Organisational Ethics:
Making the intangible tangible

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“It is not an adequate ethical standard to aspire to get through the day without being indicted.”

Richard Breeden,
former chairman of the Securities and Exchange Commission
Board of Directors

“One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct ‘tone at the top’. The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organization. This will help prevent misconduct, unethical practices, and support the delivery of long-term success.”

Preface to UK Corporate Governance Code
**MANAGEMENT**

What do you think your organization's management sees as the primary objective of your ethics & compliance program?

- 29.0%: To prevent and detect misconduct
- 20.6%: To meet a regulatory requirement
- 19.3%: To protect corporate reputation
- 6.7%: To protect directors and officers
- 3.4%: To protect directors and officers
- 6.2%: To protect corporate reputation
- 42.6%: Other (please specify)

THE BOARD

What do you think your organization's board of directors sees as the primary objective of your ethics & compliance program?

- 27.9%: To prevent and detect misconduct
- 15.6%: To promote an ethical culture
- 24.2%: To meet a regulatory requirement
- 6.7%: To protect directors and officers
- 4.0%: Other (please specify)
- 19.3%: To protect corporate reputation
- 2.1%: To reduce criminal penalties
South Africa’s King Code of Governance

<table>
<thead>
<tr>
<th>Governance Element</th>
<th>Principle</th>
<th>Recommended Practice</th>
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| 1. Ethical Leadership | and corporate citizenship | Ethical leaders should:  
| Responsible Leadership | 1.1 The board should provide effective leadership based on an ethical foundation | 1.1.1. direct the strategy and operations to build a sustainable business;  
|                        |                            | 1.1.2. consider the short- and long-term impacts of the strategy on the economy, society and the environment;  
|                        |                            | 1.1.3. do business ethically;  
|                        |                            | 1.1.4. do not compromise the natural environment; and  
|                        |                            | 1.1.5. take account of the company’s impact on internal and external stakeholder |

How Beneficial Is An Ethical Culture?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>US</th>
<th>Europe</th>
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<tbody>
<tr>
<td>Attractiveness to employees</td>
<td>69%</td>
<td>77%</td>
</tr>
<tr>
<td>Employee Motivation</td>
<td>77%</td>
<td>62%</td>
</tr>
<tr>
<td>Relationship with investors</td>
<td>76%</td>
<td>61%</td>
</tr>
<tr>
<td>Attractiveness to Customers</td>
<td>73%</td>
<td>61%</td>
</tr>
<tr>
<td>Reputation with Analysts</td>
<td>73%</td>
<td>58%</td>
</tr>
<tr>
<td>Overall business performance</td>
<td>58%</td>
<td>77%</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>56%</td>
<td>66%</td>
</tr>
<tr>
<td>Share Price</td>
<td>53%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Those answering 4 or 5 on a 5 point scale, with 1 being not at all beneficial and 5 being very beneficial.

Source: CFO Europe Research Services
Performance Improvements = Errors + Insights

Source - ©Gary Klein: Seeing What Others Don’t
Risk Management

PEOPLE RISKS

Failure to act with integrity

Being found to have engaged in a significant corrupt or dishonest act (bribery, fraud, misrepresentation, cheating, and lying) leads to customers being reluctant to do business with such organisations. Such behaviour might arise through the actions of rogue employees or as a result of pressures individuals feel they are being placed under (culture). Such acts might lead to the loss of existing business, restrictions on our ability to bid or win new business, our ability to attract high-quality people or partners; and an adverse impact on shareholder, investor and financial institutions' confidence in Serco.

Key risk drivers:
- Failure to act with integrity.

Material controls:
- Top-level commitment/tone from top.
- Strong, meaningful and understood Values.
- Code of Conduct.
- Corporate Governance with oversight by the Corporate Responsibility Committee (CRC).
- Delegated Authority Register (DAR).
- Serco Management System (SMS).
- Financial controls and processes, with segregation of duties for core financial controls.
- Gifts and Hospitality process and registers.
- Risk management procedures.
- Third party due diligence.
- Leadership Academy.
- People development and remuneration.
- Speak Up process (Independent provider).

Mitigation priorities:
- Implementation of on-line Conflict of Interest registers.
- Refinement of divisional compliance risk assessment.
- Certification of ethics roles and responsibilities.
- Embed the new third party due diligence tool.
- Refresh Serco Essentials Plus training.
- Continue with divisional Anti-bribery and Corruption reviews.

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

Serco is subject to numerous laws and regulations as a result of the complexity and breadth of the sectors and jurisdictions in which it operates. Failure to comply with laws and regulations may cause significant loss and damage to the Group including exposure to regulatory prosecution and fines, reputational damage and the potential loss of licences and authorisations, all of which may prejudice the prospects for future bids and the retention of existing business. Defending legal proceedings may be costly and may also divert management attention away from running the business for a prolonged period. Uninsured losses or financial penalties resulting from any current or threatened legal actions may also have a material adverse effect on the Group.

Key risk drivers:
- Lack of governance and oversight – may result in a failure to identify potential or actual breaches to legal requirements and result in a failure to respond appropriately, or weaken our ability to ensure compliance with legal and regulatory requirements.
- Failure to comply with the SMS and contractual obligations – may result in compliance failures for Groupwide material legal and regulatory requirements.
- Failure to identify and respond to material changes to legal and regulatory requirements – may result in compliance failures for Groupwide material legal and regulatory requirements.
- Lack of awareness by employees of the legal and regulatory requirements placed upon them – may result in lack of identification and subsequent compliance to requirements.
- Inadequate provision of systems and tools – may result in ineffective methods to support the management of legal and regulatory compliance.

Material controls:
- Automated alerts on material legal and regulatory obligations and changes.
- Investment Committee process and governance.
- Third party due diligence.
- Serco Management System (SMS).
- Legal Tracker case management software.
- Gifts and Hospitality process and registers.
- Legal training.
- Serco Essentials training.
- Compliance Assurance Programme (CAP) reviews.
- Business Lifestyle Review Team (BLRT) process and governance.
- External regulatory audits.
- Bi-annual reporting to Board and Executive Committee on new laws across the Group.
- Speak Up process and case management system (EthicsPoint).

Mitigation priorities:
- Use of trend analysis and analytics from Legal Tracker software.
- Launch of revised Code of Conduct and Supplier Code of Conduct.
- Complete and embed General Data Protection Regulation (GDPR) readiness programme.
- Refresh Serco Essentials training programmes.
- Implement revised Group Standard Operating Procedures (G SOP).
- Develop and implement new G SOPs including export controls, parental guarantees and conflicts of interest.
- Continue with contract and compliance assurance reviews.
- Embedding and sustaining the Corporate Renewal Program.
The Dimensions Of Cultural Analysis

Engagement Matrix
Sources for more information

Slide 3 – UK Corporate Governance Code – www.frc.org.uk
Slides 4-6 – SCCE: www.Corporate Compliance.org
Slide 7 – King report on Corporate Governance: http://www.iodsa.co.za/?kingIII
Slide 9 – Gary Klein-Seeing what others don’t: https://www.gary-klein.com
Slides 10-12 – www.Serco.com
Slides 13/14 – www.karianandbox.com