

## Business Ethics & Compliance Practices in Leading Irish Based Companies

### Summary

While recent corporate scandals have increased reporting and compliance obligations for companies with US stock exchange listings, Irish based organisations are not obligated to adopt codes of ethical conduct, promote policies or provide general compliance training to staff. Recent events have highlighted the risks associated with poor ethical compliance and it was against this background that an evaluation of Irish corporate practices was undertaken.

In an attempt to assess the degree of importance which is placed on business ethics by Irish based companies, RA Consulting undertook a survey of 91 leading organisations' approaches to the management of compliance and promotion of responsible corporate behaviour.

Though an overwhelming majority of respondents indicated that core ethical values were supported within their organisations, less than half provided training to employees or offered a means through which non-compliances could be reported anonymously. While respondents generally felt that ethical standards were promoted, only 57 per cent actually monitored compliance levels and just 38 per cent assessed employees' commitment to such standards.

Almost a quarter of respondents (24 per cent) stated that it was difficult to comply with strict ethical standards and not compromise financial objectives. Further evidence of the challenges associated with compliance was also highlighted by 27 per cent of respondents who indicated that: "to succeed in business, there is pressure to compromise ethical standards".

It could be argued that pressure to meet investors' expectations also has the potential to adversely impact upon compliance practices as only 51 per cent of respondents agreed that: "shareholders' interests are secondary to ethical considerations" and 12 per cent actually disagreed.

While 90 per cent of respondents stated that their company's focus was on promoting genuine ethical behaviour as opposed to empty value statements, a significant proportion (27 per cent) did not have policies or procedures in place and over half (51 per cent) did not provide ethics or compliance training<sup>1</sup>.

The promotion of ethics and compliance was seen as a particular concern in light of recent domestic and international financial scandals, however, many organisations still fail to monitor compliance (43 per cent) and over half (51 per cent) do not provide anonymous reporting systems which are necessary to highlight non-compliances<sup>2</sup>. Similarly, just 38 per cent had formal processes in place to monitor employee commitment to ethical guidelines.

Though the pressure to compromise ethical standards was found to be real, a large proportion of leading companies remain exposed to compliance risks given their failure to introduce training, monitoring and whistle-blowing systems.

The results highlight a passive approach to ethical compliance on the part of many Irish based organisations and a greater level of active intervention is required in order to ensure that the likelihood of future scandals or ethical breaches is reduced.

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<sup>1</sup>This figure was higher (at 69 per cent) in ISEQ listed companies.

<sup>2</sup>65 per cent in ISEQ companies

## Research Methodology

The research was undertaken during June and July of 2004 and involved a survey of 91 Irish and overseas companies with operations in Ireland. The survey research sample was stratified to include: (i) all companies with a primary listing on the Irish stock exchange (ISEQ companies) and (ii) leading organisations representing a range of industry sectors, but with a weighting towards those in the banking and financial services sector.

The sample was selected to include organisations with greater regulatory obligations arising as a result of their financial services operations and/or public company listings. Accordingly, it was envisaged that the results would identify 'leading practice' approaches as they currently exist within Ireland.

RA Consulting invited key executives within each of the sample organisations to respond to the survey. Invitations were sent to Finance Directors and HR Directors and also to Compliance Managers (where compliance positions were in existence).

Responses were received from 40 companies (representing a response rate of 44 per cent) and the survey research findings are outlined below.

## Research Findings

### Value Statements & Competing Objectives

The research findings highlighted a strong commitment to ethical values, with 86 per cent of respondents indicating that "value statements provide employees with clear guidelines for actions/decision making" and 93 per cent suggesting that "values such as honesty and respect are practiced within their organisations". 91 per cent also indicated that they "encourage employees to do what is right, not what is profitable". Ethical guidelines or value statements also extended to cover customers, suppliers and the public in 84 per cent of cases.

Notwithstanding, the potential for ethical dilemmas arises when one considers that 24 per cent of respondents agreed with the statement: "it is difficult to comply with strict ethical standards and not compromise financial objectives". When the stratified sub-sample results were considered, non-ISEQ companies perceived greater difficulties in this regard with 35 per cent indicating that financial objectives were likely to suffer when strict ethical standards were applied. 20 per cent of respondents in this (non-ISEQ) sub-sample also suggested that: "larger companies could afford to be more ethical than smaller ones".

While one would expect that shareholders' interests would be secondary to ethical considerations, just over half of respondents (51 per cent), agreed that this was the case. When the different population sub-samples were considered, we found that this figure decreased further with only 35 per cent of ISEQ companies indicating that shareholders' interests were secondary to their ethical obligations, (the corresponding figure was 65 per cent of non-ISEQ companies).

This may be interpreted to suggest that certain ethical standards may be compromised where financial considerations are accorded greater importance. It should be emphasised, however, that these results should be interpreted with caution as no attempt was made to identify the type of ethical obligations which might be compromised in cases where financial considerations took precedence, e.g. slightly compromising waste disposal regulations or engaging in bribery or price fixing.

Evidence of the challenges associated with compliance was highlighted by 27 per cent of respondents who agreed with the statement: "to succeed in business, there is pressure to compromise ethical standards". Interesting, just 43 per cent disagreed with this view and another 30 per cent neither agreed nor disagreed.

## Cultures of Compliance

Recent corporate scandals have demonstrated that though clear guidelines may exist to promote the importance of ethical behaviour within organisations, cultures of non-compliance can still prevail. Against this background, we asked respondents to indicate whether core values were supported informally as well as formally, within their organisations.

Eighty eight (88) per cent of respondents indicated that core values were supported consistently and 90 per cent suggested that their company's focus was on "promoting genuine ethical behaviour as opposed to empty value statements".

Leaders were seen to set an example of good ethical behaviour with 95 per cent of respondents indicating that the actions of their organisation's managers generally reflected core company values. 82 per cent also suggested that employees were seen to set a good example for their colleagues.

Breaches of ethical guidelines were met with 'serious disciplinary sanctions' in 88 per cent of cases and respondents indicated that employees understood the importance of business ethics to productivity, quality and customer service in 79 per cent of cases.

Overall, the culture of compliance within Irish based organisations was seen to be strong with respondents indicating that ethical guidelines were considered as part of the normal, daily decision making process in 87 per cent of cases. 81 per cent of respondents also indicated that there was a high level of support for ethical compliance within their organisations.

## Active Implementation

A significant majority (78 per cent) indicated that recent international events had served to increase their company's focus on business ethics and though 73 per cent stated that they had clear policies and procedures in place, a significant minority, (27 per cent), have thus far failed to develop such supporting mechanisms.

Just 49 per cent of companies provided employees with training in business ethics and this number decreases to only 31 per cent within the ISEQ sub-sample. Similarly, advice lines were said to be available to employees who wished to raise or discuss ethics in 43 per cent of cases, but again this number fell to just 35 per cent in ISEQ listed organisations.

Though 88 per cent of respondents indicated that systems exist to facilitate the reporting of non-compliances and 73 per cent suggested that confidential reporting systems were in place, just 49 per cent stated that they had systems which provided for the anonymous reporting of non-compliances, (i.e. whistle-blowing). Interestingly, this figure falls to 35 per cent in ISEQ listed organisations.

Ninety (90) per cent of companies stated that they focused on the promotion of genuine ethical behaviour as opposed to empty value statements, however, just 57 per cent stated that they monitored compliance and reported results. Again, this figure was lower (at 41 per cent) in ISEQ listed companies.

One interpretation of the findings suggest that though a significant proportion of respondents promoted the concept of ethical compliance, there is considerable scope to enhance implementation through training, reporting systems, policies and ongoing monitoring. Though 78 per cent of respondents indicated that managers were held accountable for ethics within their respective departments, just 57 per cent actually monitored compliance. Furthermore, only 38 per cent of companies had adopted formal processes designed to assess employee commitment to the ethical guidelines which were espoused. Results from the ISEQ sub-sample are particularly poor in this regard as just 18 per cent of these organisations assessed employee commitment in any formal manner.

## Conclusion

While 66 per cent of respondents suggested that ethics and compliance was accorded a high level of importance<sup>3</sup>, nearly a quarter of respondents (24 per cent) suggested that it was difficult to comply with strict ethical standards and not compromise financial objectives. Furthermore, just 51 per cent felt that shareholders' interests were secondary to ethical considerations.

With 27 per cent of respondents suggesting that there is pressure to compromise ethical standards in order to succeed in business, there is an obvious requirement for a greater level of monitoring and regulation within Irish based organisations. As the pressure to compromise ethical standards was found to be real, a large proportion of leading companies remain exposed to compliance risks given their failure to introduce training, monitoring and whistle-blowing systems.

Though an overwhelming majority of respondents indicated that core ethical values were supported within their organisations, less than half provided training to employees or offered a means through which non-compliances could be reported anonymously. Despite the general feeling that ethics was promoted within sample organisations, only 57 per cent monitored compliance levels and just 38 per cent actually assessed employees' commitment to ethical standards.



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RA Consulting is a specialist, strategic HR consulting practice, dedicated to providing innovative and expert solutions which are customised to meet the unique requirements of our client organisations.

We transform clients' HR strategies, systems and outcomes to improve organisational effectiveness and we leverage human resources to promote real competitive advantage.

RA Consulting's Business Ethics and Compliance service line supports organisations by providing training, policy guidance and consultancy services which are designed to promote compliance and mitigate risk.

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<sup>3</sup>Giving an importance rating of 8 to 10 on a 10 point scale