

ETHICS MANAGEMENT IN THE PUBLIC SECTOR

IMPLICATIONS FOR PERFORMANCE
AND PRODUCTIVITY



Dr. Jin-Wook Choi

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Ethics Management in the Public Sector

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Ethics Management in the Public Sector

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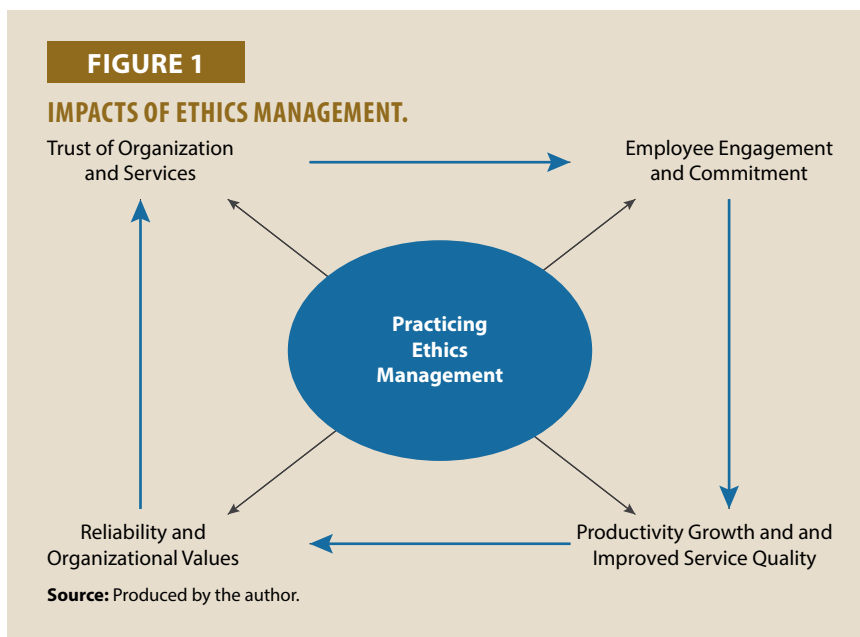
PREFACE

The P-Insights, short for “Productivity Insights,” is an extension of the Productivity Talk (P-Talk) series, which is a flagship program under the APO Secretariat’s digital information initiative. Born out of both necessity and creativity under the prolonged COVID-19 pandemic, the interactive, livestreamed P-Talks bring practitioners, experts, policymakers, and ordinary citizens from all walks of life with a passion for productivity to share their experience, views, and practical tips on productivity improvement.

With speakers from every corner of the world, the P-Talks effectively convey productivity information to APO member countries and beyond. However, it was recognized that many of the P-Talk speakers had much more to offer beyond the 60-minute presentations and Q&A sessions that are the hallmarks of the series. To take full advantage of their broad knowledge and expertise, some were invited to elaborate on their P-Talks, resulting in this publication. It is hoped that the P-Insights will give readers a deeper understanding of the practices and applications of productivity as they are evolving during the pandemic and being adapted to meet different needs in the anticipated new normal.

INTRODUCTION

Ethics management in the workplace can be defined as the efforts of an organization to create an environment in which its operations and employees' behavior are in line with moral codes and values. Unethical behavior in an organization is detrimental not only to employees but also to the organization. From the standpoint of individuals, employees' wrongdoings destroy their career-long reputations and respect inside and outside an organization, leading them to lose their jobs and face legal consequences, and demotivating other employees. From the perspective of an organization, the uncontrolled ethical violations of employees cause it to lose productivity and profits as well as customers' credibility and trust, incurring significant financial and nonfinancial risks. This suggests that upholding a high level of ethics can be viewed as an essential norm that adds value to an organization in many respects (Figure 1). A survey of more than 8,000 private-sector employees across 14 countries found that firms with a strong ethical culture outperformed in customer satisfaction, employee loyalty, innovation, adaptability, and growth compared with those operating in a weak ethical culture [1].



Considering the negative impacts of misconduct within organizations, managing ethics is important to all regardless of whether they are in the private or public sector. As a key ethos of organizational management in both the private and public sectors, ethics should be more carefully taken into account in the public sector because the range of stakeholders is broader than in the private sector. Nonetheless, the public sector usually heeds ethics management less than the private sector because of its relatively weak signaling mechanisms. In contrast, the stock market plays a role by sending a clear signal when it observes irregularities in a firm. When serious violations of ethics are found, the response of investors and consumers is swift as seen in short-term stock plunges. The public sector lacks such an effective warning signal. Although ethics violations in the public sector are not followed by immediate market reactions, severe and rampant ethics violations in a public organization trigger people's distrust in public officials and government and, in extreme cases, public protests that affect the stability of economic and political systems. This implies that ethics management is not trivial but a fundamental principle for the sound operation of the public sector as well as for the public's interests.

In conjunction with recent developments, the extent to which an organization benefits from ethics management goes beyond traditional boundaries as the notion of environmental, social, and governance (ESG)-focused business is becoming more salient. Since an ESG platform is recognized as a core business strategy, both private and public organizations have a keen interest in formulating ESG standards and promoting ESG practices. In operating ESG programs, ethical management is directly and indirectly related to an ESG framework.

Among the three ESG pillars, the "governance" pillar is profoundly influenced by ethics management as its subcomponents consist of antibribery and anticorruption, antimoney laundering, preventing fraud, promoting business ethics, and avoiding conflicts of interest [2]. No matter whether organizational ethics are understood in the context of a traditional perspective or in line with an ESG perspective, upholding a high level of organizational ethics is certainly a requisite rather than an option.

The aims of this P-Insights article are to address why ethics management is crucial through a brief case review of two corruption scandals in a private and public organization, examine what values and principles comprise organizational ethics, and suggest how organizations should manage and improve ethics.

CASES AND CONSEQUENCES OF ETHICS MISMANAGEMENT

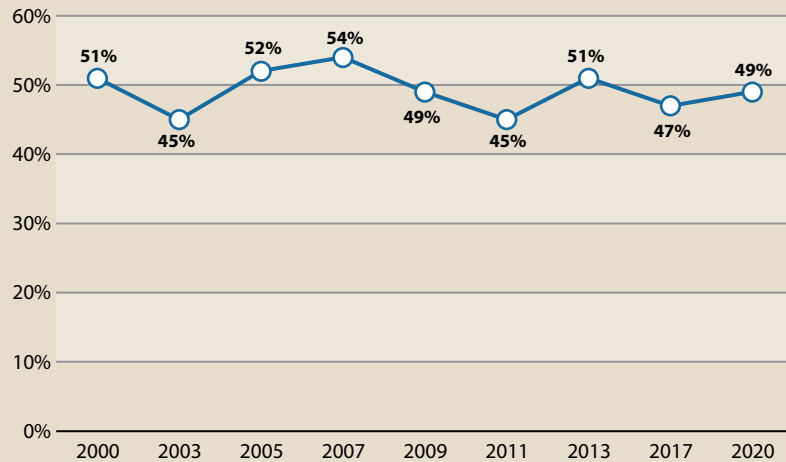
The negative impacts of ethics mismanagement on an organization and its employees have been well studied in many scholarly works and exemplified by scandals reported in the media. People may perceive that workplace ethics have improved over time along with the emergence of new managerial skills and methods related to ethics promotion. Contrary to this belief, however, ethics violations and related phenomena have not been curtailed as observed by the incessant scandals committed even by the world's largest firms such as Enron in 2001, WorldCom in 2002, American International Group (AIG) in 2005, Lehman Brothers in 2008 and 2015, Kobe Steel in 2017, and Facebook in 2018, to note a few.

Apart from these instances of ethics violations, a more systematic survey shows the persistence of unethical behavior over time in the corporate sector. The Global Business Ethics Survey (GBES) conducted by the Ethics Compliance Initiative (ECI) (ECI GBES) reported that the percentage of employees who observed misconduct in their organizations had barely changed from 51% in 2000 to 49% in 2020 (Figure 2) [3]. This result suggests how difficult it is for an organization to institutionalize an ethical culture in the workplace. Considering this trend, ethical dilemmas are not a problem of the past but continue to be a major concern for management. To highlight the risks associated with an organization's mismanagement of ethics, two cases of ethics violations in private and public organizations are provided.

The first case was the Siemens scandal in 2006, which shocked the world. Despite the pledge that "I will not sell the future for instant profit" asserted in 1884 by Werner von Siemens [4], founder of the firm, Siemens, one of the largest electrical engineering corporations, was embroiled in an unprecedented scandal on a colossal scale. For decades before the scandal was disclosed, Siemens relied on bribes and other illegal and unethical means to procure bids and expand its market. After investigations by German and US authorities, Siemens paid out more than USD1.6 billion in fines and penalties [5]. The cost of corruption at Siemens did not merely result in a penalty-related financial

FIGURE 2

PERCENTAGE OF CORPORATE-SECTOR EMPLOYEES WHO OBSERVED MISCONDUCT, 2000–20.



Source: Reproduced from ECI [3].

burden. After the corruption scandal was unveiled, it also caused severe nonfinancial damage. Observing this scandal, shareholders, investors, and even the German public questioned Siemens's ethics management and trust in Siemens was destroyed. Furthermore, the scandal humiliated its employees [6].

In the midst of this corruption-ridden crisis, Siemens made significant changes aiming to improve ethics management. Among them, the most notable change was the launching of a new compliance program to foster a culture of compliance and integrity. The new Siemens Compliance System focused on the three key steps of prevention, detection, and response. In tandem with the execution of Siemens's new integrity initiatives and commitment of leadership to anticorruption and ethics, Patrick Moulette, Head of the OECD Anti-Corruption Division, noted that Siemens was regarded as one of the world's leading transparent corporations [7].

The second scandal was a massive-scale case of corruption in 2021 that surfaced at the Korea Land and Housing Corporation (LH), one of the largest

state-owned enterprises in the ROK. As an implementing agency of the Ministry of Land, Infrastructure and Transport (MLIT), LH implements mega-projects related to land and urban development and public housing construction. Since the MLIT's development plans result in a steep increase in land prices in development areas, development plans are highly sensitive information. Despite this, several employees, public officials, and lawmakers who acquired inside information purchased a significant amount of land in development areas at low prices, expecting high returns. According to Korean laws, the use of inside information for personal gain is illegal and constitutes an act of corruption. As the public was enraged by the unprecedented soaring housing prices during the Moon Jae-In administration, the LH corruption scandal compelled many voters, especially young ones, to distrust then-incumbent President Moon and his administration and played out as one of the factors that contributed to the loss of the presidential election in 2022 by the then-ruling party. A year-long investigation led by the police and tax and financial authorities arrested 10 LH employees and referred 61 LH employees to the Prosecutors' Office.

As in the Siemens case, the scandal offered an opportunity for LH to reform. Unlike Siemens, however, reform efforts at LH were initiated not only by the company itself but also by the government. Internally, LH announced the strengthening of ethics management within an ESG framework in which “zero corruption” through “establishing a transparent management system trusted by the public” was set as a strategic target of the governance pillar. Similar to the Siemens Compliance System, LH introduced a three-step internal control system of prevention, exposure and restriction, and management and supervision [8]. At the same time, the Ministry of Economy and Finance, which is responsible for the management and performance of state-owned enterprises and other public organizations, prepared a standard model for ethics management and required all public organizations to construct their own ethics management systems.

In comparison with the Siemens case, since only a little more than a year has passed since the outbreak of the LH scandal, it is too soon to assess visible progress in the reform efforts of LH. Nonetheless, these two cases, albeit remarkable in terms of scale and magnitude, illustrate the extent to which an organization's mismanagement of ethics can cause significant impacts not only on the survival of the organization but also on polity.

KEY VALUES OF ETHICS MANAGEMENT AND TYPES OF MISCONDUCT

At the organizational level, workplace ethics is a set of values, moral principles, and standards that all employers and employees in the organization must adhere to. While workplace ethics apply to both private and public organizations, the public sector is compelled to embed broader values into operations than the private sector. These values are classified into the following three categories:

- Ethical values that include integrity, honesty, and incorruptibility for public trust.
- Professional values such as effectiveness, efficiency, creativity, and innovation for high-quality public service at low cost.
- Democratic values that include the rule of law, accountability, transparency, and responsiveness to serve the people and public interest.

While all public organizations must uphold this categorization of values, depending on their circumstances they may have different priorities in creating value-driven organizational operations. Nonetheless, OECD countries commonly prioritize the eight values of impartiality, legality, integrity, transparency, efficiency, equality, responsiveness, and justice as the core to be fostered in the public sector [9].

Although these values are conceptually distinguished, the kinds of behavior that violate expected values cannot be easily discerned because new behavioral deviants continuously occur and surpass the boundaries of existing rules and regulations. In addition, accepted behaviors in the past are no longer allowed due to changes in social norms and standards. This implies that values in an organization are evolutionary rather than fixed or stationary. Considering the changing nature of values, particular behaviors in some countries and

organizations may not be viewed as a breach of expected values. In spite of a different understanding of required values, an organization has to heed global, not local, norms and standards if it wants to avoid detrimental consequences due to failure to comply with expected values.

When the discussion is confined to ethical values, it is crucial for an organization to identify the types of specific behavior to be curtailed and regulated. In understanding organizational ethics, there is a tendency to equate violations of ethics merely with conventional corrupt practices such as bribery, embezzlement, and theft. However, the boundary of ethics management extends beyond these types to include, among others, the exercising of undue influence, violation of conflicts of interest, gift-giving, verbal and sexual harassment, and lying to employees. According to the ECI GBES, the five most commonly observed types of misconduct by employees are favoritism toward certain employees, management lying to employees, conflicts of interest, improper hiring practices, and abusive behavior and health violations [3].

PRINCIPLES AND CHECKLIST OF ETHICS MANAGEMENT

In order to uphold and improve ethics-related values, a public-sector organization needs to clarify the principles to be shared with shareholders and to diagnose the level of organizational ethics regularly and systematically. Among diverse principles related to ethics management in the public sector, Box 1 displays the OECD's 12 principles for managing ethics in the public sector [9]. These 12 principles can be reclassified into four steps: establishment and dissemination of ethics standards and regulations (Principles 1–4); commitment and best practices by organizational leadership (Principles 5, 8); ethics-based organizational operations (Principles 6, 7, 9, 10); and detection and punishment of misconduct (Principles 11, 12). Some of these principles are further explained in the next section.

BOX 1. OECD Principles for Managing Ethics.

1. Ethical standards for public service should be clear.
2. Ethical standards should be reflected in the legal framework.
3. Ethical guidance should be available to public servants.
4. Public servants should know their rights and obligations when exposing wrongdoing.
5. Political commitment to ethics should reinforce the ethical conduct of public servants.
6. The decision-making process should be transparent and open to scrutiny.
7. There should be clear guidelines for interaction between the public and private sectors.
8. Managers should demonstrate and promote ethical conduct.
9. Management policies, procedures and practices should promote ethical conduct.
10. Public service conditions and management of human resources should promote ethical conduct.
11. Adequate accountability mechanisms should be in place within the public service.
12. Appropriate procedures and sanctions should exist to deal with misconduct.

SOURCE: Reproduced with permission from OECD [9].

Although ethics violations in most cases take place at the individual level, ethics should be managed by a holistic approach, which reviews whether ethics management mechanisms in an organization work properly. In doing so, a checklist of organizational ethics is useful. Among many checklists that aim to serve as a self-diagnosis of the status of ethics, Figure 3 provided by the Hong Kong Independent Commission Against Corruption (ICAC) contains key questions to assess the level of ethics at the organizational level [10]. While the Hong Kong ICAC's checklist targets ethics in the corporate sector, it can also be applied to public-sector organizations.

FIGURE 3A
A CHECKLIST OF CORPORATE ETHICS.

Ethical Leadership Cultivating a Virtuous Mind

Organisational values form the company culture and shape staff behaviours. Corporate leaders should take the lead in fostering and sustaining a clean corporate culture by serving as role models, promoting ethical behaviours and facilitating open communication among stakeholders.

Checklist	Y	N
Does management communicate to staff members the top level commitment to adopt ethical business practices and serve as a role model itself?		
Does management communicate to staff members the top level commitment to adopt ethical business practices and serve as a role model itself?		
Does management convey clearly to customers and business partners the ethical standard required in doing business with the company?		
Does management encourage open communication and provide suitable channels for staff members, customers and work partners to raise enquiries and lodge complaints?		
Does management adopt zero tolerance towards corruption and misconduct and take appropriate and prompt actions against violators?		

SOURCE: Reproduced with permission from Hong Kong Independent Commission Against Corruption [10].

FIGURE 3B

A CHECKLIST OF CORPORATE ETHICS.



Code of Conduct Defining the Moral Backbone

A code of conduct sets out the ethical principles and behavioural standard expected of all directors and staff, reflecting the company's core values and culture.

Checklist	Y	N
Does my company have a code of conduct to provide guidelines on ethical standards for all directors and employees?		
Does the code cover the areas below? <ul style="list-style-type: none"> • Prohibition of any bribery and corrupt practices • Further restrictions and guidelines governing the acceptance and offering of advantages and acceptance of entertainment • Guidelines on handling records, accounts and other documents • Guidelines on handling conflict of interest and managing conflict of interest declared • Prohibition of misuse of official position, company assets and information • Guidelines on handling outside employment • Guidelines on handling relationship with business contacts and public officials • Guidelines on conducting business in other jurisdictions • Policy on reporting suspected corruption and other criminal offences • Consequences of breaching the code and guidelines 		
Is there adequate transparency of the code and a mechanism to remind directors and staff of the content of the code at regular intervals?		
Is the code regularly reviewed to meet the current and future needs of the company?		

SOURCE: Reproduced with permission from Hong Kong Independent Commission Against Corruption [10].

FIGURE 3C
A CHECKLIST OF CORPORATE ETHICS.

Integrity Training and Activities Nurturing the Good Heart

Regular integrity training and ethics promotion activities can enhance staff's awareness of common ethical issues in the workplace and their understanding of legal and regulatory requirements.

Checklist Y N

Does my company use the following channels to communicate corporate values and ethics management to directors and employees?

- Induction programmes for newly recruited staff and directors
- Ethics or compliance training for directors, managerial staff and frontline staff
- Internal communication channels, e.g. circulars, newsletters, posters, intranet
- Staff integrity projects, e.g. quizzes, exhibitions, competitions


System Controls Boosting Immunity Against Ethical Risks

A sound internal control system can prevent staff from falling into the trap of corruption and malpractices. It also helps ensure staff's compliance with the corporate ethics principles.

Checklist Y N

Does my company establish a system that can identify and evaluate the risk of corruption?

Does my company adopt system controls (e.g. operational guidelines, procedures, control mechanisms, regular internal audits) in the following functional areas. Do they align with the company's ethics principles ?

- Procurement
- Contract Management
- Sales and Marketing
- Finance and Accounting
- Human Resources Management and Administration
- Inventory and Stock Control

Are the policies and operational manuals / procedures / guidelines regularly reviewed?

SOURCE: Reproduced with permission from Hong Kong Independent Commission Against Corruption [10].

STRATEGIES AND RECOMMENDATIONS TO LEVEL UP ETHICS MANAGEMENT

Top managers and employees know the most and best whether or not their organizations are complying with principles of ethics. If misconduct and unethical behaviors are rampant, it is imperative that an organization move forward to ethics reform that aims at fundamental changes in managing ethics. Ethics reform is not an easy task for any organization because it requires perceptual and behavioral changes in employees and reinvention of extant ethics infrastructure, both of which are costly and time-consuming.

There is a multitude of strategies and recommendations for improving organizational ethics. Among them, this article addresses ex-ante and ex-post approaches as a strategy for ethics reform and several commonly cited recommendations. An ex-ante approach is a strategy that intends to prevent any violation of ethics before occurrence. Exemplary of this strategy are building a high level of ethical attitudes through education and training and institutionalizing ethics-compliant work procedures. An ex-post approach is a strategy that emphasizes zero tolerance through vigilant monitoring and strong punishment measures after ethical violations occur. In view of the fundamentality of ethics management, an ex-ante approach is preferred to an ex-post one. Nonetheless, an ex-post approach is a more quick-win strategy and more practically adopted by many organizations than an ex-ante approach, which usually entails a long time to react to immediately pressing ethical violations. This does not necessarily mean that an ex-ante approach is not a priority in ethics management. Both approaches are interwoven closely in a way that an ex-post punishment approach, when effectively applied, can make employees recognize that the costs of ethics violation are great (Figure 4). This in turn alters an individual's behavior, bringing an ex-ante deterrence effect.

In order to execute ethics management strategies, some specific recommendations need to be taken into account, as summarized below:

FIGURE 4**RELATIONSHIP BETWEEN EX-ANTE AND EX-POST APPROACHES.**

Source: Produced by the author.

- Conduct systemic and evidence-based diagnosis of ethics.
- Demonstrate strong will and best practices of ethical leadership.
- Share the code of ethics with all stakeholders.
- Report unethical behavior and protect whistleblowers.

Conduct Systemic and Evidence-based Diagnosis of Ethics

The first step for ethics management is the proper understanding of the current level of ethics. Because unethical behavior takes place inside an organization, both employers and employees must have a sense of the level of ethics and integrity. In other words, they possess intuition of who violates ethics and where it happens. However, intuition-driven attempts in dealing with ethics issues cannot be successful if such intuitions reflect only part of the reality. In this regard, a more scientific approach to measure the level of ethics is necessary through the development and implementation of regular and systemic ethics measurement customized to the nature of the business of an organization. In addition to the HK ICAC's checklist as suggested in the previous section, there are several manuals that guide public and private organizations to assess their levels of integrity and ethics.

The risks of ethics violation are diverse, ranging from the lack of an ethical mind at the individual level to the absence of a code of conduct and other regulations, inappropriate work processes, and malfunctioning monitoring and audit mechanisms at the organizational level. Data obtained from measuring the level of ethics allow an organization to identify the risk factors and then come up with evidence-based solutions.

Demonstrate Strong Will and Best Practices of Ethical Leadership

Top and senior managers should be more sensitive to organizational ethics because they have to bear the ultimate burden of corruption and misconduct within the organization. Accordingly, their responsibility for mismanagement of ethics is greater than that of middle managers and front-line workers. It is rare to find an organization that upholds a high level of integrity and ethics when top and senior managers are not interested in ethics management. In this regard, a strong will for ethical leadership implies that organizational leaders not only manage the organization ethically but also demonstrate appropriate conduct to positively influence other employees.

One of the worst cases related to ethical leadership is when top and senior managers themselves act unethically and give unethical orders to employees explicitly or implicitly. While the first case sends an obvious signal to the whole organization that no one cares about ethics, the second case is more intricate for employees who are forced to engage in corruption and misconduct under the auspices of organizational interests. When both cases are rampant, they demoralize the entire organization and discourage employees from raising concerns regarding ethics.

Therefore, ethical leadership must show a strong commitment from top and senior managers to ethics by supporting zero tolerance of violations and investing in compliance programs. At the same time, they must become exemplars of ethics in such a way that other employees embrace their behaviors and practices.

Share the Code of Ethics with All Stakeholders

If an organization wants ethics to become rooted in its culture, it does not suffice that a culture of ethics is fostered only inside the organization. The role of all stakeholders is crucial for building an ethical culture. Temptations to breach an ethical code of conduct arise both inside and outside an organization. Even if an organization implements an ethical code of conduct, employees sometimes fail to resist unethical temptations, particularly when offered by contractors and suppliers. To prevent and overcome temptation, it is necessary for an organization to lay out and share its code of ethics with various stakeholders including customers, shareholders, investors, suppliers, and

contractors. The sharing and dissemination of a code of ethics with shareholders, investors, and customers constitute the effort of an organization to self-declare that it is proactively embracing ethics management. Sharing it with suppliers and contractors is an organizational endeavor to send a warning that business partnerships may be severed if the ethical code is breached.

Report Unethical Behaviors and Protect Whistleblowers

In most organizations, there exist internal procedures and mechanisms that allow employees to report corrupt practices and violations of ethics. Under circumstances where unethical and illegal misconduct is rampant, institutionalizing whistleblower protection is vital. Although organizations are well aware of the importance of whistleblowing in ethics management, implementing an effective whistleblowing mechanism is not easy mainly because of an organizational culture that treats a whistleblower as a betrayer of the interests of the organization. This phenomenon is well illustrated in the ECI GBES. Over 60% of those who reported misconduct of employees to an organization experienced diverse forms of retaliation [3].

The fact that retaliation against reporters is common implies that the principle of anonymity, which is instrumental to whistleblowing, is being disregarded. When the identity of a whistleblower is easily exposed, an organization cannot benefit from whistleblowing. Thus, the extent to which a whistleblower is protected determines the success of whistleblowing. One solution to whistleblower protection is to outsource the whistleblowing system to an external third-party entity, which manages the reporting stage to ensure anonymity. An organization also needs to allow stakeholders other than employees such as customers, clients, and business partners to use the system.

The strategies and recommendations above should not be executed in a separate manner. In other words, one type of strategy or one recommendation alone cannot ensure the success of ethics management. Just as an-ex ante strategy should be aligned with an ex-post strategy, recommendations need to be integrated and implemented simultaneously.

CONCLUSION

As the awareness of ethics in society increases, the public is demanding a high standard of ethics management regardless of whether the organization is public or private. Organizations under these circumstances need to respond to challenges by putting more effort into improving ethics. Although organizations tend to advocate the importance of ethics and consider the ethical conduct of employees to be common sense, they put other aspects such as profit in the private sector and performance in the public sector above ethics. Although profit and performance are essential for the survival of an organization, they are not sustainable in the absence of strong ethical values. Although most academics and field practitioners regard ethics as one of the most fundamental components of organizational success, many organizations are not fully aware of the negative impacts when they mismanage ethics. However, as the two corruption scandals of Siemens and LH suggest, uncontrolled ethics violations cause serious damage not only to an organization but also to the market and society.

Considering that the mismanagement of ethics is one of the most serious risks that endanger an organization, it is imperative to maintain ethics as a highly prioritized value that governs the behaviors of internal as well as external stakeholders. Since rendering an organization ethical is a painstaking process that cannot be achieved in a short period of time, the organization has to be patient and deploy a comprehensive strategy and a multitude of recommendations to improve the level of ethics. As such, the recommendations to promote ethics mentioned above are suggestive rather than exhaustive. Thus, an organization interested in improving the level of ethics should utilize a range of strategic approaches and practical recommendations.

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