by their companies' own values and principles.

In our survey of 750 business leaders around the world, 97% told us they feel a personal responsibility to ensure that their company does the right thing, while 96% believe that doing the right thing means following their company's own values and principles as well as applicable laws and regulations.

An era of radical transparency is raising the stakes for organizations in being able to explain their decisions, their motivations, and the processes by which decisions are made. As leaders navigate rising stakeholder expectations, and pursue bolder ambitions to reorient their companies, they feel that they are increasingly encountering difficult decisions on the right thing to do.

Crucially, many leaders believe that simply following the letter of the law is no longer seen as acceptable; companies are expected to articulate their own set of values and to demonstrate how these values are lived in every decision they make.

But leaders are increasingly conscious of the scale of the challenge, and of growing societal impatience — and even latent anger — for business to step up and translate positive intentions into action.

97%

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96%

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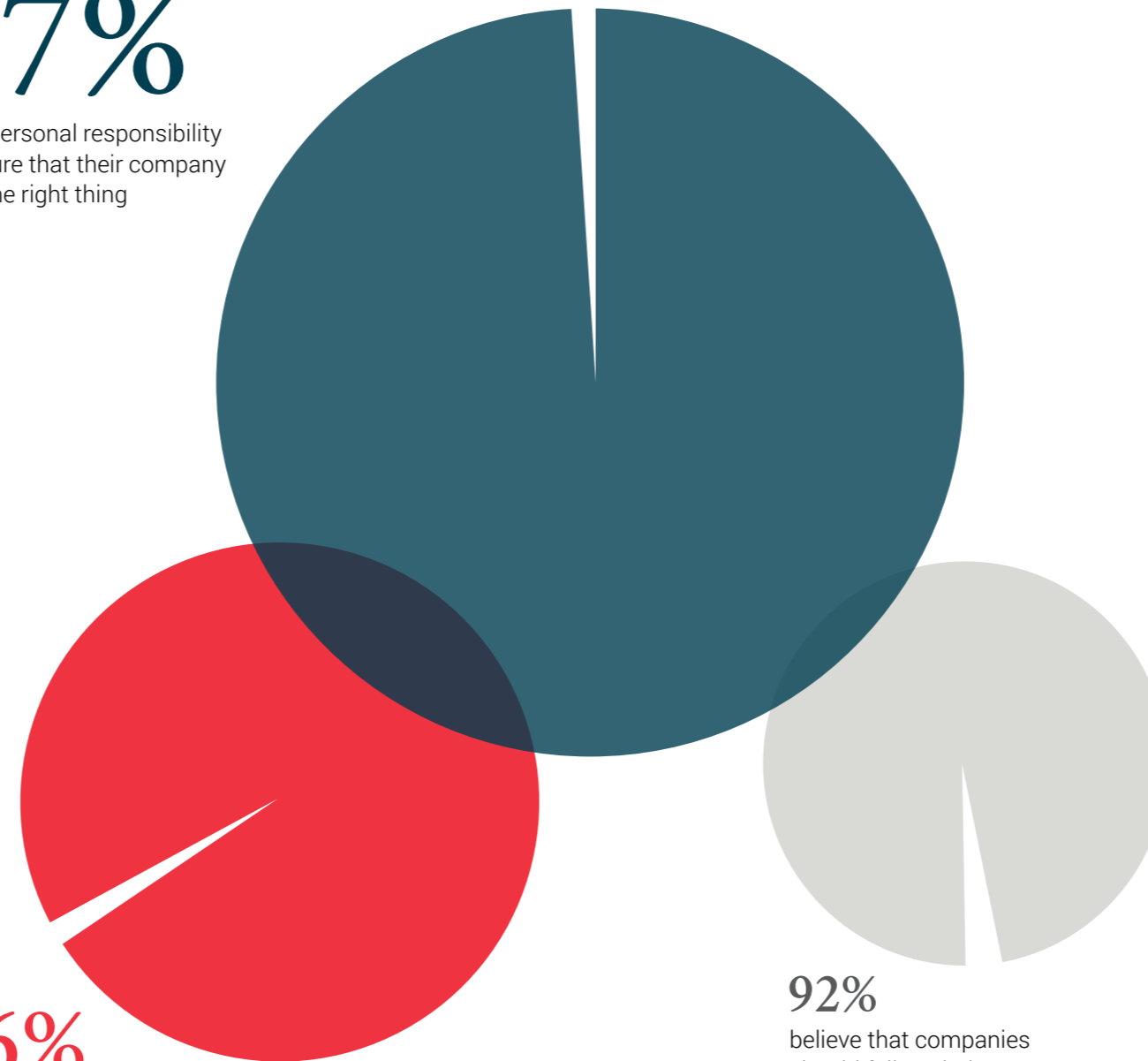
92%

believe that companies should follow their own values and principles even when it means sacrificing financial returns

Business leaders are turning to ethics as an alternative lens for decision making

In our conversations with business leaders, many expressed frustration with the pace of change. Despite conviction and commitment from the leaders of some of the world's largest companies, leaders believe that progress has been slow in scaling up the private sector's contribution to development priorities. With the business case for sustainability increasingly focused on the materiality of environmental, social, and governance (ESG) issues to business success, leaders believe that the pace of change in the structure of global markets has often acted as a brake on more ambitious action.

In the absence of market signals that can consistently guide action, leaders are turning to ethics and values as an alternative lens for decision making. Leading companies are already moving in this direction: 95% of the leaders we surveyed believe that ethics provides actionable guidance on the right thing to do.

Crucially, leaders are moving away from the notion that any action must be justified by an immediate win-win for society and for the bottom line: in our survey, 92% of leaders believe that companies should follow their own values and principles even when it means sacrificing financial returns.

As leaders look to the scale of the challenge in rebuilding the global economy after the pandemic, the stage is set for morality to take back its place alongside materiality.

Leaders see the COVID-19 crisis creating opportunities for transformation

Leaders see the COVID-19 pandemic intensifying the focus on responsible business. From the way in which companies have treated their workforce to how they have made use of government-funded initiatives such as furlough and employment support schemes, leaders believe that their decisions have been subjected to unprecedented scrutiny.

But while intense scrutiny may create discomfort, many leaders see an opportunity for transformation. As attention turns to rebuilding the economy, business leaders are beginning to think differently about how they lead their organizations and how to shape a more ethical, responsible, and inclusive global economy.

Many feel a sense of personal responsibility to play their part, seeing promise in a new generation of leaders more comfortable discussing ethics, responsibility, and morality. As discussions of ethical business become mainstream, leaders are embracing these conversations as a chance to accelerate a new, more empowering agenda.

Leaders see integrating ethics as an imperative for action – and an opportunity for competitive advantage

Leaders know that forging a new era of purpose-driven, ethical and responsible business will require urgent action. Fully 96% of leaders surveyed believe that integrating ethics — building capabilities that enable them to pursue a purpose beyond profit and to embed values and principles into decision making — will be essential to their company's ability to do the right thing.

It is also clear that leaders see these issues as important not simply for their own sake, but as an increasingly important factor in determining industry winners and losers: 93% of business leaders surveyed believe that integrating ethics will be essential to the future success of their business, and 84% believe that this integration will provide a route to competitive advantage in their industry.

But leaders also acknowledge that they are at the beginning of their journey. While many companies have developed statements of purpose, mission, values, and principles, every organization faces significant challenges in integrating these aspirations into decision making and action, as well as embedding ethics into the culture of the organization.

93%

believe that integrating ethics will be essential to the future success of their business

84%

believe that this integration will provide a route to competitive advantage in their industry

79%

are already planning to invest further in integrating ethics into their company's operations

Building new capabilities for action

Leaders realise that taking advantage of opportunities for transformation will demand new capabilities, mindsets, and cultures that enable their people to translate intention into action.

Leaders see a range of capabilities that will define what it means to be an ethical business in the coming decades:

Embedding purpose, ethics, and values into strategy and decision making

1. Pursue a purpose beyond profit: 90% of leaders surveyed believe it is essential for the ethical organization to pursue a purpose beyond profit. As the weight of evidence grows for the role of purpose in shaping the way a company and its people behave, leaders are placing greater emphasis on crafting a common narrative that explains why their company exists and how it creates value for society. The integration of purpose into the company's operations is seen as one of the most critical challenges to address as leaders seek to integrate ethics across their organizations.

2. Anchor decision making in values and principles: A critically important capability in translating purpose into action, highlighted by 96% of leaders as an essential element of the ethical organization, is the ability to anchor decision making in the values and princi-ples of the company. In our conversations, leaders faced with difficult decisions about the right thing to do during the pandemic often spoke of a "moment of clarity" in which their purpose and values stepped forward to guide action in the most difficult of circumstances.

3. Equip all employees to consider ethics in decision making: 96% of respondents also highlight the importance of the ability to train and empower employees to consider ethics in decision making. Increasingly, leaders see their people asked to address decisions that require moral and ethical judgement, where the right thing to do cannot be determined by the rules alone. Building this shift into approaches to training, learning, and development is seen as a critical step in enabling employees to consistently do the right thing.

4. Track non-financial metrics of success and societal impact: Leaders are also committed to developing new measures of success: 85% believe that tracking non-financial metrics of success and societal impact is essential to becoming an eth-ical organization. In keeping with Drucker's maxim that what gets measured gets managed, leaders believe that in order to ensure that purpose informs day-to-day decisions, new measures of societal impact must stand alongside traditional metrics of financial success.

Shaping an inclusive, ethical culture

5. Ensure an inclusive culture that creates opportunity for all: With more attention than ever on issues of diversity, equity, and inclusion, 94% of business leaders see an imperative to ensure that their companies shape an inclusive culture, shifting the discussion from representation and towards a clearer understanding of equity and inclusion.

6. Shape, monitor, and track a culture that enables people to do the right thing: 97% highlight the ability to shape, monitor, and track a culture that enables people to do the right thing. Leaders believe that this will require a new approach to giving their people clear responsibilities and helping them develop the right skills and capabilities, as well as structuring appropriate incentives and moving beyond a rules-based environment to one in which every individual can consistently do the right thing.

Maximising positive impact and preventing societal harms

7. Prevent products and services being used to cause harm: 94% of leaders believe that preventing their products and services being used to cause harm is critical to being an ethical organization. Leaders know that doing business responsibly is not simply about having their own house in order, but about the company they keep. For leaders under intense pressure and scrutiny, articulating guiding principles for ethical use will help to make, explain, and justify difficult decisions as they take steps to ensure that their scope of responsibility does not stop at the factory gate.

8. Build assessment of societal impact into innovation and design decisions: Leaders also see a need to integrate ethics into innovation. Some 91% of leaders surveyed believe that it will be essential to incorporate assessment of societal impact into innovation and design decisions. Leading companies are developing new approaches to responsible innovation, embedding the capacity to address questions of ethics and responsibility throughout the innovation lifecycle and anchoring every decision in the organization's purpose and values.
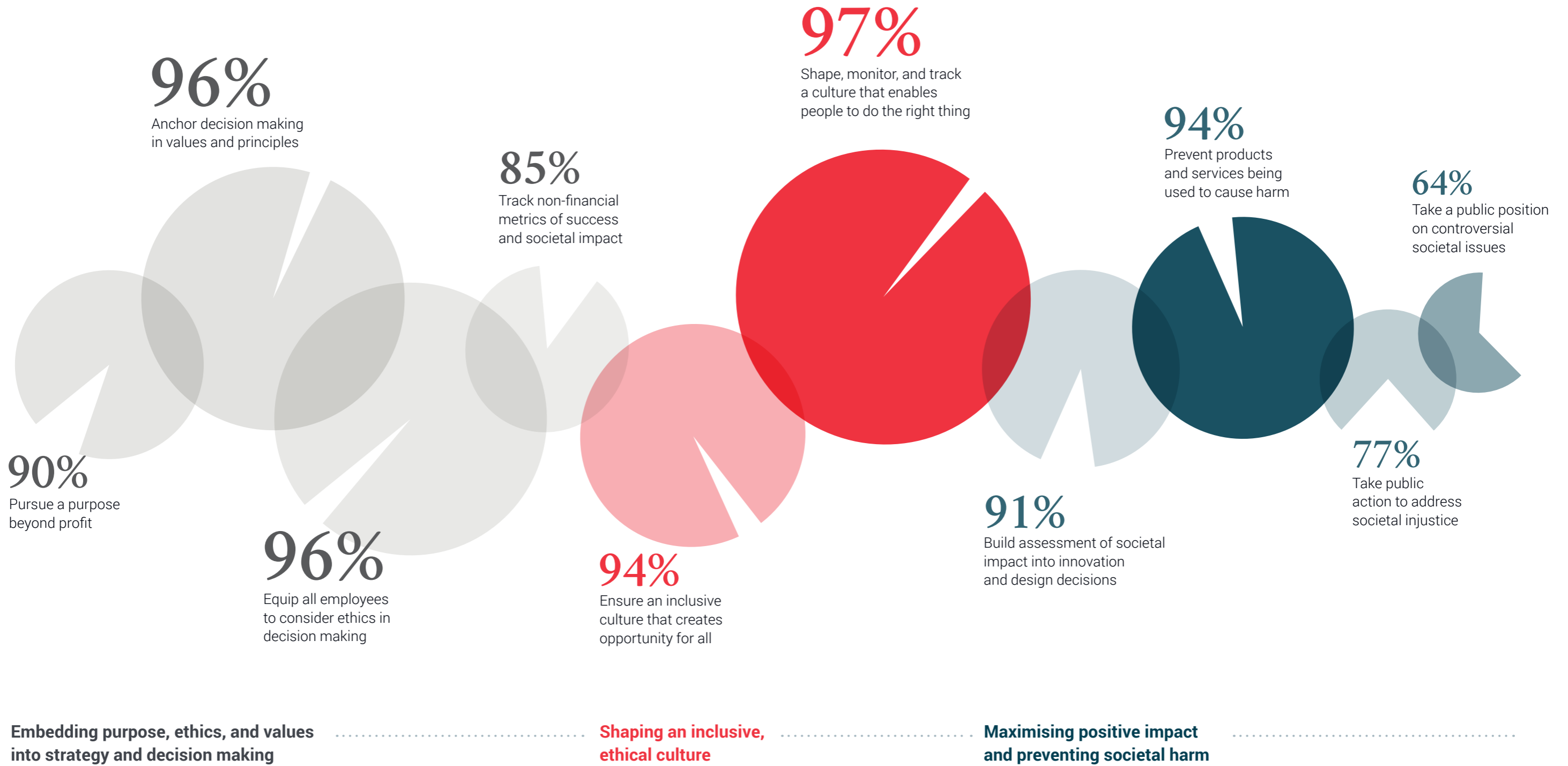
9. Take public action to address societal injustice: Business leaders feel a growing respon-sibility to exert their influence on broader societal challenges, from climate change and deforestation to racial and gender inequity. Increasingly, leaders believe that deferring to gov-ernments is no longer acceptable. Companies are increasingly expected, by employees and consumers alike, to demonstrate how their actions contribute to a fairer and more just society: more than three-quarters of leaders surveyed (77%) believe that taking action to address societal injustice is an essential characteristic of the ethical organization.

10. Take a public position on controversial societal issues: Nearly two-thirds of leaders surveyed (64%) believe that taking a public position on controversial societal issues is a hallmark of the ethical organization. Just as businesses are expected to demonstrate their value to society, and to show how they are addressing injustice and inequality, so leaders increasingly see a role for themselves on the public stage. Where companies historically have preferred to remain above the fray, many leaders are now more comfortable asserting their company's own values and principles through proactive contribution to public debate.

Key capabilities to integrate ethics

*% of survey respondents who believe that integrating this capability is
"important" or "very important" to being an ethical organization*

96%
Anchor decision making
in values and principles

85%
Track non-financial
metrics of success
and societal impact

97%
Shape, monitor, and track
a culture that enables
people to do the right thing

94%
Prevent products
and services being
used to cause harm

64%
Take a public position
on controversial
societal issues

90%
Pursue a purpose
beyond profit

96%
Equip all employees
to consider ethics in
decision making

94%
Ensure an inclusive
culture that creates
opportunity for all

91%
Build assessment of societal
impact into innovation
and design decisions

77%
Take public
action to address
societal injustice

**Embedding purpose, ethics, and values
into strategy and decision making**

**Shaping an inclusive,
ethical culture**

**Maximising positive impact
and preventing societal harm**

Shifting systems, culture, and mindsets

Leaders believe that the new era of ethical and responsible business will be driven not only by investment in systems, processes, and capabilities, but also by a culture shift across their organizations. This shift will encompass better understanding and supervision of employee conduct, as well as a focus on training and empowering employees to consistently do the right thing.

In this year's Ethics Study, we set out to understand leaders' assessment of their companies' performance on the critical cultural drivers that determine the ability of an organization and its people to act ethically and responsibly.

Responsibility: Are people responsible and accountable for doing the right thing?

Leaders must start by communicating *clear and feasible expectations,* setting out what is expected of every member of the organization. Leaders also need to focus on *accountability,* holding people responsible for their decisions and actions, with an explicit expectation to consider ethics, values, and principles in decision making. Underpinning this effort will be a renewed focus on building *effective "speak-up cultures"* in which people at every level are empowered to challenge authority, introduce new ideas, and engage in deliberation and debate on the right thing to do.

Capability: Do people have the right knowledge, skills, and support to do the right thing?

Building the capabilities for people to navigate and manage ethical issues begins with developing their awareness of *ethically charged decision points.* The ability to make effective and responsible decisions depends on identifying ethically charged decisions and on building a foundation of *core professional skills* and the *ability to deliberate on broader ethical aspects* in order to determine the right thing to do.

Motivation: Do we encourage our people to do the right thing?

A foundational factor in motivating their people to do the right thing is a *clear organizational purpose* that defines the value that the organization creates for society. Successful organizations will increasingly *harness the intrinsic motivation* of their people by selecting and developing people who are aligned with the values of the organization and are driven to behave in virtuous and responsible ways. Leaders also need to *align incentive schemes* to send clear signals of which behaviours are valued and expected, and to assess performance beyond traditional financial measures of success.

Driving transformative change

Leaders believe that the journey to reinventing their organizations will be a long road and that lasting change will require collaboration across industries and sectors. They acknowledge significant barriers to progress in the external environment, with mixed signals coming from governments, regulators, investors, and other stakeholders.

But as they begin to chart a roadmap for the coming years, they already see concrete steps they can take to accelerate progress across their industries to build a more ethical, responsible, and inclusive global economy.

1. Measuring what matters
- Defining new measures of success focused on purpose and the value created for society, with an honest accounting of societal risks and harms
- Establishing more stringent due diligence of ethical capabilities and outcomes
- Enhancing systems to identify, manage, and mitigate ethical risk

2. Collaborating within and across sectors
- Establishing a common terminology and measures of success and failure
- Sharing best and emerging practice and contributing to cross-sector frameworks and benchmarking initiatives
- Advocating for peers to collaborate and take bold action on global priorities

3. Engaging stakeholder groups (inc. underrepresented and marginalised communities)
- Engaging stakeholder groups in discussion and debate on grey-area ethical questions
- Establishing systems and processes to routinely factor societal expectations into decision making
- Embedding a consideration of societal impact throughout design and innovation processes and into decisions on ethical use

4. Engaging investors on the value of ethical business
- Engaging investors with data and examples to showcase the value of ethical business in shaping new markets and managing systemic risks
- Equipping companies and investors with the tools to factor a company's ethical capabilities into their expectations for future value
- Addressing fundamental challenges stemming from a focus on short-term results

5. Developing a new generation of leaders
- Driving initiatives to support emerging leaders from all backgrounds
- Redefining the template for global business leaders
- Engaging with universities and business schools to broaden curriculums

> *Most of us have articulated our purpose, but that's not the question. The question is whether it is alive and well, and affecting decisions.*
>
> Alan Jope, CEO, Unilever

1. A new era of ethical business

Business leaders feel a personal responsibility to ensure that their company does the right thing – but are increasingly facing difficult decisions on the right thing to do.

Business leaders are looking to a new era of ethical and responsible business, in which the right thing to do must be routinely informed not only by the law, but also by companies' own values and principles.

In our survey of 750 business leaders around the world, 97% told us that they feel a personal responsibility to ensure that their company does the right thing. Crucially, leaders also believe that simply adhering to the letter of the law is no longer acceptable: 96% believe that doing the right thing means following their company's own values and principles, as well as applicable laws and regulations.

As leaders navigate rising stakeholder expectations, and pursue bolder ambitions to reorient their companies, they feel that they are increasingly encountering difficult decisions on the right thing to do. Managing stakeholder expectations and relationships is an ever-growing part of leaders' roles, as customers, the media, and the public at large become more active in scrutinising the decisions and actions of business.

An era of radical transparency is raising the stakes for organizations in being able to explain their decisions, their motivations, and the processes by which decisions are made. Companies are expected to articulate a clear societal purpose, and to demonstrate how their values are lived in every decision they make. In the words of Alan Jope, CEO of Unilever, "Most of us have articulated our purpose, but that's not the question. The question is whether it is alive and well, and affecting decisions."

Leaders see the COVID-19 crisis creating opportunities for transformation

One of the recurring themes in our conversations has been the extent to which rising societal challenges, and the COVID-19 pandemic in particular, have intensified the focus on responsible business. "During the Syrian war and the pandemic, the watch stopped," says Bassam Maamari, Chairman of Syria's Banque Bemo Saudi Fransi. "We knew that profitability had to be secondary, and we focused on helping people in need in our society, in the communities around us, and among our staff."

From the way in which companies have treated their workforce, to how they have made use of government-funded initiatives such as furlough and employment support schemes, leaders also believe that their decisions have been subjected to unprecedented scrutiny. They face scrutiny from within the firm, as employees exert ever-greater pressure on their companies to live up to the values they espouse, and from outside, as consumers and the public at large hold brands to account for their actions. The 2021 Edelman Trust Barometer revealed that 86% of people surveyed worldwide expect CEOs to speak out on controversial societal issues, with almost two-thirds (66%) demanding that business leaders take the lead on change rather than waiting for government to impose it.[1]

But while intense scrutiny may create discomfort for business leaders, many see an opportunity for transformation. As Alison Tarditi, Chief Investment Officer at Australia's Commonwealth Superannuation Corporation, observes, "Only in a crisis can you check the ethical heartbeat of a company."

And as one European business leader observes, "In a context where our institutions are increasingly mistrusted and under pressure to produce better and more socially just outcomes, big business has a target on its back. And that pressure forces you to reflect on your underlying purpose and the social good that you create. It's opened up the whole social justice agenda, and it's a precious moment in history: this is different, this has momentum, and things have to change."

Leaders see ethical business as an opportunity for competitive advantage

It is also clear that leaders see these issues as important not simply for their own sake but also as an increasingly important factor in determining industry winners and losers. As Ade Ayeyemi, CEO of pan-African banking group Ecobank, reflects: "Ethics is a key infrastructure that we need to have as an organization to be successful in the long term."

In our survey, 93% of business leaders believe that integrating ethics will be essential to the future success of their business, and 84% believe that this integration will provide a route to competitive advantage in their industry.

Alan Jope of Unilever says of the company's integration of purpose, values, and ethics through its brand portfolio and strategy for growth, "We embarked on this journey on principle, but a very strong business case emerged: brands that compete on a platform that is purposeful — whether it's a sustainable, environmental, or a social proposition — are growing at roughly twice the rate of the rest of the portfolio."

And in the words of Daniel Klier, Global Head of Sustainable Finance at HSBC, "From the perspective of the financial industry, focusing on topics like ESG and responsible business actually makes a difference. Our frontline teams have embraced this and we are ahead of our competitors, and therefore get a higher market share and better access to the C-suite. And in the end, we help clients shape their business model for the next 10 years."

> *We care about the greater good because, in the end, it's the legacy that we want to leave behind in this world.*
>
> Ruchi Dana, Executive Board Member, Dana Group

Leaders are reflecting on their own role in shaping a more ethical and responsible economy

As attention turns to rebuilding the economy in the wake of the pandemic, business leaders see a window of opportunity to think differently about the way they lead their organizations and to play their part in building a more ethical, responsible, and inclusive global economy. Ruchi Dana, Executive Board Member of Dana Group, notes, "We care about the greater good because, in the end, it's the legacy that we want to leave behind in this world."

Many of the leaders we interviewed discussed their sense of personal responsibility to harness the recovery to shape a fairer, more inclusive, and more just society. "COVID has done one positive thing: it has forced leaders to step up and do something about their impact on society," says Katherine Garrett-Cox, CEO of GIB Asset Management.

Many also spoke of a shift towards a new generation of leaders. Peter Lacy, Chief Responsibility Officer and Global Sustainability Services Lead at Accenture, observes, "We see a new generation of leaders who reflect more seriously on the moral and ethical dimensions of leadership and are very conscious of the legacy they will leave through the businesses they will be remembered for running."

Importantly, many leaders we spoke with see this new generation as more comfortable discussing ethics, responsibility, and morality. As discussions of ethical business become mainstream, leaders are embracing these conversations as an opportunity to shape a new, more empowering agenda for their companies.

> *Only in a crisis can you check the ethical heartbeat of a company.*
>
> Alison Tarditi, Chief Investment Officer,
> Commonwealth Superannuation Corporation

Leaders see slow progress in translating intentions into action

Our interviews demonstrate that business leaders are unhappy with the pace of change and often express frustration at a collective failure to find a path to doing what they know to be right. As one senior leader observes, "When you look at large corporates around the world, the rhetoric on ethics, values, and social justice is much better than it was five years ago. But I always try to remember that as humans we judge ourselves by our intent, and we judge others by their actions. So the question we need to be asking ourselves is how we can be authentic as leaders and take real action to close the gap between the rhetoric and the reality."

> *We've had a generation of leaders who didn't take their responsibility seriously, who didn't believe it was their responsibility, and were waiting for governments to solve these problems.*
>
> Senior leader, European multinational

Leaders are also conscious of growing impatience — and even latent anger — from society more broadly for business to step up and translate intentions into action. "We live in an age that has potential for cynicism, which is often an understandable, yet regrettable and dangerous, result of perceived hypocrisy," says Henrik Syse, Research Professor at the Peace Research Institute Oslo. "We hear people saying that they care about the environment, or about the welfare of our workers, but if we don't see that being articulated through action, we easily get the sense that they don't really care. But if we see the corporate world actually stepping up to the plate, and taking these challenges seriously, that can make a huge difference to the way people perceive the society they live in, and build that sense of involvement, that they are taken seriously in their society."

But translating good intentions into action is an uphill task. For more than a decade, business leaders have expressed firm commitments to integrating environmental, social, and governance issues into core business, ensuring that the private sector can play its role in achieving the UN's Sustainable Development Goals by 2030. Despite conviction and commitment amongst leaders of some of the world's largest companies, however, progress has been slow.

The UN Global Compact–Accenture Strategy CEO Study on Sustainability 2019 showed that while 48% of companies report actively integrating sustainability into their organizations, just 21% believe that business is playing a critical role in contributing to the Sustainable Development Goals.[2]

One of the most evident challenges for business leaders throughout the past decade has been the struggle to interpret unclear — and often contradictory — market signals. The expected premium for sustainable brands has been slow to materialise, and despite strong growth in ESG-focused funds, mainstream investors have shown marked reluctance to meaningfully shift their strategies and selection criteria.

As a result, the greater alignment of sustainability with core business — in addition to being one of the major engines of success in mainstreaming ESG considerations — has proved to be one of the critical weaknesses in the development of the corporate sustainability movement. With the business case for sustainability increasingly focused on the materiality of ESG issues to business success, the pace of change in the structures and systems of how the market assesses and rewards performance has often acted as a brake on more ambitious action and has sometimes provided an excuse for business leaders reluctant to step up to their role in leading the way towards a more sustainable economy.

As one senior leader observes, "We've had a generation of leaders who didn't take their responsibility seriously, who didn't believe it was their responsibility, and were waiting for governments to solve these problems."

Business leaders are turning to ethics as an alternative lens for decision making

In the absence of market signals that can consistently guide action, business leaders are turning to ethics as an alternative lens for decision making. Of the 750 business leaders surveyed for this year's Ethics Study, 96% believe that integrating ethics — building capabilities that enable them to pursue a purpose beyond profit and embed values and principles into decision making — will be essential to their company's ability to do the right thing.

"There are so many dilemmas out there, you need a moral compass, and you need to know what is right and wrong," observes Georg Kell, Chairman of Arabesque and Founding Director of the UN Global Compact. "You need to cultivate the moral dimension of leadership, for the sake of credulity and for the sanity of your own mind. It's a way to ask yourself, every day, with humanity and humility: am I making the right decisions?"

> *When you have an approach that's driven by values, you can be definitive and clear, and give everyone in the company that sense of certainty and belonging.*
>
> Ann Cairns, Vice Chair, Mastercard

Anchoring action in ethics, and the company's own definition of the right thing to do, promises to open up a new frontier in which leading companies are expected to define their purpose and the ways in which their values and principles guide decisions. "Our governance philosophy is not simply a matter of compliance and sticking to the letter of the law," says Thakane Setsabi-Mushonga, Customer Strategy Executive at pan-African financial services group Old Mutual Limited. "It's a wide set of principles, frameworks, and risk management practices which ensure that we're always aligned around our strategic values, and that we hold our directors and

employees accountable for their actions. We are guided by our Maadili Charter: 'maadili' is the Swahili word pertaining to ethics and morals, which defines ethical behaviour as following the spirit and intention of the law so that we're able to treat all our stakeholders fairly and respectfully."

Business leaders are already moving in this direction: 95% of the leaders we surveyed believe that ethics provides actionable guidance on the right thing to do. Crucially, many companies are moving away from the notion that any action must be justified by an immediate win-win for society and for the bottom line: in our survey, 92% of leaders believe that companies should follow their own values and principles even when it means sacrificing financial returns.

"Ethics is the grey area where formal rules and guidelines are no longer, or not yet, applicable — and what's called for is your judgement," says Wiebe Draijer, Chairman of Rabobank. "That's where it's most relevant, in having a setting where you can freely debate different points of view." And as Elizabeth Proust, Director of Lendlease, puts it, "Ethics gives us a framework of guidelines and principles to answer the 'should we' question: we know we *can* do x or y, but is it the right thing to do?"

Ann Cairns, Executive Vice Chair of Mastercard, reflected on the role that the company's central value of *decency* played in enabling its response to the pandemic: "The first message we communicated to our people was that no one would lose their job due to COVID. That was a very simple message, but it was a powerful one — and when you have an approach that's driven by values, you can be definitive and clear, and give everyone in the company that sense of certainty and belonging."

As leaders look to the scale of the challenge in rebuilding the global economy, the stage is set for morality to take back its place alongside materiality. With leaders setting out on the journey to embed new ways of thinking across their organizations, a new era of ethical business is on the horizon.

2. Integrating ethics

Leaders see an urgent need to build new capabilities that enable their companies to consistently do the right thing

A common theme in our discussions was the struggle that many leaders face in translating good intentions into concrete actions that deliver tangible impact on the way their firms operate. While many companies have developed statements of purpose, mission, values, and principles, leaders face significant challenges in integrating these aspirations into decision making and action, as well as embedding ethics into the culture of the organization.

Leaders realise that taking advantage of opportunities for systemic transformation will demand a new approach that moves beyond the articulation of principles and values and the celebration of pilot initiatives. Instead, they see an urgent need to build new capabilities, mindsets, and cultures that will enable their people to bring these values to life, translating positive intent into action every day.

"One of the things that leaders have to overcome is pilot paralysis and the desire to simply illustrate that we're doing the right things," says Accenture's Peter Lacy. "The question is whether these issues are systematically integrated into systems and processes, and professionalised and industrialised across the business so that ethical and responsible practice becomes the default."

Leaders acknowledge that they are at the beginning of their journey towards integrating ethics

While our research shows strong affirmation for a new, ethics-based approach to business, it is clear that the majority of companies are just beginning their journey towards integrating ethics meaningfully throughout the organization.

Our conversations with leaders at the forefront of the movement towards more ethical business reveal a recurring challenge in moving from strategy to execution: translating statements of values and purpose into day-to-day operations.

Leaders see a range of capabilities that will define what it means to be an ethical business in the coming decades, from anchoring business decisions in purpose, values, and principles to creating an inclusive, ethical culture that can maximise impact for society.

One of the things that leaders have to overcome is "pilot paralysis"... The question is whether these issues are systematically integrated into systems and processes, and professionalised across the business so that ethical and responsible practice becomes the default.

Peter Lacy, Chief Responsibility Officer and Global Sustainability Services Lead, Accenture

Embedding purpose, ethics, and values into strategy and decision making

1. Pursue a purpose beyond profit

A striking 90% of leaders surveyed believe that it is essential for the ethical organization to pursue a purpose that goes beyond the profit motive. The notion of purpose-driven companies has gained traction in recent years, with the *Financial Times* series on "The Company of the Future: Profit and Purpose," as well as initiatives such as the British Academy's Future of the Corporation programme, marking a mainstreaming of a discussion that just a decade ago was still on the fringes of core business.

Evidence also shows that public demand for business to articulate its societal purpose is growing: a recent GlobeScan survey revealed that nearly 85% of respondents believe that societal expectations for purposeful corporate leadership will be higher a year from now.[3]

> *Purpose is the start of everything, and the more you live it, the more it drives you.*
>
> Wiebe Draijer, CEO, Rabobank

"The most important thing is to have a fundamental understanding of the mission and values of the enterprise," says John P. Davidson, CEO of Options Clearing Corporation. "What is the social value that a particular company serves for the economy and for society itself: is it just to make the highest possible return for shareholders, or does it reflect the interests of all a company's stakeholders within a longer-term view of what's happening to the environment and to society? All of these considerations are fundamental to the ethical proposition of how a business conducts itself."

As the weight of evidence grows for the role of purpose shaping the way that a company and its people behave, leaders are placing more emphasis than ever in crafting a common narrative that explains why their company exists and how it

creates value for society. As Andy Wales, Chief Digital Impact and Sustainability Officer at BT Group, explains: "A good purpose statement captures the essence of where a company has come from, and the potential of what a company can be." Lara Warner, Chief Risk and Compliance Officer at Credit Suisse Group AG, commented on the role of purpose in the banking industry, saying, "Banks need to be seen as institutions that have a relationship with society: that should be the biggest priority for our industry."

Purpose is also seen as a powerful motivation for employees, particularly in challenging times. As Rabobank's Draijer explains, "Purpose is the start of everything, and the more you live it, the more it drives you. And right now, everyone is sitting at home, so it doesn't matter if your offices are nice, or if the paycheck is good, or if your brochures are glossy: everyone has to feel that from their living rooms, they're putting a man on the moon."

In our conversations with leaders, it is also apparent that the integration of purpose into the company's operations is top of mind for executives across every region and industry sector. "We've translated our mission into decision criteria," says one leader in the financial services sector. "Anyone that submits a proposal has to explain how the decision fits with the cooperative behaviours that stem from our overall mission. And that means that even in a low interest rate environment, which can suck the energy and the oxygen out of any financial institution, we've been able to make audacious decisions that align completely with our long-term mission and purpose."

Leaders realise that purpose matters only if it has material impact on the way their organizations are run. In the words of Gabriel Ros, Managing Director of Mapei Argentina, "Purpose has real value when it means that there are lucrative opportunities we do not take. That gives teeth to purpose."

2. Anchor decision making in values and principles

For companies seeking to translate statements of purpose and values into reality, a critical capability — highlighted by 96% of the business leaders we surveyed as an essential element of the ethical organization — is the ability to anchor everyday decision making in the company's values and principles. "Every business decision has an ethical dimension," says Andrea Stürmer, CEO of Zurich Insurance in Austria. "Through bringing ethics into our conversations, we consider the interests of our stakeholders and carefully weigh our decisions against them."

In our conversations, many leaders spoke of a "moment of clarity" during the COVID-19 pandemic in which their purpose and values stepped forward to guide action in the most difficult of circumstances. But for others, the pandemic highlighted the gap between their efforts to define and articulate purpose, values, and principles, and their ability to routinely take these aspirations into account in day-to-day deliberations. As one interviewee reflected, "When the crisis hit, the fact that we had placed attention and focus on our values, and had really built our culture to make sure they were lived and embedded, helped us to weather the storm."

For some, the existence of values-based frameworks for decision making was invaluable in making decisions that were consistent, efficient, and transparent. "We want to ensure that we have a North Star of our values, and then build an ethical scaffolding that enables us to decipher what we think is the right thing to do in any given situation," says Paula Goldman, Chief Ethical and Humane Use Officer at Salesforce. And as Elizabeth Proust, Director of Lendlease, points out, "Decision making is a team sport, and an ethical framework of values and principles gives us the perspective and guidelines to help guide decisions about the right thing to do."

### 3. Equip all employees to consider ethics in decision making

Fully 96% of respondents highlighted the importance of training and empowering employees to consider ethics in decision making. Many leaders reflected on a shift from considering ethics alongside compliance as a black-and-white set of requirements and standards, towards a greater acknowledgement of ethical grey areas. Increasingly, employees are asked to address decisions that require moral and ethical judgement, where the right thing to do cannot be determined by the rules alone.

As Ann Cairns of Mastercard reflects, "One of the things I've learned as a leader is that you have to always do what you feel to be the right thing, and be transparent about it. And people can criticise you, but if you've done everything you can to explain how you've made a decision, it gives you tremendous strength and reassurance that you're doing the right thing to the best of your ability."

> *Decision making is a team sport, and an ethical framework of values and principles gives us the perspective and guidelines to help guide decisions about the right thing to do.*
>
> Elizabeth Proust, Director, Lendlease

Describing Rabobank's approach to building the capabilities of its people, Wiebe Draijer notes: "Every year we pay extra attention to our values and behaviours during our Week of Integrity, where we build our people's individual understanding of ethical dilemmas, ethical conduct, and how to deal with ambiguity. And we train them to deal with that ambiguity, both from the perspective of working out the right thing to do, but also on how you can reach out and ask for help, and make ethics something that's natural to discuss and debate."
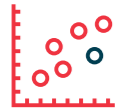
4. Track non-financial metrics of success and societal impact

To support their commitment to purpose-driven decision making, leaders are committed to developing new measures of success. Some 85% believe that tracking non-financial metrics of success and societal impact is essential to becoming an ethical organization.

> *I don't think there are intrinsic tensions between purpose and profit: the purpose-driven perspective has to prevail in the long term. Once business leaders have clear metrics that enable them to take into account various social and environmental returns, these tensions will become much easier to resolve.*

Kenny Nwosu, Chief Executive Officer of Norsad Finance

In keeping with Drucker's maxim that *what gets measured gets managed*, leaders believe that to ensure that day-to-day decisions are informed by purpose, new measures of societal impact must stand alongside traditional metrics of financial success. In the words of one leader in the financial services sector, establishing new metrics that can track a company's journey against its long-term targets is a way of "bringing rigour and transparency into an emotional discussion."

One critical role of non-financial metrics, leaders believe, is in enabling companies to manage complex trade-offs within the ethical and responsible business agenda. As Kenny Nwosu, Chief Executive Officer of Norsad Finance, reflects, "I don't think there are intrinsic tensions between purpose and

profit: the purpose-driven perspective has to prevail in the long term. Once business leaders have clear metrics that enable them to take into account various social and environmental returns, these tensions will become much easier to resolve."

These trade-offs present themselves in two ways. First, many leaders still experience conflicting priorities between financial returns and the broader interests of stakeholders. For this group, enabling the business to prioritise objectives beyond traditional measures of profit and loss depends on having quantified metrics of stakeholder value and societal impact. By tracking impact with the same detail and rigour as traditional metrics of financial success, companies can make decisions that are both more informed and more transparent.

Second, even for leaders who insist that the trade-off between societal impact and financial success is illusory — often pointing to longer-term measures of stability and sustainable growth — a further challenge remains. Determining a company's most effective approach to societal impact is complicated by the breadth and interconnectedness of the issues and by an array of disparate environmental, social, and governance metrics. In particular, many leaders underline the challenge of managing trade-offs between environmental impact — where quantitative metrics such as a carbon price can help them in making decisions framed in financial terms — and broader social issues such as community development, labour standards, and human rights, where business lacks common metrics to track benefits and harms.

Leaders see great potential in the coming decade to develop new approaches to this fundamental challenge by identifying the issues on which their organizations wish to contribute, selecting the most appropriate measures of success, and building these goals into decision making at every level.

Case study: Rabobank
Integrating values-driven decision making

Rabobank was one of the first financial institutions worldwide to establish an Ethics Committee. Founded in 1998, with a mandate to "assess practical situations that have an underlying ethical issue and weigh them against the values and norms of Rabobank," the committee is designed to provide the bank with direction and consistency with regard to making ethical choices in line with Rabobank's mission, identity, and the Rabobank Compass of values and behaviours.

When Rabobank CEO Wiebe Draijer took over the helm of the bank in 2014, amid highly challenging circumstances for the industry, he sought to give new prominence to the committee. In our conversation, Draijer told us about the importance of the committee in creating a renewed sense of trust and transparency in managing complex ethical issues: "I inherited a committee that had been there for many years, and when I took over, there was a real debate about whether it was actually needed. So I decided to put the committee on a pedestal: I'm going to chair it, I'm going to be there every time, and I'm going to put the bank's best people on the committee.

"The most important thing we did is to make the committee fully transparent: anyone at the bank can take notice of the minutes of every meeting, in Dutch or in English, and see what was discussed. And that does two things: it clarifies issues that are not covered by formal rules and regulations; and it helps people to reflect on issues, see the different points of view, and understand the dilemmas involved in dealing with ethics at the frontier. So we take practical issues that our people are encountering day to day, navigate new angles and new directions, and then bake those decisions into our policy and processes."

Shaping an inclusive, ethical culture

5. Ensure an inclusive culture that creates opportunity for all

Just as leaders recognise the importance of enabling their people to make effective ethical decisions, they also see employee experience as critical to success in building a more ethical organization. With more attention than ever on issues of diversity, equity, and inclusion, 94% of business leaders see an imperative to personally ensure that their companies foster an inclusive culture. As Mark Hoplamazian, President and CEO of Hyatt Hotels Corporation, observes, "We've extended our understanding of what it means to operate ethically beyond what we would consider to be the tenets of our code of conduct, to cover human values, seeing one another first and foremost as humans and only then as professionals."

One of the clearest themes emerging from our conversations was a focus on shifting the discussion from metrics and targets that measure representation — of leaders from Black and ethnic minority backgrounds, for example — and towards a clearer understanding of equity and inclusion. A 2020 report from the Institute of Business Ethics, *The Ethics of Diversity*, revealed a growing shift amongst business leaders to go beyond the traditional business case that focuses on the impact of diversity on corporate financial performance, and towards an imperative for action that considers moral and ethical issues as well as broader definitions of inclusion. These definitions encompass neurodiverse people and people with disabilities, and also take into consideration cultural and socioeconomic backgrounds.[4]

Leaders also see a clear need to improve the representation of minorities in leadership positions, both from the perspective of equity and social justice, and as a driver for change in the organization. As one senior leader in the Middle East reflected, "Having more women on the board has changed the entire perspective of the company: the other members have realised that there were many things that needed to change to make the environment more suitable for women." The Founder and CEO of INvolve, Suki Sandhu, stressed the importance for leaders to build empathy with underrepresented minorities: "We work with many businesses in which the majority of the positions of power are filled by white men, trying to get them to build empathy with people who are different. We've seen a lot of progress with gender because a lot of people have daughters or they know women who are entering the workplace and can learn from them about the experiences of women. In the case of race and ethnicity, there isn't that critical group of diverse people that people at the top are exposed to."

Leaders believe that they must enable people from all backgrounds to thrive within the organization and feel a sense of belonging and trust. As Trevor Manuel, Chairman of Old Mutual Limited, explains, "Part of developing an organizational culture in a multicultural environment is to enable people to connect with one another and one another's culture. On Africa Day, people come to work dressed in traditional clothes: through these and other corporate initiatives, we make it easy for employees to relate to colleagues in all countries, truly blending our cultures into our way of working."

6. Shape, monitor, and track a culture that enables people to do the right thing

Another critical element of the ethical organization, identified by 97% of the leaders we surveyed, is the ability to shape, monitor, and track a culture that enables people to do the right thing.

Leaders recognise that the responsibility for ethical and responsible decision making sits not just with those at the top, but must be integrated throughout their organizations. As leaders increasingly recognise that complex and ambiguous ethical decisions will be made not only by leaders, but also by relatively junior people on the frontline, they know that the company's ability to act ethically and responsibly depends on effective communication, training and decision making frameworks, as well as the cultural environment they create.

A recurring theme in our conversations is leaders' belief that the new era of ethical and responsible business will be driven by a culture shift across their organizations. Leaders believe that this shift will require a new approach to giving their people clear responsibilities, developing the right skills and capabilities, and structuring appropriate incentives that allow them to move beyond a rules-based environment to one in which every individual can consistently do the right thing. "Ingraining our values and ethics into our culture has been one of our priorities, and we deeply believe that this will accelerate business performance," says Yvonne Garcia, Chief of Staff at State Street. "We have ingrained our values in our performance priorities. Each employee sets and reviews their priorities with their managers on a monthly basis, and these check-ins enable transparent and honest conversations about priorities, expectations and behaviours."

Leaders also see a growing need to think differently about monitoring and tracking the culture of their organizations. For many firms, culture has been synonymous with employee engagement, and while the wellbeing and satisfaction of their people remains a critical area for attention, leaders understand that they need deeper insight into how the cultural environment can support employees to make good, ethical decisions. By understanding the core drivers of ethical culture, and developing new ways to monitor and track the ethical health of the organization, leaders are building confidence that their people can consistently do the right thing.

Case study: Ecobank Group
Integrating metrics to track organizational ethics

Pan-African banking group Ecobank has become one of the first global banks to systematically integrate metrics to monitor and track the health of organizational ethics.

Embarking on a journey to refresh the foundations of responsible growth across the group, Ecobank began by revitalising its mission and values, anchored in the heritage of the bank in driving trade and economic development across the African continent. This articulation of common purpose enabled leaders to establish a clear understanding of the critical capabilities that the group required to meet its societal obligations and fulfil its vision for the future.

As leaders set out to embed this refreshed purpose across the group, and establish the capabilities required for its pursuit, leaders recognised that driving a culture of ethics and responsibility would form a critical foundation. The group board and executive, working closely with national managing directors, identified a need to enhance the bank's approach to the measurement and monitoring of culture, moving beyond traditional engagement surveys, to capture more meaningful and material measures of organizational ethics.

By rolling out a new set of culture metrics across the organization, Ecobank has enabled leaders to scrutinise these issues with the same seriousness and rigour as financial metrics. The resulting insight enables risk and compliance teams to harness culture as an additional line of defence, and has given human resources and people teams the ability to better understand the impact of specific culture and conduct initiatives.

Across the group, Ecobank is now able to identify the critical factors that support an ethical, responsible culture, and monitor the health of the bank across the continent.

Maximising positive impact and preventing societal harms

7. Prevent products and services being used to cause harm

As business leaders examine the societal impact of their companies, the ability to prevent their products and services being used to cause harm is seen as essential by 94% of respondents. Search engines are under pressure to screen for harmful or offensive content. Social media companies are expected to take responsibility for hate speech posted on their platforms. And messaging services face growing calls to share information with law enforcement. Leaders know that doing business responsibly is not simply about having their own house in order, but about the company they keep.

In recent years the tech sector, in particular, has experienced a surge in employee activism related to the use of their products and services, and even more have been publicly confronted on social media to accept greater responsibility for their impact on society. As Harriet Green, Executive Chair of Mission Beyond and former Chairman and CEO of IBM Asia Pacific, says, "Companies developing artificial intelligence have a great responsibility with regard to educating their employees and other stakeholders on the decisions that are being made by artificial intelligence, and to provide tech and education for good and for many, not just for the profits of a few." For leaders under intense pressure and scrutiny, articulating guiding principles for ethical use has helped to make, explain, and justify difficult decisions as they take steps to ensure that the scope of their responsibility does not stop at the factory gate.

8. Build assessment of societal impact into innovation and design decisions

Just as leaders are seeking to monitor the use of their existing products and services, so they see a need to integrate ethics into innovation. Fully 91% of leaders surveyed believe that it will be essential to build assessment of societal impact into innovation and design decisions. In the words of one Silicon Valley executive, "When we think about the state of the technology industry, the so-called *techlash*, and the scrutiny from regulators and civil society, it's important to think about the impact of our technology in the world. The ethical implications of our technology are a core business question."

> *It's important to think about the impact of our technology in the world. The ethical implications of our technology are a core business question.*

Leaders today realise that an approach to innovation that designs first, and solves ethical issues later, is no longer sufficient. With public expectations rising and companies facing ever-growing scrutiny, any misstep damages trust and incurs significant downstream risks and costs.

Leaders in this space are developing new approaches to responsible innovation, embedding throughout the innovation lifecycle the capacity to address questions of ethics and responsibility, and anchoring every decision in the organization's purpose and values.

9. Take public action to address societal injustice

Business leaders feel a growing responsibility to exert their influence on broader societal challenges, from climate change and deforestation to racial and gender inequality. Over the past year, issues raised by the COVID-19 pandemic and the Black Lives Matter movement have heightened consciousness over the potential for business to challenge societal injustice, including inequalities and disparities of health, wealth, and opportunity. Increasingly, leaders believe that deferring to governments is no longer acceptable. Companies today are expected, by employees and consumers alike, to demonstrate how their actions contribute to a fairer and more just society: more than three-quarters of leaders surveyed (77%) believe that taking action to address societal injustice is an essential characteristic of the ethical organization.

10. Take a public position on controversial societal issues

Business leaders were most divided on the question of whether business should be expected to make public statements on divisive topics. Nearly two-thirds (64%) believe that taking a public position on controversial societal issues is a hallmark of the ethical organization. INvolve's Suki Sandhu described how taking a public position on racial inequality is not easy for leaders: "When it comes to racial inequality, it's such a deeply uncomfortable conversation for most companies that in fear of saying the wrong thing, they don't really say anything at all." Yet just as businesses are expected to demonstrate their value to society, and to show how they are addressing injustice and inequality, so leaders increasingly see a role for themselves on the public stage. Where companies historically have preferred to remain above the fray — often to avoid alienating particular customer groups — many leaders are now more comfortable with asserting their company's own values and principles through proactive contribution to public debate.

Essential capabilities to integrate ethics into organizations

Capability	%
Pursue a purpose beyond profit	90%
Anchor decision making in values and principles	96%
Equip all employees to consider ethics in decision making	96%
Track non-financial metrics of success and societal impact	85%
Ensure an inclusive culture that promotes opportunity for all	94%
Shape, track, and monitor a culture that enables people to do the right thing	97%
Prevent products and services being used to cause harm	94%
Build assessment of societal impact into innovation and design decisions	91%
Take public action to address societal injustice	77%
Take a public position on controversial societal issues	64%

Legend:
- Embedding purpose, ethics, and values into strategy and decision making
- Shaping an inclusive, ethical culture
- Maximising positive impact and preventing societal harm

Case study: Salesforce
Integrating ethics into core business

In December 2018, leading CRM and cloud computing platform Salesforce became the first global company to establish an office and leadership role dedicated to the ethical and humane use of technology. Announcing the move, Chairman and CEO Marc Benioff said, "We know that technology is not inherently good or bad; it's what we do with it that matters. And that's why we're making the ethical and humane use of technology a strategic focus at Salesforce."

In our conversation for this year's Ethics Study, Chief Ethical and Humane Use Officer Paula Goldman described how the company has integrated ethics into core business: "The Office of Ethical and Humane Use sets policy about how our customers use our products, working from an explicit ethical framework and referencing our values and a set of ethical guiding principles. Product policy is not new in the world of technology, but what distinguishes this effort is that it is very explicitly grounded in ethics and values."

Goldman also described how the company is extending the responsibilities of the office. "The second part of our work is what we call 'ethics by design,' working very deeply with our product teams to integrate ethics into the design and development of our products, thinking about aspects of privacy, inclusion, equality, accessibility, and other issues to ensure that our products embody our values," she said.

By understanding the impact of its products on the world, creating an ethical culture and product design process, and advancing the field through multistakeholder dialogues, Salesforce is embedding ethics and values at the centre of its business, recognising the transformative power of technology and its role in being a force for good around the world.

3. Shifting systems, culture, and mindsets

Across industries and regions, leaders believe that the new era of ethical and responsible business will be driven not only by investment in systems, processes, and capabilities, but also by a culture shift across their organizations. "Ultimately the success of your systems and processes goes back to culture," says Stephen Catlin, Chairman and Chief Executive of Convex, "You're only as good as the way your team behave."

"Most companies, when they start a programme on ethics and integrity, are preparing for the 'hardware' to drive change," says Bo van Zeeland, Chief Counsel Compliance at Sabic, "But they eventually realise that it's not permeating the organization — and what's missing is a focus on cultural drivers and root cause analysis."

> *What really matters is the day-to-day interactions. Your culture is built interaction by interaction.*
>
> Darren Burton, Vice Chair,
> Human Resources, KPMG US

This focus on ethical culture will encompass better understanding and supervision of employee conduct, as well as a focus on equipping employees to consistently do the right thing. "The bar has been set higher," says the OCC's John P. Davidson, "not just by regulators, but also by clients and shareholders, so the need to pay close attention to the compliance environment and to conduct risk is more pronounced than it has ever been. There has been a fundamental change at the top of many global corporations, but the major differentiator is the extent to which that permeates down through the organization."

This culture shift starts at the top. In our conversations, leaders were clear that change must be driven through an unambiguous mandate from the board, ensuring that a commitment to ethics is seen not as a box-ticking exercise, but as a strategic imperative at the most senior levels. This commitment, leaders believe, must then flow through the senior team, with responsibility invested in a champion such as a chief ethics officer and integrated into the expectations on senior leaders across the business.

"Good leaders change organizations," says Darren Burton, Vice Chair, Human Resources at KPMG in the United States, "and your leaders are often the most profitable individuals, the people who really drive your business. But they're also often the people who don't demonstrate the values and the integrity that you want. So you have to be willing to sacrifice those individuals and put other skilled and talented people in their place who'll look after the financial wellbeing of the organization and who'll also establish new cultural norms. And that's how you change culture over time."

With leaders establishing the appropriate tone from the top, organizations must then look more broadly at the ability of their people to do the right thing. As Burton says, "What really matters is the day-to-day interactions. Your culture is built interaction by interaction — with peers, with the community, with clients — and every individual has to understand their responsibility in each of those interactions."

From individual attitudes and mindsets through to systemic capabilities for deliberation and decision making, leaders must look systematically at how individuals operate within the organizational environment to make good, ethical, responsible decisions every day.

> *There has been a fundamental change at the top of many global corporations, but the major differentiator is the extent to which that permeates down through the organization.*
>
> John P. Davidson, CEO, Options Clearing Corporation

Assessing progress on ethical culture

The breadth of the capabilities required to become a more ethical organization shows the scope of the challenge — and it is readily apparent that even the most committed leaders are at an early stage of the journey in embedding the skills and capabilities amongst their people.

In this year's Ethics Study, we set out to understand leaders' assessment of their companies' performance on the critical factors that determine the ability of an organization and its people to act ethically and responsibly.

Our research, based on academic enquiry as well as engagement with leaders driving change across their companies, identifies three key areas for investigation: *responsibility*, how the organization apportions decision making and accountability for ethical issues; *capability*, how the organization develops the right knowledge, skills, and support that enable its people to make effective decisions; and *motivation*, how the organization embeds a common purpose and establishes appropriate incentives — financial and non-financial — that encourage its people to do the right thing.

This year's Ethics Study survey asked business leaders to assess their own organization on nine key factors that align with the core drivers of ethical performance. The questions are drawn from Principia's Ethical Culture Index and represent the most powerful and predictive indicators of an organization's ethical capabilities. The results reveal insight into areas where leaders are confident in their company's capabilities and performance, and those where they believe more work is required.

We also asked leaders about specific systems and processes that their companies are integrating to support a more ethical culture. The answers show a picture of business leaders with good intentions to integrate ethics and responsibility into core business, but still in the early stages of embedding those principles into day-to-day operations. In the words of a senior leader in the professional services industry, "I think that we are the leader in our sector, and we are still nowhere near where we need to be."

Responsibility: Are people responsible and accountable for doing the right thing?

Leaders committed to building a more ethical organization consistently identify a need to entrust people across the business with the responsibility for managing ethical issues. Just as many companies have successfully transitioned from a central sustainability team to an organization in which environmental, social, and governance issues are integrated into every core business function, so leaders believe that ethics must be infused throughout the way they do business.

As one leader reflected, "On gender equality and systemic racism, which is still deeply embedded in ways we often don't even perceive, we're still in the early days of shifting concerns, from being voiced at the top, and given appropriate priority in terms of the mission and values of the organization, to permeating down through the organization and having a deeper social consciousness in the way companies behave."

In our conversations, leaders were clear on the need for an unambiguous mandate from the board, ensuring that a commitment to ethics is seen not as a box-ticking exercise, but as a strategic imperative at the most senior levels. This commitment, leaders believe, must then flow through the senior team, with visible leadership through a role such as a chief ethics officer, as well as proper integration into the expectations on senior leaders across the business. Yet just 48% of respondents report that their company's board has oversight of ethics, and only one-third of companies (32%) have opted to drive the ethics agenda through the appointment of a chief ethics officer or its equivalent.

Many leaders highlight the importance of a mindset that separates ethics from compliance and seeks to go beyond compliance to integrate values and principles into decision making at every level. "You can be compliant with a rule, but the rule may not be right or miss context when applied in isolation," says Bo van Zeeland of SABIC. "For us, 'compliance' is an eroded term. It is part of the job description of a lot of functions in our company (including mine), but we are consciously moving to a much wider scope and depth in grounding ownership with business on ethics and integrity."

Leaders believe that this integration must start with communicating clear and realistic expectations, setting out what conduct and behaviour are expected of every member of the organization, and ensuring that performance criteria are reasonable and feasible and do not create undue pressures to act irresponsibly.

Having established what is expected of their people, leaders believe that they must also instil in every member of their organization the means to ensure that their decisions and actions are legal and compliant as well as ethical, responsible, and in keeping with the organization's values. By expanding definitions of success, and embedding a broader set of expectations beyond productivity and financial performance, leaders can extend awareness of ethical issues and integrate these issues throughout their companies.

For responsibility to be truly integrated, leaders also see a need to focus on holding people accountable for their decisions and actions, not simply through the lens of adherence to legal rules and standards, but with an explicit expectation to consider ethics, values, and principles in decision making. Accountability will be required both for decisions that impact external stakeholders — through a focus on customer satisfaction as well as financial results, for example — and for behaviours that affect the internal cultural environment, including calling out unethical behaviours, being transparent about how such cases are investigated and resolved, and ensuring that any sanctions are proportionate and fairly applied. In the words of Ade Ayeyemi of Ecobank Group, "When a leader fails, the soul of the organization is compromised. It is important that we, as leaders, allow people to know when and why this happened, and show that there are consequences to these actions."
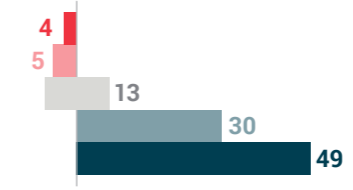
Leaders' perspective on current performance and supporting systems (%)
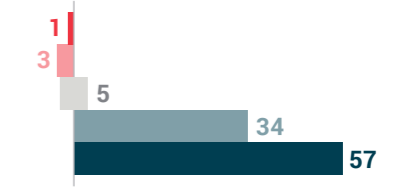
Responsibility: Performance

If people fail to behave ethically, this organization holds them to account
- 2
- 3
- 8
- 30
- 57
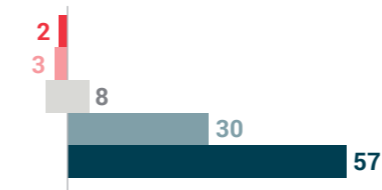
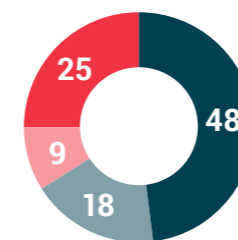This organization values people who challenge their superiors when necessary
- 4
- 5
- 13
- 30
- 49

Leaders in this organization set reasonable expectations
- 1
- 3
- 5
- 34
- 57

■ Strongly disagree ■ Somewhat disagree □ Neutral ■ Somewhat agree ■ Strongly agree

Responsibility: Supporting Systems

Board oversight of ethics
- 25
- 48
- 18
- 9

Chief ethics officer (or other named executive)
- 47
- 32
- 10
- 11
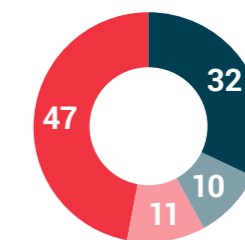
Code of conduct and behaviour
- 8
- 5
- 14
- 73
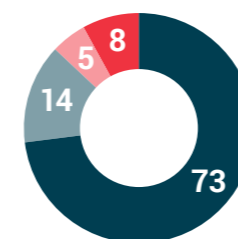
Reporting channels for misconduct and/or unethical behaviour
- 12
- 8
- 16
- 64
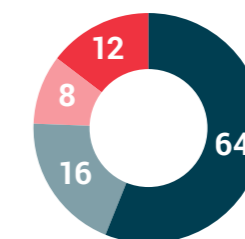
■ Yes ■ Yes, but only partially introduced ■ No, but planning to introduce ■ No

Underpinning this commitment to greater accountability will be a renewed effort in which people at every level are empowered to challenge authority, introduce new ideas, and engage in open and honest debate on the right thing to do. In this truly effective "speak-up culture," those who challenge superiors when necessary are not merely tolerated but are respected and valued. "One of the hardest things to do in any organization," says KPMG's Darren Burton, "is to create an environment where people feel safe to raise their hand when they see a situation that they know is counter to the values."

But while nearly two-thirds of respondents (64%) have created reporting channels such as an ethics hotline for misconduct and unethical behaviour, the establishment of an effective speak-up culture lags behind, with just 49% of respondents confident that their organization values people who challenge superiors when necessary.

Reflecting on their efforts in bolstering their people's ability to raise ethical concerns, many leaders believe that balancing the risks and benefits of zero tolerance messaging on ethical misconduct is crucial to success. While disciplining staff for misconduct and sharing examples of intolerable behaviour are seen to be important to send a clear message around expectations, leaders worry that fear of reprisal can reduce the likelihood of people speaking up.

Leaders also believe that they must be deliberate about creating the space for honesty. In the words of one interviewee, "It is difficult to be open and honest if you don't know how to manage those conversations." Measures include creating structured spaces where employees can feel safe speaking about ethical successes, risks, and failings; encouraging leaders to coach their teams to challenge leaders and peers; and fostering speak-up campaigns with case studies that celebrate those who have raised ethical concerns.

"Leadership comes from the top," says Stephen Catlin of insurers Convex, "and those that are fortunate enough to be leading have a responsibility to set an example. On more than one occasion, I have stood up at a townhall meeting and said, 'I will tell you where I have fallen down on our values,' and I'll go through each one to say what wasn't right. If you can be honest about it, and the rest of the leadership team do the same, it gradually becomes instilled across the entire organization."

Above all, the leaders we spoke with believe that when things go wrong, they have a responsibility to facilitate an open, honest dialogue. "When there's a problem, we don't hide behind the lawyers, we try to talk more openly," one said, "because it's about combatting the perception that ethics is 'way over there' and acknowledging that sometimes circumstances are created where good people do bad things."

When a leader fails, the soul of the organization is compromised. It is important that we, as leaders, allow people to know when and why this happened, and to show that there are consequences to these actions.

Ade Ayeyemi, CEO, Ecobank Group

Capability: Do people have the right knowledge, skills, and support to do the right thing?

Leaders recognise that greater diffusion of responsibility for ethical decision making will require them to develop knowledge and skills across the organization so their people can identify sensitive issues and make effective decisions. They also acknowledge the need to build support structures that can help people navigate ethical grey areas. With just 47% of respondents confident that people in their organization make the right decisions in ethical grey areas, leaders know that further progress is required.

Building the capabilities for people to navigate and manage ethical issues begins with developing their awareness of ethically charged decisions. Just as infusing responsibility depends on going beyond compliance, so developing individual and team capabilities requires an acknowledgement that complex moral judgement can often be required to manage these issues effectively. With just 56% of leaders confident (those selecting "strongly agree") that people in their organization are quick to recognise when a decision could cause harm, it is clear that ethical grey areas remain challenging. Consistent communication from leaders that highlights moral and ethical issues in day-to-day decisions, and acknowledges that such issues are rarely black and white, can be a powerful tool in enabling people to identify when their decisions could cause harm and when decisions must be given closer attention.

The ability to make effective decisions depends on identifying ethically charged issues and applying professional skills, as well as the ability to deliberate on broader ethical aspects. By developing the knowledge, skills, and experience of their teams, and encouraging their people to think through the impacts of their decisions in a systematic manner, leaders can instil greater sensitivity to ethical issues by ensuring that they are equipping their

people to deliberate effectively and to act with integrity in determining the right thing to do, even in difficult circumstances.

But underlining an area in which further progress will be required, just 42% of leaders report providing mandatory ethics training for employees and only 46% have established mechanisms to track and learn from misconduct and ethical failure. As one senior leader observed, "One of our biggest gaps is in how to measure our performance on ethics and integrity, and demonstrate to our clients and our regulators that we're really making the kind of progress that we're talking about."

Integral to these efforts is diversity and inclusion. Knowing that diversity of thought and perspective is an essential foundation for ethical decision making, leaders see an immediate imperative to build a more inclusive culture that enables all employees to contribute and grow and enhances the decision making capabilities of the organization. But progress on the diversity, equity, and inclusion agenda, on which many business leaders have become increasingly vocal over the past year, remains challenging: just 45% have a diversity and inclusion programme, and only 38% have established formal targets.
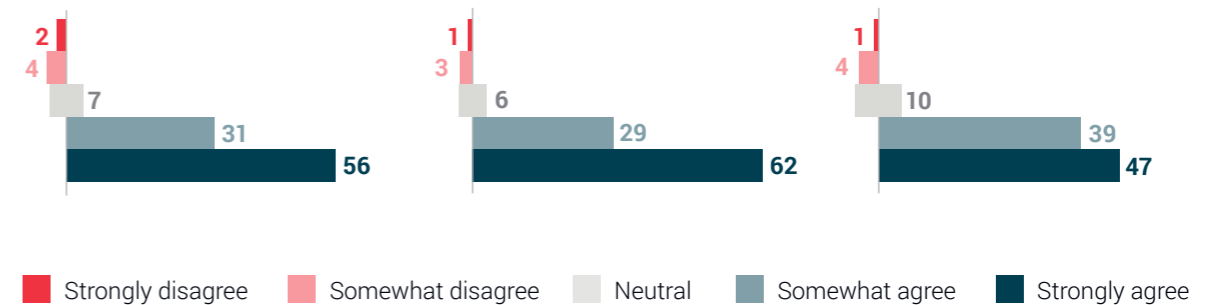
One of our biggest gaps is in how to measure our performance on ethics and integrity, and demonstrate to our clients and our regulators that we're really making the kind of progress that we're talking about.

Leaders' perspective on current performance and supporting systems (%)

Capability: Performance

This organization is quick to recognise when its decisions may cause harm

2 / 4 / 7 / 31 / 56

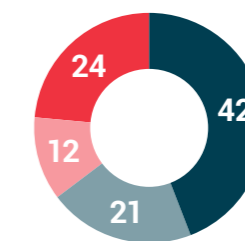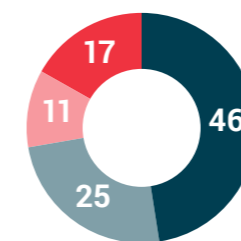In this organization, people have the knowledge, skills, and experience to act with integrity

1 / 3 / 6 / 29 / 62

People in this organization make the right decisions in ethical grey areas

1 / 4 / 10 / 39 / 47

■ Strongly disagree ■ Somewhat disagree ■ Neutral ■ Somewhat agree ■ Strongly agree

Capability: Supporting Systems

Mechanism to track and learn from misconduct and ethical failure
17 / 11 / 25 / 46

Mandatory ethics training for employees
24 / 12 / 21 / 42

Diversity and inclusion programme
23 / 12 / 20 / 45

Diversity and inclusion targets
28 / 13 / 20 / 38
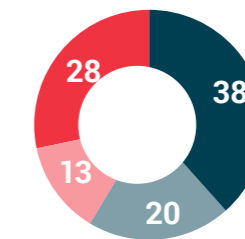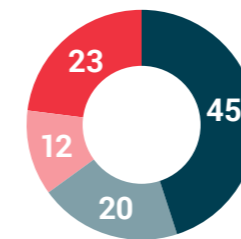
■ Yes ■ Yes, but only partially introduced ■ No, but planning to introduce ■ No

> *Our purpose differentiates us in an industry in which everyone is talking about serving people. Care brings in a different dimension: you feel it when you are being served by someone and they have practiced empathy and understand what you need. This framing resonates with people; it's why many of our employees have joined, and it's why they're still around.*

Mark Hoplamazian, President and CEO, Hyatt Hotels Corporation;
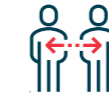
Motivation: Do we encourage our people to do the right thing?

To motivate people to behave ethically and responsibly, in line with the values and principles of the organization, leaders identify three factors that need to be aligned: a clear organizational purpose that goes beyond profit; a focus on the intrinsic character and values of their people; and financial and non-financial incentives that consistently reward people for doing the right thing.

Leaders believe that a foundational factor in motivating their people to do the right thing is a clear organizational purpose that defines the value that the organization creates for society. Nearly three-quarters of survey respondents (73%) told us that their company has a statement of purpose and values, with an additional 21% either planning to introduce such a statement or already in the early stages of doing so.

Alex Edmans, Professor of Finance at London Business School and author of *Grow the Pie: How Great Companies Deliver Both Purpose and Profit,* has tracked the development of corporate purpose over recent decades. "Purpose is powerful because it's intrinsic rather than instrumental," Edmans says. "The freedom from having to justify everything with a financial calculation leads companies to make many investments that unexpectedly become profitable. But a purpose statement is only meaningful if the opposite would be reasonable.

"The more uncomfortable the purpose statement is, the more meaningful it is, and the easier it is for the board and employees to figure out whether a decision is consistent with it."

But as leaders acknowledge, the existence of such a statement is not sufficient. "I have observed the importance of keeping purpose alive," says Georg Kell of Arabesque. "If you do it as a one-time effort on how to articulate your purpose externally, then you've missed the boat. The purpose debate has to be continuously nurtured and supported to make it a tool for renewal."

For many leaders we spoke with, the key question is whether their purpose statement provides a foundation for their people to connect to and test decisions against. "What I've learned is that doing the right thing means different things to different people," says one leader, "and unless you set a common paradigm amongst your people on what it means in practice, you end up having a lot of ambiguity, a lot of disparity, and a lot of tension."

Richard Walker, Managing Director of Iceland Foods, outlined how purpose can help create a sense of belonging: "When I joined the business, I was keen to work in stores for a year. What I learned is that camaraderie and a sense of purpose is everything, and that doesn't come through outlandish bonuses or pay packets. It's about a sense of belonging and a sense of place and a sense of community. We carefully curate and invest in culture, working hard through constant communication, showing gratitude, and helping people feel proud when they come to work."

Consistently, leaders describe their people's connection to the purpose of the firm — and their understanding of the individual role they play in contributing to that purpose — as a powerful driver of conduct and behaviour. Describing Hyatt's response to COVID-19, Mark Hoplamazian says, "There are few things I feel more confident about than the fact that we came through this as effectively as we did because of our purpose and how clearly it has been defined and embedded throughout the entire organization."

Leaders also cite the importance of shaping the character of their people, forging a community with shared values, a common purpose, and high ethical standards. Recognising the challenge of integrating ethical sensibilities into day-to-day decision making, just 58% of survey respondents are confident that people in their organizations act according to high ethical standards.

Many of the leaders we spoke with believe that successful organizations will increasingly harness the intrinsic motivation of their people by actively selecting and developing people who are aligned with the values of the organization and driven to behave in virtuous and responsible ways. Many leaders we spoke with recognise a generational shift in the people they recruit. As one leader in the United States put it, "Recruiting millennials and their successors has been made somewhat easier, because they're not interested in the beach house in the Hamptons, but in the core of what they're doing and the impact that has on the environment and on society."

> *Camaraderie and a sense of purpose is everything, and that doesn't come through outlandish bonuses or pay packets. It's about a sense of belonging and a sense of place and a sense of community.*

Richard Walker, Managing Director,
Iceland Foods

A critical gap that many leaders identified is the need to align incentive schemes to send clear signals of which behaviours are valued and expected, and to assess performance beyond traditional financial measures of success. In the words of one senior executive in the financial services sector, "As an individual, it's easy to go with the flow and say the right things. But when you get to a particular transaction, and there's a difference in return between doing it one way and doing it the right way, and your compensation is tied to profitability, then the tone from the top will never be reflected by an echo from the bottom."

With many organizations in the early stages of designing effective non-financial metrics — fewer than half of respondents report non-financial metrics for organizational performance (42%) or measure non-financial metrics of individual performance (46%) — leaders see an opportunity to accelerate progress. By connecting the messages their people hear on the expectations of their conduct and behaviour with the realities of compensation and career progression, leaders can demonstrate the importance of performance and contribution beyond financial metrics of success.
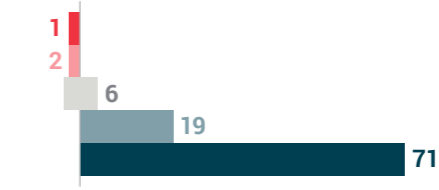
Leaders' perspective on current performance and supporting systems (%)
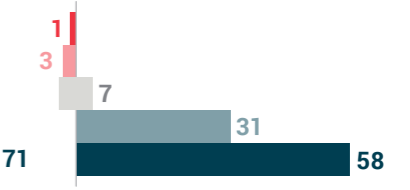
Motivation: Performance

This organization has a clear purpose beyond profit

Strongly disagree	2
Somewhat disagree	4
Neutral	7
Somewhat agree	28
Strongly agree	58
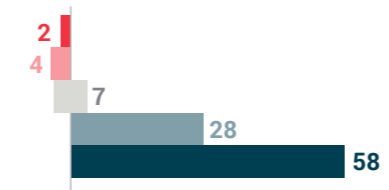
This organization values people who do the right thing

Strongly disagree	1
Somewhat disagree	2
Neutral	6
Somewhat agree	19
Strongly agree	71

People in this organization act according to high ethical standards

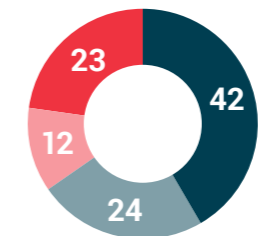|	
Strongly disagree	1
Somewhat disagree	3
Neutral	7
Somewhat agree	31
Strongly agree	58

■ Strongly disagree ■ Somewhat disagree ▢ Neutral ■ Somewhat agree ■ Strongly agree

Motivation: Supporting Systems

Statement of purpose and values

Yes	73
Yes, but only partially introduced	15
No, but planning to introduce	6
No	6

Non-financial metrics for organizational performance

Yes	42
Yes, but only partially introduced	24
No, but planning to introduce	12
No	23
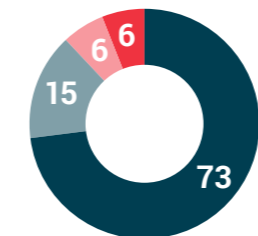
Non-financial metrics for individual performance

Yes	46
Yes, but only partially introduced	23
No, but planning to introduce	12
No	19
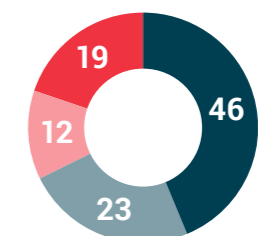
■ Yes ■ Yes, but only partially introduced ■ No, but planning to introduce ■ No

> *Change is happening very fast,*
> *the interconnections are much deeper,*
> *and the understanding that all actors*
> *have to work together is widespread.*

Georg Kell, Chairman, Arabesque, and Founding Director,
UN Global Compact

4. Driving transformative change

Leaders recognise that reinventing their organizations will be a long journey, and that real, lasting change will require collaboration across industries and sectors. They are aware of significant barriers to progress in the external environment, with mixed signals coming from governments, regulators, investors, and other stakeholders.

But as they begin to chart a roadmap for the coming years, they already see concrete steps they can take to accelerate progress across their industries and build a more ethical, responsible, and inclusive global economy.

Central to each of these steps will be the ability to work collaboratively, within and across sectors, to drive systemic change. "In our complex world, all actors have to work in the same direction if change is to be systemic," says Georg Kell, Chairman of Arabesque and Founding Director of the UN Global Compact, one of the first multilateral institutions to promote collaboration and systemic change across the private sector. "Change is happening fast, the interconnections are much deeper, and the understanding that all actors have to work together is widespread. A whole new mindset has started to grow around collaborative ecosystem thinking, and today most successful and forward-looking corporations understand that their purpose has to be driven not only by self-interest, but by the interest of the public good."

1. Measuring what matters

Throughout our conversations, leaders spoke about a fundamental challenge in driving standards of ethical and responsible business: knowing what good looks like. For many companies, a critical challenge will be to define measures of success, both from an external perspective in tracking their impact on society, and internally, in tracking meaningful measures of the company's ability to act ethically and responsibly. As one board member in the financial industry declared: "We are fully committed to integrating ESG and ethical factors into our decision making. In particular, we are promoting data transparency and quality, working with our clients and helping to set industry standards."

Momentum is accelerating towards global solutions for the measurement and reporting of non-financial metrics of success. The World Economic Forum's Stakeholder Capitalism Metrics, for example, draw from existing voluntary standards to offer comparable measures across four pillars considered most critical for business, society, and the planet. In January, a coalition of 61 leading companies including Accenture, Bank of America, Clifford Chance, Nestlé, Salesforce, Sony, and Unilever committed to reporting on the core set of 21 disclosures, promoting further convergence of existing standards and providing a benchmark on which to assess and compare performance.[5]

Looking at their own organizations, the leaders we spoke with identified a pressing need for approaches that move beyond a tick-box mentality — or "ethics as compliance" — to encompass more stringent due diligence of ethical capabilities and outcomes. While many organizations have focused on managing the aftermath of ethical failures, leaders now call for pre-emptive approaches to managing ethical risk. The rationale for this shift is clear: the cost and reputational damage caused by repeated ethical failings. Efforts described by leaders vary from the technologically advanced — such as data analytics that can predict human behaviour — to human-centred efforts that build effective cultural environments for the management of ethical risk.

As part of these efforts, leaders express a desire to assess the strength of their organizations' structures, systems, and ethical culture in providing a robust platform to embed ethics and responsibility throughout the organization. In the United States, regulation is already codifying the requirement for companies to provide greater insight on culture, as recent adjustments to the rules issued by the Securities and Exchange Commission mandate the disclosure of material human capital metrics. It is also increasingly common to see stakeholders, from boards to institutional investors, seeking greater insight on the ability of a company and its management to make ethical decisions in a complex, volatile environment. As these approaches take root, leaders will have new opportunities to compare their performance against peers and to understand the best and emerging practice that enables their organizations to consistently and reliably do the right thing.

2. Collaborating within and across sectors, sharing best and emerging practice

Reflecting on the growth of the corporate sustainability movement, leaders consistently identify industry collaboration as an important catalyst for change. Initiatives such as the Consumer Goods Forum have brought together leading industry players to share lessons from the front line of innovation, pooling expertise and resources to find new solutions to industry challenges.

As leaders seek to embed values- and principles-based approaches to their core business, they again see collaboration as a critical element in accelerating progress, both within industries and across sectors. For companies seeking to drive greater impact on global challenges such as social justice, for example, the third sector is seen as a critical partner that harnesses the resources of business with the deep understanding and connectedness of NGOs.

Leaders also see value in cross-sectoral initiatives that can define common frameworks for action, including benchmarking exercises that assess performance on common impact metrics. Initiatives such the World Benchmarking Alliance's Social Transformation Framework are considered a promising route to a shared understanding of the impact companies can have on pressing global challenges — and to a greater appreciation of the differences in performance amongst some of the world's largest and most influential companies.[6]

Last, leaders also identify an onus on larger and more advanced companies to extend their commitment to ethics and values across their networks, including their expectations of suppliers. By embedding formal expectations and standards of ethical business across their supply chains, leaders believe, industry players can extend commitment to these issues beyond a small group of pioneers and accelerate the transformation into business-as-usual approaches that embed ethics into the core of every company's operations.

> *If the first thing that you tell your people when they join is that we have to hit the budget, everything about culture, values, and purpose goes out of the window.*
>
> Ashif Kassam, Executive Chairman, RSM Eastern Africa LLP

3. Engaging stakeholder groups, including underrepresented and marginalised communities

One of the most frequent themes in our conversations with leaders was a growing commitment to broadening the conversation on ethics in business. Leaders are clear that as expectations of business rise, and as the complexity of decisions grows, deliberating on the right thing to do depends on listening to a wide range of voices and perspectives. To build trust and credibility, it is critical that leaders are personally engaged in this journey. Yet, as Sue Unerman, Chief Transformation Officer at MediaCom UK and author of *Belonging: The Key to Transforming and Maintaining Diversity, Inclusion and Equality at Work*, emphasises, "Our research shows that only one in two people believe that their leader takes personal responsibility for inclusion and diversity. Some leaders are afraid to misspeak or make a mistake that could potentially be career-ending, so are choosing to sit back and delegate."

For many companies, engagement will begin with their workforce. This year's Edelman Trust Barometer reveals that workers increasingly expect a seat at the table: 62% of those surveyed believe that employees have the power to force corporations to change, and to take more seriously their responsibilities to their people, to the environment, and to society. And this expectation is translating into direct action: 50% report that they are more likely than a year ago to voice objections to management or to engage in workplace protest.

In the words of one senior leader in the financial sector, "The most important thing is that we continue to engage with people who ask questions that are not easy to answer. And that may not always be popular, or viewed as appropriate, but we have to continue to challenge ourselves and our diversity of perspective to recognise there are different ways to measure success, different things to focus on, and we have to keep on top of them all."

This commitment to opening up discussion and debate is particularly evident in some quarters of the tech sector. "I think one of the challenges in my role is that a small team could not possibly be expert on all the issues that come up," says Paula Goldman of Salesforce. "It requires outside expertise and networks of experts who have different perspectives and backgrounds."

> *The most important thing is that we continue to engage with people who ask questions that are not easy to answer. And that may not always be popular, or viewed as appropriate, but we have to continue to challenge ourselves and our diversity of perspective to recognise there are different ways to measure success.*

As companies deepen their commitment to responsible innovation and ethical use, and look to embed consideration of societal impact throughout design and innovation processes, leaders are increasingly recognising the limits of internal debate. Whether through establishing an advisory council on ethics that can bring perspectives from different sectors and domains, or through engaging more deeply with underrepresented and marginalised communities, leading companies are bringing more voices to the table, enhancing the quality of debate, and addressing blind spots that hamper effective decision making.

4. Engaging investors on the value of ethical business

Signs are emerging of a more productive conversation between companies and investors on the importance of a values- and principles-driven approach to business that seeks to maximise a company's contribution to environmental, social, and governance challenges.

As companies have enhanced their ability to track and communicate the benefits of sustainability to long-term performance, investors have become a more receptive audience. The leaders we spoke with report greater appetite on the part of investors to factor in purpose and values as well as enhanced sustainability metrics. "Going back a decade, the challenge was that people didn't talk about values or purpose," says Convex's Stephen Catlin. "Trying to persuade an investor that we create greater value by having good values and living up to them was not really spoken about. Nowadays, the industry has evolved and you see more understanding and interest in having that conversation."
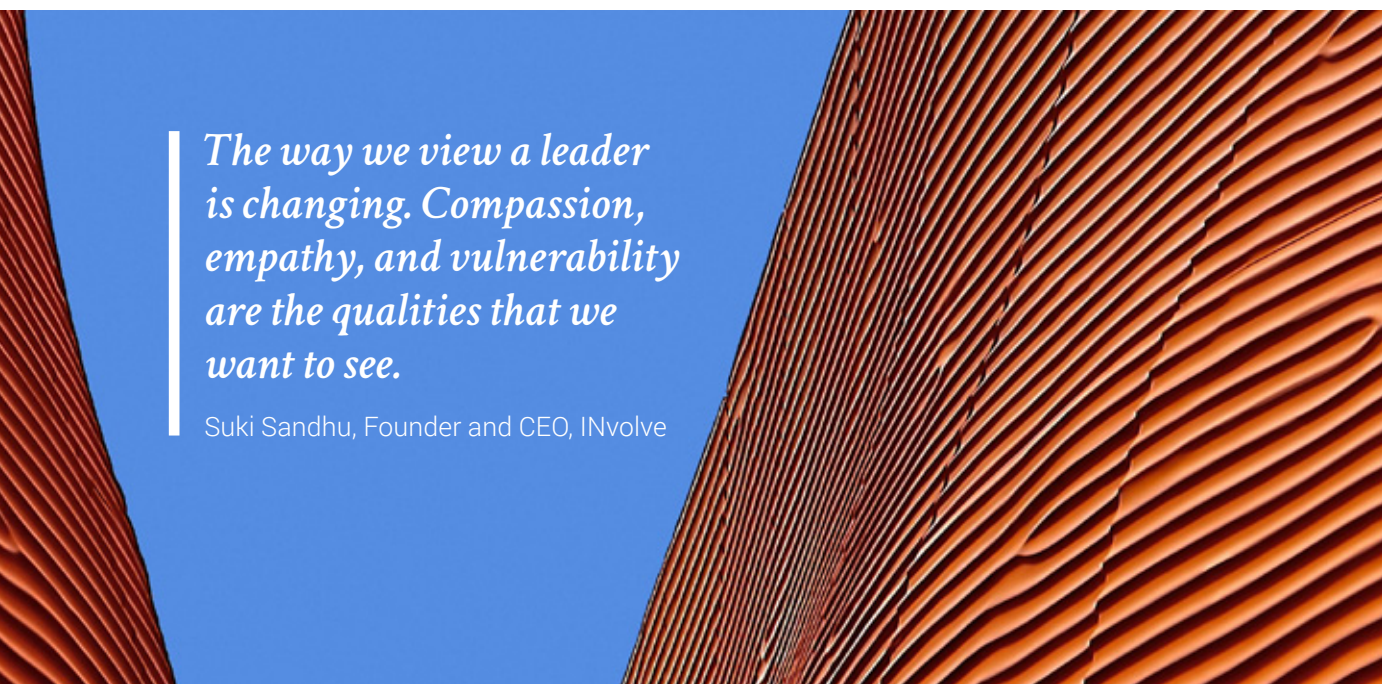
This progress is by no means universal. Investors are still often absent from the discussion on ethical and responsible business. Amongst publicly traded companies in our survey, just 14% cited investor pressure as an important factor in motivating them to build a more ethical organization and only 16% cited investors as an important stakeholder in determining their approach.

A critical part of the challenge is equipping companies and investors to have productive conversations that enable analysts brought up within the green borders of Excel to factor a company's ethical capabilities into their expectations for future value. This has been a long-running challenge: a 2014 survey conducted by the UN Global Compact, Accenture, and the Principles for Responsible Investment (PRI) revealed that while 38% of company executives believed they could accurately quantify the value of their sustainability initiatives, just 7% of investors said the same of the companies in which they were investing.[7]

Many leaders we spoke with identified fundamental challenges in the structure of global markets. As one leader in the United States pointed out, "There's a growing appreciation that doing the right thing, and addressing these global challenges, is good for the bottom line in the longer term. But one of the challenges that is imposed by our regulatory environment is the quarterly reporting of earnings. If earnings were reported on an annual basis, you would have much less pressure on short-term results and a greater ability to focus on multiyear performance and longer-term assessment of social impact."

But as Edelman's Trust Barometer demonstrates, investors are increasingly attuned to companies' commitment to societal purpose: 72% of institutional investors surveyed said that a clearly defined vision for benefitting society inspires trust in the companies in which they invest. As Anna Marrs, President of Global Commercial Services at American Express, reflects, "Every financial institution has to find a balance of supporting customers and keeping their shareholders in mind. What I see in moments of crisis is that we have a bias towards customers, and our shareholders understand and appreciate it." As investors seek to engage more actively with boards and management — 93% of respondents intend to take a more activist stance in influencing how companies are run — many are seeking evidence that companies can make business-critical decisions through the lens of values, principles, and societal purpose.[8]

Despite widespread belief in the potential of financial markets to accelerate change, perhaps the most common theme in our conversations was that leaders are no longer content to wait for investors to demand action — and do not believe that in today's environment a lack of investor interest can be used as an excuse for inaction. In the words of one leader, "We have to go and do it, and then show investors why it's important. We cannot let investors be the barrier to action."

> *The way we view a leader is changing. Compassion, empathy, and vulnerability are the qualities that we want to see.*
>
> Suki Sandhu, Founder and CEO, INvolve

5. Developing a new generation of leaders

Reflecting on the cultural shift that will be required to reorient their companies towards playing their part in driving a fairer and more just global economy, the leaders we spoke with placed particular emphasis on the role of the next generation. And while they see the development of a new generation of leaders to be, in part, an internal challenge for HR, OD, and L&D teams to solve, they also see sector-wide challenges in redefining the template for global business leaders.

"The way we view a leader is changing," says INvolve's Suki Sandhu. "Compassion, empathy, and vulnerability are the qualities that we want to see, as well as that vulnerability to open up and share issues that they are facing. This is a way to destigmatise issues and create a safe space for others to share too."

A key element in addressing these challenges, leaders believe, will be engagement with universities and business schools to broaden curriculums for postgraduate and executive education, moving beyond an outdated adherence to the primacy of shareholder value, and towards new ways of thinking about the value that business can create for society, as well as new skills focused on ethical leadership and decision making. As Ashif Kassam, Executive Chairman of RSM Eastern Africa LLP, proposed: "We need to start teaching people the underlying aspect of how you distinguish between right and wrong, what frameworks they can use, and where to look for answers."

There are already signs of movement within universities and business schools. As Alex Edmans of London Business School told us, "We launched a new elective on responsible business, and what was really surprising is that most of those who took the elective weren't interested in going into a CSR department, for example, but they recognised that the businesses they wanted to lead are businesses that serve wider society. But it's also clear that this perception of millennials as snowflakes who just care about saving the world is unfair. They clearly see that anchoring business in societal purpose is what ensures that the organization is effective, and that it can take those long-term decisions."

The Emerging Leaders Ethics Forum

The Emerging Leaders Ethics Forum (ELEF) is a global cross-sector initiative to bring together leaders across business, government, and civil society to share perspectives on some of the critical challenges of the coming decades.

The community was established to build a global movement of young leaders sharing knowledge and perspectives on the most pressing ethical issues facing their organizations, sectors, and societies. Community participants work together, supported by members of the Principia network of academics, consultants, and practitioners, to generate cutting-edge knowledge and research on ethics in business, as well as practical strategies for change that empower every individual to take action.

The Ethics Forum starts from the belief that a new generation of leaders already has the power to implement change within their own organizations, and through the community leaders commit to using that power responsibly, sharing generously, and contributing to change across their sectors and societies.

In September 2020, the community convened the Future Leaders Summit, bringing together 75 young leaders across 28 countries. This two-day event took place online and followed "Open Space" principles, focused on making connections, establishing dialogue, and exchanging ideas. The theme of the event was #BuildBackBetter, with a platform for members of the community to share ideas on an agenda for change that can harness the potential of the next generation.

The event covered a range of discussions proposed and organised by the community, including motivations for ethical business, the search for prosperity without growth, the role of technology platforms in fighting misinformation, and the use of storytelling techniques to support culture change across large and complex organizations.

As it extends its global footprint over the coming years, the Ethics Forum will bring together more young leaders committed to ethical and sustainable business to drive innovation and action, and to share concrete, actionable ideas, for practical interventions that can integrate ethics into day-to-day operations.

The community will also provide a collaboration space to develop research and initiatives to respond to ethical challenges, supporting one another as members seek to scale up their contribution to forging a fairer, more just society.

For more information on the Emerging Leaders Ethics Forum, contact research@principia-advisory.com.

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.

Daniel Klier
Global Head of Sustainable Finance, HSBC

Peter Lacy
Chief Responsibility Officer and Global Sustainability Services Lead, Accenture
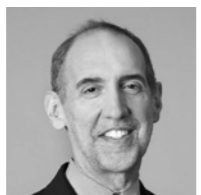
Bassam Maamari
Chairman, Banque Bemo Saudi Fransi

Trevor Manuel
Chairman, Old Mutual Limited

Ade Ayeyemi
CEO, Ecobank Group

Darren Burton
Vice Chair, Human Resources, KPMG US

Ann Cairns
Executive Vice Chair, Mastercard

Stephen Catlin
Chairman and Chief Executive, Convex

Anna Marrs
President of Global Commercial Services, American Express

Kenny Nwosu
Chief Executive Officer, Norsad Finance

Elizabeth Proust
Director, Lendlease; Immediate Past Chair, the Australian Institute of Company Directors

Gabriel Ros
Managing Director, Mapei Argentina SA

Ruchi Dana
Executive Board Member, Dana Group

John P. Davidson
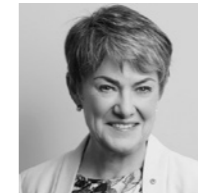CEO, Options Clearing Corporation

Wiebe Draijer
CEO, Rabobank

Alex Edmans
Professor of Finance, London Business School

Suki Sandhu
Founder and CEO, INvolve

Thakane Setsabi- Mushonga
Customer Strategy Executive, Old Mutual Limited

Andrea Stürmer
CEO, Zurich Insurance Austria

Henrik Syse
Research Professor, the Peace Research Institute Oslo

Yvonne Garcia
Chief of Staff, State Street

Katherine Garrett-Cox
CEO, GIB Asset Management

Paula Goldman
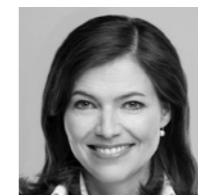Chief Ethical & Humane Use Officer, Salesforce

Harriet Green
Executive Chair, Mission Beyond; Former Chairman and CEO, IBM Asia Pacific

Alison Tarditi
Chief Investment Officer, Commonwealth Superannuation Corporation

Sue Unerman
Chief Transformation Officer, MediaCom UK

Andy Wales
Chief Digital Impact and Sustainability Officer, BT Group

Richard Walker
Managing Director, Iceland Foods

Mark Hoplamazian
President and CEO, Hyatt Hotels Corporation

Alan Jope
CEO, Unilever

Ashif Kassam
Executive Chairman, RSM Eastern Africa LLP

Georg Kell
Chairman, Arabesque, and Founding Director, UN Global Compact

Lara Warner
Chief Risk and Compliance Officer, Credit Suisse Group AG

Bo van Zeeland
Chief Counsel Compliance, Litigation, Trade and EHSS, SABIC

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Matt Nelson, Designlogic

Berenger Playford, Designlogic

Chris Coulter, GlobeScan

Robin Miller, GlobeScan

Professor David Grayson CBE, Institute of Business Ethics

Dr. Ian Peters MBE, Institute of Business Ethics

Ariel Abramova, International Chamber of Commerce

Sabrina Klayman, International Chamber of Commerce

Andrew Wilson, International Chamber of Commerce

Justin Firth, INvolve

Suki Sandhu, INvolve

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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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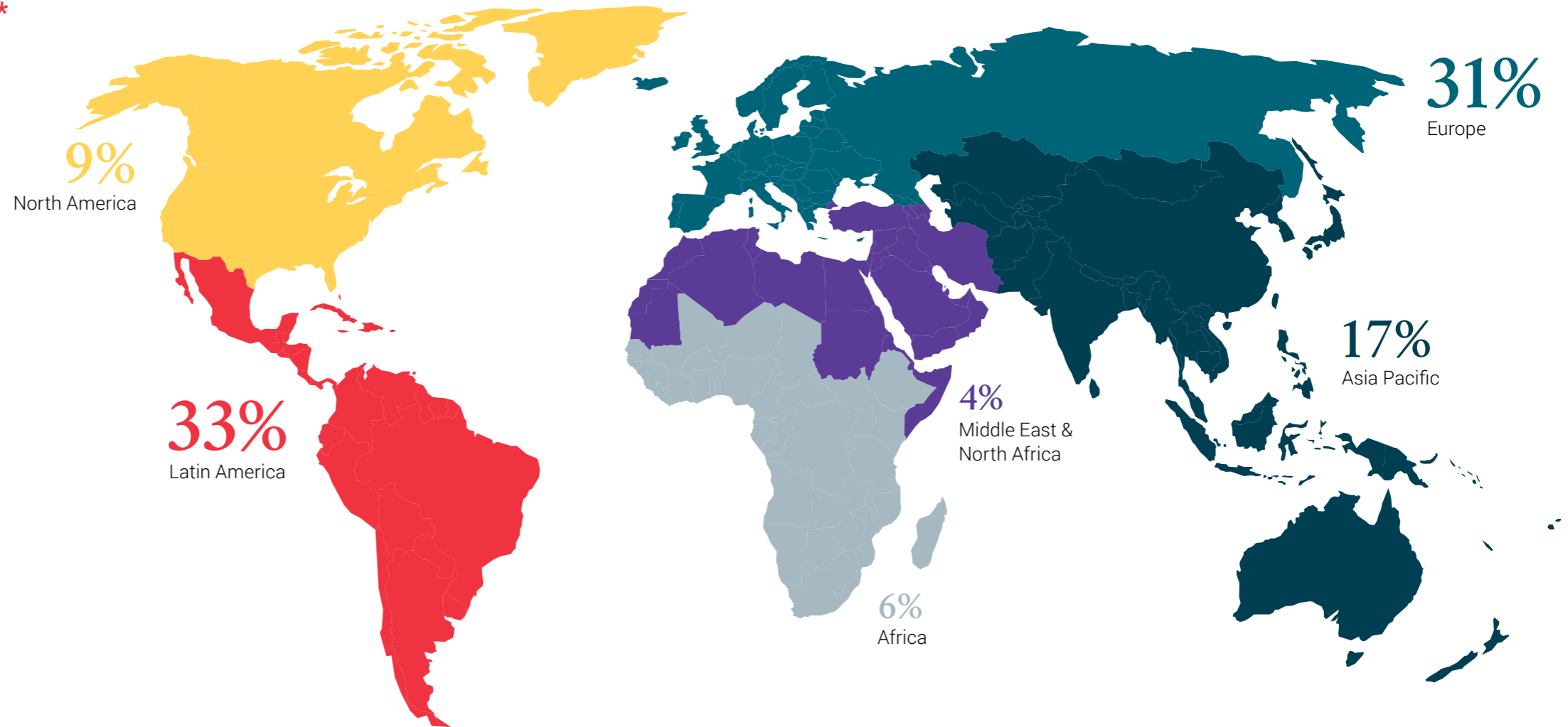research@principia-advisory.com

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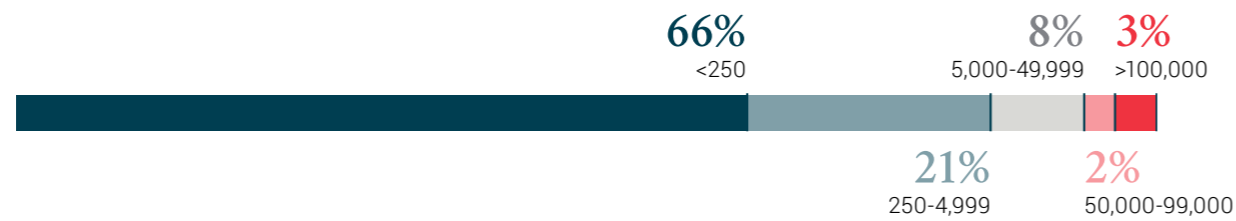
Demographic data at a glance*

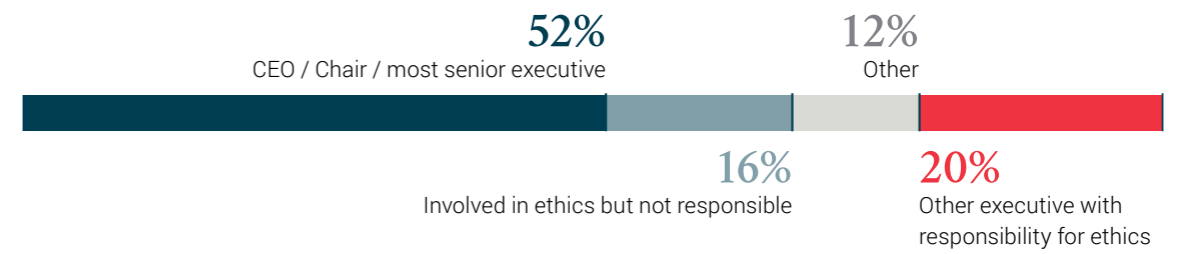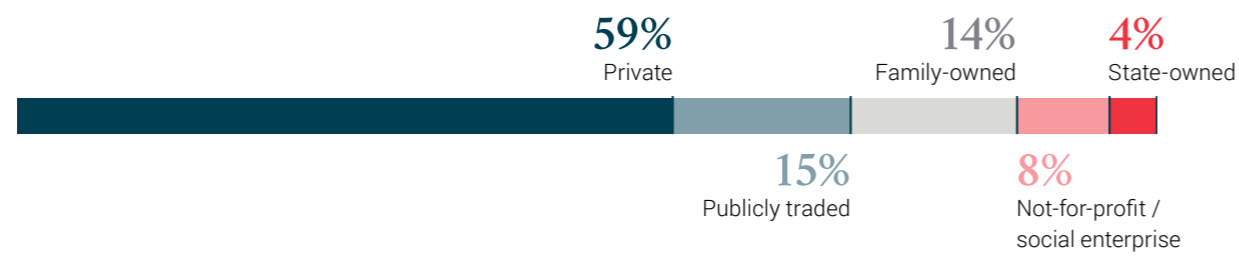* Excluding responses without demographic data (12%)

Region

9%
North America

33%
Latin America

31%
Europe

17%
Asia Pacific

4%
Middle East &
North Africa

6%
Africa

Headcount

66%
<250

8%
5,000-49,999

3%
>100,000

21%
250-4,999

2%
50,000-99,000

Role

52%
CEO / Chair / most senior executive

12%
Other

16%
Involved in ethics but not responsible

20%
Other executive with
responsibility for ethics

Ownership profile

59%
Private

14%
Family-owned

4%
State-owned

15%
Publicly traded

8%
Not-for-profit /
social enterprise

Function

11%
Corporate or
External Affairs

1%
Ethics

26%
Legal

4%
HR

11%
CSR, CR, or
Sustainability

10%
Ethics and
Compliance

5%
Internal Audit
or Finance

32%
Other

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