

What the Nordic Banking Scandals Can Teach us about Corporate Culture

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What is the lesson that we can learn from Danske Bank and Swedbank and the allegations of money laundering? It is not the fact that billions of dollars were apparently laundered through their respective Baltic branches. It is the fact that in the Corruption Perception Index (CPI) published by Transparency International, that we use as an example when teaching ethics, Denmark and Sweden always have the highest ethics score. They are held out as role models of what ethical behaviour is meant to be. But somewhere, these two Banks have lost the plot, despite being part of these ethical societies. What happened?

Ethics is not simply a code of conduct and corporate procedures. Is not what is preached, but what is learned and what is actually practised. Ethics to be effective has to be part of the corporate DNA, just as it has to be part of the DNA of every employee. The adage that a company is only as good as its weakest link, rings true. There will always be bad actors, but an ethical corporate culture helps weed them out. Where there is a culture of ethics, behaviour that falls short of that standard is not tolerated, because what motivates the company and what is rewarded rejects such behaviour.

A corporate culture starts at the top and works its way down, but as long as we promote managers for their financial success, with no real assessment of their ethical integrity, the Danske Bank and Swedbank situations will continue to occur. We can think of other recent corporate ethical disappointments like Volkswagen and Siemens. Financial performance drove top management to make errors in judgement. The very thing that we place them in positions of authority, to avoid. Profit before integrity has always been a corporate mantra, but what is happening at the moment is a wakeup call. A culture of unethical behaviour ultimately weakens critical institutions, ultimately leading to loss of faith in society itself. The vast majority of people in Western societies today have lost faith in our institutions and continuous corporate scandals have contributed to that demise.

When I was a young lawyer in the Defence Industry it was going through great ethical upheaval. The US Foreign Corrupt Practices Act was written due to the manner in which foreign defence contracts were obtained. The Industry was forced to look at the way it conducted its business and its employees behaved. Top management who had been part of the problem, paid lip service to policies and procedures of ethical behaviour, but never meant to take them off the shelf. They were mere window dressing. But things changed as these people retired or were forced out. Large fines were imposed, and contractors were debarred from bidding on future government contracts. There was a recognition over time that unethical behaviour was too costly and ethical behaviour actually led to better business results. Cost benefit came down on the side of being ethical. The tone from the top changed as did the culture within. Employees were trained, hotlines were

implemented, allegations whether inside or outside the company were taken seriously and investigated and ethical behaviour was made part of performance reviews. Bad apples, no matter how high up in the Company were disciplined and terminated. In the last decade there has not been a CEO in a major US defence company that has faced allegations of unethical behaviour, yet the share value of all these companies have soared. This is not due to having pieces of paper, but having implemented an ethical culture, that motivates corporate behaviour.

So, what are the ingredients needed to turn around companies like Danske, Swedske and Volkswagen after they have so dramatically failed. In fact, much like the US defence industry, you first have to experience failure before you can be motivated to change corporate culture. After all, why would you make changes if your behaviour is rewarding success. Often it is only after bad behaviour is discovered that change is possible. It was only after Siemens was exposed to having a culture where slush funds for corrupt payments were so rampant, that employees helped themselves to them, that a root and branch change was implemented.

So, what are the ingredients that can turn a company from an ethical failure into a poster child. There are these simple steps that can be taken to start making cultural changes:

1. **Be a role model and be visible.** Employees look to the behaviour of top management as a model of what's acceptable behaviour in the workplace. When senior management is observed (by subordinates) to take the ethical high road, it sends a positive message for all employees.
2. **Communicate ethical expectations.** Ethical ambiguities can be reduced by creating and disseminating an organizational code of ethics. It should state the organization's primary values and the ethical rules that employees are expected to follow. A code of ethics is worthless if top management fails to model ethical behaviours.
3. **Policies and Procedures.** There should be a set of company policies and procedures drafted to support the code of ethics and guide employees as to the types of behaviour that is encouraged and that which is discouraged. This should include an ethics helpline accessible to all employees world wide on a 24/7 basis and also available to those outside the company such as suppliers, contractors and customers to access. When information is received ensure that it is processed quickly and efficiently.
4. **Ethics training.** Set up seminars, workshops, and similar ethical training programmes. Use these training sessions to reinforce the organization's standards of conduct, to clarify what practices are and are not permissible, and to address possible ethical dilemmas. These training programmes should be pushed out to agents, distributors, subcontractors and suppliers to ensure the companies you are working with have a similar culture. Training should also be updated and repeated on an annual basis.
5. **Visibly reward ethical acts and punish unethical ones.** Performance appraisals of managers should include a point-by-point evaluation of how his or

her decisions measure up against the organization's code of ethics. Appraisals must include the means taken to achieve goals as well as the ends themselves. People who act ethically should be visibly rewarded for their behaviour. Just as importantly, unethical acts should be punished. Financial performance should not be the only measure of good performance.

6. **Provide protective mechanisms.** The organization needs to provide formal mechanisms so that employees can discuss ethical dilemmas and report unethical behaviour without fear of reprimand. This might include creation of ethical counsellors, ombudsmen, or ethics officers, as well as an ethics hotline.
7. **Regular Updates and Audits.** An ethics programme is only as good as its last update. Laws and regulations change and the policies and procedures in this area also have to be updated regularly and follow-on training provided. The programme should also be regularly audited to ensure that employees, agents, suppliers and contractors are abiding by it.
8. **Keep up with your Peers.** Keep a regular eye on what is happening in your industry and what the regulator is focusing on. This will permit you to stay ahead of the pack and ensure that you always have adequate procedures to deal with ethical matters.