



How boards can close the integrity "say-do" gap

EY Center for Board Matters

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In brief

- ▶ There is a gap between companies' intentions to better manage corporate integrity risk and actual performance.
- ▶ To drive an effective integrity agenda, companies need robust governance processes that include empowering employees to always act with integrity.
- ▶ They must also create a culture of integrity and provide the conditions necessary for whistle-blowers to feel safe when reporting suspected misconduct.

Boards must strengthen the integrity agenda as companies find it harder to uphold integrity standards in the post-pandemic environment.

Organizations are facing new pressures and challenges in upholding their integrity standards in a post-pandemic world. According to the *EY Global Integrity Report: emerging markets perspective 2022* (EY survey), nearly half of respondents in Singapore (44%) said the impact of the pandemic has made it harder to act with integrity. Worsening market conditions, declining financial performance and reductions in employee compensation were cited among the greatest risks to ethical conduct. Greenwashing is an emerging risk and yet another reason why organizations need to drive a stronger integrity agenda.

Even more worryingly, the findings from the EY survey suggest an increasing number of employees are willing to compromise ethical standards for their own benefit. Among Singapore respondents, such acts of unethical conduct include a willingness to mislead external parties such as auditors (19%); ignoring unethical conduct by suppliers, distributors or other third parties (18%); and falsifying financial records (12%). About a third of respondents (32%) agreed that unethical behavior from senior managers and high performers is tolerated in their organizations.

EY Global Integrity Report: emerging markets perspective 2022

32%

agreed that unethical behavior from senior managers and high performers is tolerated in their organizations.

44%

said the impact of the pandemic has made it harder to act with integrity

While many organizations have stepped up integrity awareness training and fraud risk assessments to better manage corporate integrity risk, the reality is that much work remains to be done. This is necessary to address the gap between intentions and actual performance as organizational failures show that ethical lapses and shortcuts persist. Boards have a crucial role in reducing this gap by driving a strategic focus on integrity standards and corporate governance to better address external threats and sustain long-term value.

Robust governance is key

The effectiveness of an organization's integrity agenda depends in no small part on the strength of its governance processes. These processes need to align with the corporate purpose, culture and values as well as empower employees to behave with integrity at all times. When done right, strong corporate governance strengthens regulatory compliance, mitigates the risk of fines or penalties and protects a company's assets and reputation.

Boards should recognize that strong governance goes beyond prescriptive training on what employees should do to maintain integrity standards. They should encourage the leadership team to shift the focus toward educating employees on why integrity is so crucial from both the personal and company perspectives. When employees understand the importance of integrity to the business, they will perform better instead of just following the rules and codes of conduct. Integrity, after all, is more than a matter of legal necessity – it is, in fact, a moral imperative. Customers, investors, capital markets and regulators may also better appreciate the company's commitment to its integrity agenda when its words and actions are in sync.

Strong governance processes that align with the corporate purpose, culture and values as well as empower employees to always behave with integrity are critical to the effectiveness of an organization's integrity agenda.

Put humans at the center of compliance

The best compliance frameworks can be breached if there isn't a culture of doing the right thing. Building a strong integrity culture is therefore as important as the control environment, if not more so.

Creating a culture of integrity helps reduce regulatory risks, enhance employee morale and build stakeholder confidence. Yet, establishing a culture of integrity is far from easy. The board and management need to set a clear, consistent tone from the top for integrity to cascade throughout the organization. In addition, the board should assess if employees are given the tools to help them make the right decisions and empowered to apply the organization's values within their framework of beliefs, supported by ethics training and education.

Further, the board should question how integrity is being factored into remuneration and performance metrics that determine, for example, promotion, succession and incentives. Employees may also complete an annual conflict of interest, anti-bribery and anti-corruption certification. Such initiatives embed integrity into the core of every employee's daily work.



Make it safe to speak up

The extent to which companies offer protection to whistle-blowers in the organization is an essential benchmark of integrity culture. Organizations need to provide their people with the opportunity to report wrongdoing in good faith and the conditions for them to feel safe doing it, including protection from retaliation.

In this regard, more needs to be done to improve the whistle-blowing environment for employees to feel comfortable in reporting suspected misconduct. Among Singapore respondents in the EY survey, more than half (54%) said the main reason for not reporting misconduct in their organization is a concern that no action would be taken. Forty-one percent cited concern about the potential impact on future career progression within their organization.

The board should review if the current whistle-blowing program allows employees to be confident in reporting suspected wrongdoing without fear of negative consequences. After all, having a sound whistle-blowing program as part of a wider governance framework enables the organization to be alerted on potential issues in a timelier manner, reducing potential losses and damage.

Ultimately, companies that embed the value of integrity in their strategic vision and day-to-day operations develop stronger businesses, sustain long-term competitive advantage and deliver greater value to stakeholders. Boards play a critical catalyst role to accelerate the shift from being reactive to being proactive in their organizations' integrity strategies.

54%

said the main reason for not reporting misconduct in their organization is a concern that no action would be taken.

41%

cited concern about the potential impact on future career progression within their organization.

Boards should consider the following questions:

- ▶ How is the board monitoring key integrity risks and holding the management accountable?
- ▶ Has the management integrated and aligned controls with governance and operational processes? Will these controls help prevent bribery, corruption, fraud or regulatory issues from affecting the company?
- ▶ How is the management measuring its culture of integrity and ethical behaviors? What steps is it taking to build integrity into performance metrics?
- ▶ How is the organization engaging its staff on integrity and legal obligations?
- ▶ Is the organization actively using technology and nonfinancial data points to identify and monitor early warning signs of integrity risks?

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