

# *Conflicts of Interest/ Independence*

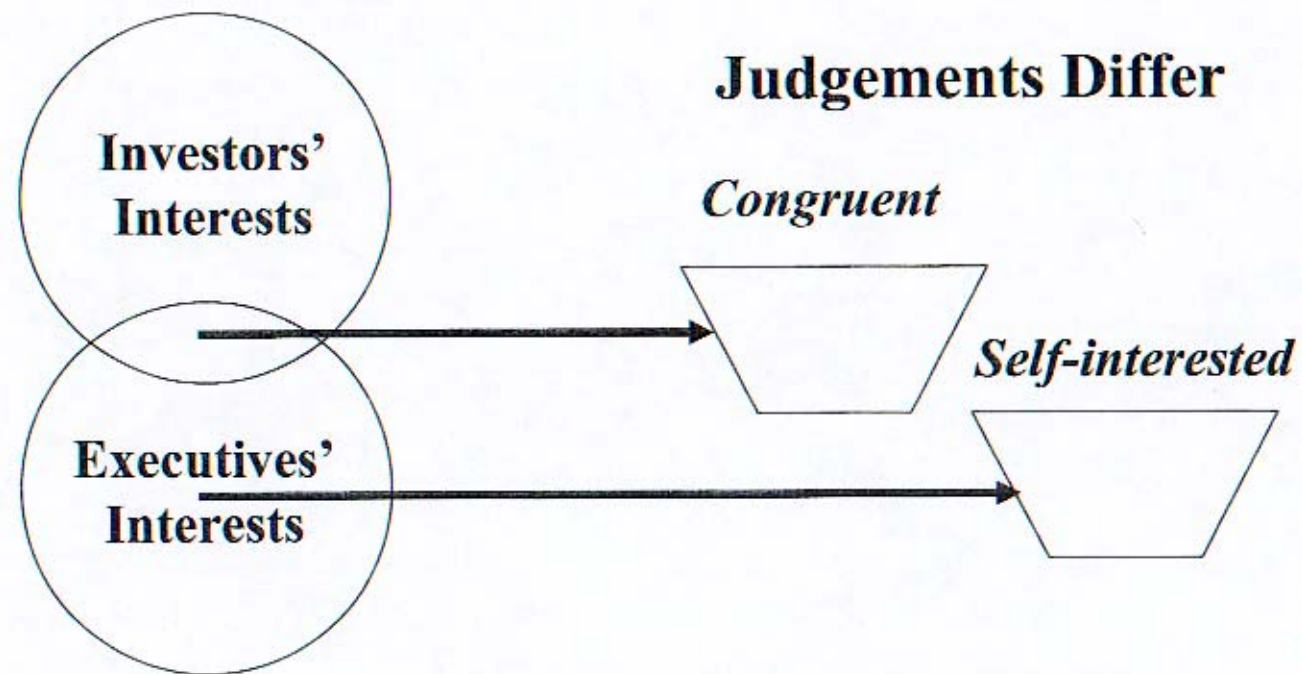
*For directors, management and employees:*

- Where an individual's independent judgment is swayed, or might be swayed from making decisions in the organization's best interest.

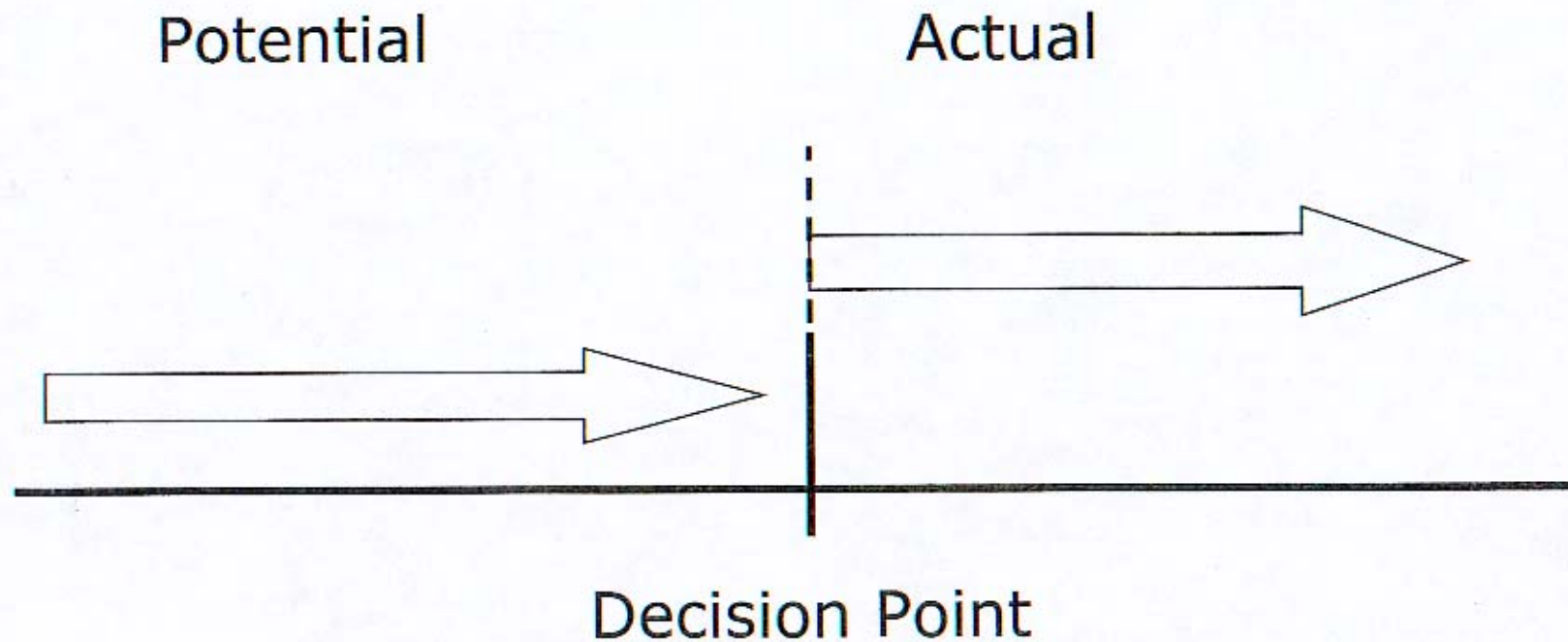
*Important Issues:*

- *Usual Causes:* self-interest, misunderstanding
- Slippery slope
- Inevitable...So how to manage to avoid harm
- Appearance is vital
- Guidance needed

# Judgement Based on Common and Conflicting Interests



# Types of Conflict of Interest



*Non-existent* ⇔ *Apparent* ⇔ *Imaginary*

# *Conflicts of interest - Causes*

- *How might judgement be swayed ...* any interest, influence, loyalty, concern, emotion, or other feature tending to make judgement less reliable than normal. *D&S, 9.*
- *Self-interest* - bribes, gifts, free travel, favors, special advantages or treatment, dealings with family, relatives or relations
- *Fraud* - misappropriation of funds or property
- *Misunderstanding* - confused signals or incentives, boss/ everybody's doing it, cultural differences, slippery slope

# *Management of Conflicts of Interest*

- Awareness and understanding- training
- Guidance & compliance - code, signoff
- Avoid - can't always
- Additional controls:
  - disclosure and consultation - ethics officer+
  - additional approvals
  - Chinese walls/Firewalls - confidentiality
  - prohibition and scrutiny
- International aspects, [www.transparency.de](http://www.transparency.de)

# *Gift or Preferential Treatment*

## *Guidelines for Acceptance/Giving:*

- Is it nominal or substantial?
- What is the intended purpose?
- What are the circumstances?
- What is the position of sensitivity of the recipient?
- What is the accepted practice?
- What is the firm/company policy?
- Is it legal?

# *Other Conscience Issues*

- *Blind loyalty is passé*
- *Whistleblowing*     *GE case - \$70 million*
  - Culture discourages
  - Ethical heroes:
    - 60% fired,
    - 17% lost homes,
    - 10% at tempted suicide
  - Encouragement
    - Trust, hotlines, ombudspersons, awareness +
  - Protection
    - Anonymous, fair hearing process, board committees, statutory protection

# Sound Governance is based

On shared ethical values & ethical decision making...

- ◆ Values will determine attitudes & behaviour
- ◆ Values are shaped & supported by an organization's culture

*What Board of Directors and/or stakeholder group can afford external whistle blowing/or ethical slips?*



# Corporate Culture

- *Corporate Culture*

those shared values, beliefs and other means that guide the actions of a corporation's employees and agents.

- *An Ethical Corporate Culture*

provides guidance for employees:

- about when to adhere to the Code, and
- when actions are not covered in Code, or are in a grey area, or in a crisis.

# Developing an Ethical Corporate Culture

- Identify Values
- Build an Ethics Program & Code of Conduct
  - Focus on values
  - Decision guidance
    - principles vs rules, sniff tests, comprehensive frameworks
  - Awareness, training, reinforcement
    - Board of Director, *top management involvement & support*
    - Ethics Office/r, hotlines/help lines, annual sign-off
  - Monitoring, ethics risk management, enforcement, review
    - *Whistle-blower protection plan*
  - Hook into strategy! Test mandate. Bend for local culture?
  - Procedural, structural, cultural, failsafe mechanisms\*
    - Handouts: Conf. Bd. Tables p. 28,29 recast as Reference\*

# Corporate Culture: Mechanisms

- Cultural
  - Values, tone at the top, reinforcement...
- Structural
  - Code, Ethics Officer, Program...
- Procedural
  - Ethical decision making - ordinary + crisis mgt.
  - Ethics inquiry...
- Failsafe
  - Whistle blower protection...to Board...Enron, GE
  - Ethics/values audit ...Dow Corning Silicone Breast Implants