TRANSPARENCY INTERNATIONAL UK
fighting corruption worldwide

INCENTIVISING ETHICS

Managing incentives to encourage good and deter bad behaviour

MAZARS

NORTON ROSE FULBRIGHT

gsk
do more
feel better
live longer

Transparency International (TI) is the world's leading non-governmental anti-corruption organization. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption.

Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK.

Acknowledgements:

We would like to thank the members of the Expert Advisory Committee for advising on the development of the guidance: Graham Baxter (TI-UK, Chair), Andrew Bates (GSK), Ruth Bender (Cranfield University School of Management), Charles Cotton (CIPD), Sam Eastwood (Norton Rose Fulbright), Darren Kent, Andy McClarron, Howard Shaw (Mazars) and Simon Webley (Institute of Business Ethics). We are also grateful for the input provided by Rui Bastos, Peter Fleming (CASS Business School), John Garred (Siemens), Paul Gilbert (LBC Wise Counsel), Andrew Kakabadse (Henley Business School), Vicky McAllister (Barclays), Paul Heywood (University of Nottingham/ TI-UK), Malcolm Lewis (Strategic Value Partners), Brendan McNamara (HSBC), Sarah Pumfrett (Johnston Carmichael), Marc Schelhase (King's College London), Neill Stansbury (GIACC), Carla Stent (MCS Advisory Limited), Bart M. Schwartz (Guidepost Solutions LLC), Emmajane Varley (HSBC) and Peter Walker (PIELLE Consulting).

Editors: Peter van Veen, Alice Shone

Author: Paul Moxey

Design: Philip Jones

© 2015 Transparency International UK. All rights reserved. Reproduction in whole or in parts is permitted, providing that full credit is given to Transparency International UK (TI-UK) and provided that any such reproduction, in whole or in parts, is not sold or incorporated in works that are sold. Written permission must be sought from Transparency International UK if any such reproduction would adapt or modify the original content. Case Studies were provided by Barclays, BP, GSK and HSBC, copyright for which remains with them.

Published October 2016.

ISBN: 978-1-910778-59-3

© Cover photo: iStock.com/ Skip ODonnell

Every effort has been made to verify the accuracy of the information contained in this report. All information was believed to be correct as of October 2016. Nevertheless, Transparency International UK cannot accept responsibility for the consequences of its use for other purposes or in other contexts. Policy recommendations and best practice guidance reflect TI-UK's opinion. They should not be taken to represent the views of any of those that provided input, members of the Expert Advisory Committee or GSK, Mazars or Norton Rose Fulbright. Neither TI-UK nor GSK, Mazars or Norton Rose Fulbright assumes any liability for the information contained herein, its interpretation or for any reliance on it. The document should not be construed as a recommendation, endorsement, opinion or approval of any kind. This Guidance has been produced for information only and should not be relied on for legal purposes. Professional advice should always be sought before taking action based on the information provided.

Printed on 100% recycled paper.

Transparency International UK's registered UK charity number is 1112842.

Incentivising Ethics

Managing incentives to encourage good and deter bad behaviour

Table of contents

Foreword 1

Key Principles 2

1. Introduction 3

2. Traditional incentives and where they can go wrong 4

2.1 Formal incentives 4

3. Designing and embedding incentives for ethical behaviour 13

3.1 Ensuring a strong culture and values 14

3.2 Risk assessment 18

3.3 Designing ethical incentives 21

3.4 Embedding ethical incentives 27

3.5 Monitoring and evaluation 32

Endnotes 34

Appendix: Key risks and mitigating actions 35

Glossary 38

Supporting publications 40

Additional publications 40

Foreword

Incentive schemes are an important part of encouraging the right kind of behaviour from staff, be it to improve quality or drive up profitability. Unfortunately, incentives have also historically been one of the main drivers of corrupt practices in many industries. Pressure to meet targets, the imperative to "get the job done" and the need to win business have frequently led to shortcuts resulting in various forms of corrupt and unethical behaviour, including fraud, trading in influence, anti-competitive practices and the offering, promising or payment of bribes.

Companies in all industries should be aware of and manage the risks attached to incentives. Yet designing and managing incentive schemes that both encourage ethical behaviour and motivate staff to produce desired business results can present a major challenge.

This publication is intended to provide guidance to general management as well as professionals from the human resources (HR), ethics and compliance, risk management and internal audit functions. It is aimed at helping practitioners to understand and manage the risks of corrupt behaviour posed by incentives within their organisation and to design new incentives to deter bribery and corruption and other improper conduct and to encourage ethical behaviour.[1]

A key argument of this guide is that, for incentives to work as intended and to avoid perverse and distorted outcomes, the company must first ensure that it has an open and ethical culture in which staff are encouraged to do the right thing and feel able to challenge management decisions and targets they think are unethical or dysfunctional.

This should be reinforced by a strong tone at the top and the alignment of business objectives and company values. Incentives cannot operate in a vacuum. They should be linked to the company's overall business strategy and should be aligned with the company's values, code of ethics and compliance programme.

Finally, incentive schemes should move beyond mere alignment with values and ethical codes and actively encourage ethical behaviour. This means that they should not be based solely on financial targets, but should contain non-financial targets that reflect and drive ethical behaviour. Ultimately, this mix of incentives should support the long-term sustainability and success of the company.

Some of our recommendations are illustrated by case studies provided to us by a number of companies which demonstrate their approach to managing incentives. Some of these approaches have been developed in response to past bribery and corruption incidents and enforcement actions, which makes them useful as examples of "lessons learned". They are not intended to be held up as examples of "best practice", but as examples of what companies have done to try and incentivise the right behaviour among their employees and third parties.

Key Principles

Ensuring strong culture and values

1. Ensure the organisation's culture supports and encourages ethical, sustainable business practices.
2. Establish a strong tone at the top and set clear values that resonate with staff.
3. Demonstrate commitment to ethical business conduct through actions that are consistent with the tone at the top.

Risk assessment

4. Identify and assess the risks created by existing incentive structures.
5. Take a cross-functional approach to risk identification and management, including HR, ethics and compliance and the risk function, and integrate the assessment of incentives into existing risk assessment processes.

Designing ethical incentives

6. Ensure the overall approach to incentives is aligned with and does not inadvertently undermine the company's values and culture.
7. Set targets which are achievable without resorting to illegal, unethical or negligent behaviour.
8. Set ethical targets or use ethical thresholds for rewards to distinguish outcomes from the means used to achieve them.
9. Avoid paying staff for performance based purely on output measures, and instead encourage the pursuit of intrinsic reward.
10. Ensure that staff are not promoted or rewarded if they have breached the company's principles, even if they have met or exceeded their targets.

Embedding ethical incentives

11. Use training and communication to reinforce the primacy of ethical behaviour over achieving targets.
12. Listen to staff and create opportunities for them to consider their work and actions from an ethical perspective.

Monitoring and evaluation

13. Ensure that internal functions (e.g. HR, ethics and compliance, risk, internal audit, finance and sales) are monitoring for signals that staff may be incentivised to contravene the company's code of ethics.
14. Record all breaches of the code of ethics and make adjustments to incentive structures as appropriate.

1. Introduction

In early September 2016, Wells Fargo agreed to pay US$185 million in settlements to US regulators over admissions that, in order to meet sales targets, employees of the bank had created around two million unauthorised customer accounts and credit card applications since 2011.[2] About 5,300 employees were fired for their involvement in the scheme. Wells Fargo's Chairman and CEO, John Stumpf, appeared before the Senate Banking Committee[3] amidst calls by Democrat Senators for the bank to claw back executive pay tied to profits derived from the illicit activities.[4]

Incentives programmes can inspire employees and third parties such as distributors to perform well, challenge themselves and realise their potential. They can also create a platform for recognising and rewarding top performers for their hard work, contributing to employee retention. But as the Wells Fargo case indicates, incentives intended to motivate people to achieve objectives and targets can have disastrous consequences, leading directly to improper behaviour.

Poorly designed incentives are often based on a distorted analysis of risk, resulting in either aggressive risk-taking or the passive assumption of risk. For example, in the financial services sector, bonuses or commissions for selling financial products have frequently resulted in mis-selling and consequential fines and reputational damage for banks. A review by the then Financial Services Agency (FSA)[5] in 2013 found that many incentive schemes in the financial services sector were likely to drive employees to mis-sell and that these risks were not being properly managed. This was reiterated in May 2016 by the Public Accounts Committee, which attributed payment protection insurance (PPI) mis-selling to firms' cultures and the nature of their sales incentives, adding that risks of future mis-selling still remain.[6]

When a scandal occurs, a common response is to blame it on one person or a small group of people acting in isolation. In other words, it is a result of the actions of one or two "rotten apples", while the rest of the organisation is healthy. For example, in the Senate Banking Committee hearing, John Stumpf blamed "1%" of employees for wrongdoing at the bank, arguing that their actions did not reflect the bank's culture or the behaviour of the vast majority of staff.[7] Similarly, Michael Horn, Head of Volkswagen Group of America, told a US congressional hearing in October 2015 that he believed "a couple of software engineers" were responsible for developing the "defeat device" software that allowed nearly half a million diesel-powered cars sold in the USA since 2008 to dupe emissions tests.[8] As at May 2016, Volkswagen had set aside EUR 16.2 billion to cover the costs of fines or product recalls.[9]

The rotten apple theory is attractive: companies, regulators and even governments can find a rotten apple, remove it and say the problem is solved. However, corruption issues are rarely solved simply by removing a small group of offenders. Companies need to ask themselves: if there were indeed "rotten apples", what caused them to rot? Were they apples that would go bad in any corporate environment or was there something about their specific environment that contributed? If the latter, was it something to do with the company alone, such as a perverse incentive scheme, or was it to do with the business sector or the jurisdictions in which the company operates?

By focusing on incentives, this guidance looks beyond the organisational equivalent of a few rotten apples in a barrel to examine the integrity of the barrel, the health of the orchard and the soundness of the farmer's horticultural practices.

2. Traditional incentives and where they can go wrong

Incentives are defined as *"payments to employees that are linked to the achievement of set targets designed to motivate people to achieve higher levels of performance".*[10] Typically such targets are quantified and measured in terms of outputs, such as production and sales, and profits. Increasingly, targets also include other factors such as safety and quality.

There are two distinct types of incentives:

1. Formal incentives: Financial or non-financial incentives intended by management as part of company policy to influence the behaviour of employees and key third parties, such as sales agents or distributors. These can include bonuses, commissions, promotion, training and development opportunities or flexible working.
2. Informal incentives: Attributes inherent in a company's circumstances or culture that influence employee behaviour and, consequently, the extent to which formal incentives work as intended.

This section will explore how traditional incentive structures can lead to unethical or corrupt behaviour.

2.1 Formal incentives

Formal incentives are at the heart of reward management and the way staff are managed. Rewards (usually payments of some kind) are used to motivate people to work harder to meet or achieve targets or objectives. An incentives system in this sense is very closely connected with the organisation's reward strategy, which will be linked to its corporate strategy and its means of achieving its objectives.

The majority of large companies operate formal incentive systems. A survey by World at Work and Deloitte in 2013[11] found that 99 per cent of over 350 US listed public companies operated short-term incentive schemes and 88 per cent operated long-term incentive schemes.

Companies operate incentive schemes for a number of reasons, including:

1. Motivating people to achieve higher levels of performance.
2. Sending a clear message about what the company regards as desired performance and about what behaviours the company values.
3. Aligning employee pay with company goals.
4. Making the company more attractive to prospective employees.

Incentives are context and industry-specific. Different incentive schemes are likely to be operated for different parts of a company and/or different levels of staff within the hierarchy. A good incentive in one organisation, or part of it, may be inappropriate or counterproductive in another. Cultural differences across different geographies and sectors may also impact the suitability of a particular incentive scheme.

Types of formal incentives

Short-term financial

Short-term incentives are rewards based on the attainment of short-term goals, typically over a performance period of 12 months or less. Such incentives are intended to provide direct motivation; i.e. there is a direct link between the desired behaviour or achievement of a target and the receipt of the reward.

Examples of short-term incentive schemes include:

1. Annual incentive plan (AIP): A plan to reward the accomplishment of specific targets, goals or objectives identified at the beginning of a performance cycle. The AIP is communicated upfront and staff know that if they do X they will get Y. There may also be a discretionary component.
2. Discretionary bonus plan: Management set a bonus pool and decide the amounts to be allocated to individuals after a performance period. There is no predefined formula and the payment of bonuses is not guaranteed.
3. Profit-sharing plan: Employee participation in the company profits, normally based on a predefined formula for the proportion of profit to be distributed and its allocation. Some plans, however, are discretionary. Shares may be distributed in cash, deferred in some way or paid in a combination of cash and deferred compensation.
4. Gain-sharing plan: A plan to share the results of productivity gains with employees as a group.
5. Team/small-group incentives: A plan that focuses on the performance of a small group such as a work team. They are intended to incentivise group effort either because individual contributions are difficult to separate from the group effort or because the company wishes to encourage employees to work as a team.
6. Project bonus: A bonus paid to an employee, team or department as a reward for completing a specific project.
7. Retention bonus: A payment, separate from an employee's regular salary, offered as an incentive to retain a key employee during a particularly crucial business period, such as a business disposal.

Long-term financial

Long-term incentives are intended to reward employees for contributing to sustained company performance over a period of years and to encourage valued staff to stay with the company. They are generally paid to more senior staff, who are considered to have more influence on long-term performance, to encourage them to focus on long-term rather than short-term results.

Broadly, there are three types of long-term incentive:

1. Long-term bonus or cash payment plan: Payment is contingent on performance measured against predefined financial or strategic objectives over several years.
2. Shares: Shares are awarded instead of, or as well as, a cash payment.
3. Share options: A right granted to the employee to purchase a specified number of shares of the company at a specified price for a specified period of time. The amount of options granted may be set by a predefined formula or decided at the time of granting, at the discretion of the board.

Awards of shares, payments or grants of share options may be based on minimum and/or maximum levels of performance. They may also be subject to claw back upon the discovery of misconduct. There may be a requirement for shares to be held for a minimum period or restrictions on when shares can be sold.

Non-financial

Not all formal incentives are financial. Formal incentives can include other extrinsic incentives such as awards, gifts (e.g. tickets or vouchers), recognition schemes (e.g. employee of the month) and time off.

Where it can go wrong

The risks from formal incentive schemes arise from the way people respond to them and, in particular, how they respond to the targets, goals and objectives which are an integral part of incentive and performance management schemes.

These schemes are generally based on the assumption that people are economic and rational actors who will not act in a certain way unless incentivised to do so. In practice, however, performance-related pay, whereby pay is linked to measures and targets that act as proxies for desired outcomes, does influence individual and group performance, but not necessarily as intended.

Targets and measures

It is well known that the aggressive pursuit of targets can have unintended consequences due to the reliance on proxy performance indicators. For example, sales over a period are intended to be a proxy for whether a salesperson is doing a good job, but this does not take into account that the way a salesperson achieves sales may result in good sales figures in the short-term but returns and lost sales in the longer-term.

Risks posed by targets include:

- Poor targets are chosen.
- Targets are missing and existing targets do not fully cover the performance required.
- Those setting the targets do not understand how different targets interact, such as how achieving one target might cause problems achieving others.
- Targets narrow employees' focus solely to achieving targets, at the expense of other important behaviours.
- Targets incentivise employees to go to great lengths to achieve them, including cutting corners, falsifying figures, bending rules or breaking rules or even laws.
- Employees "game" performance measures to achieve targets or create the appearance of achieving targets.

A 2012 survey of ACCA members[12] found that gaming performance measures to achieve targets at the expense of real performance, deliberately understating risks or overstating benefits to get approval for a proposal, and giving optimistic or pessimistic forecasts to avoid criticism or reduce expectations were commonplace. The survey found a direct relationship between these behaviours and financial pressure. Those respondents who thought that the leaders of their organisations felt under "intense" or "strong" pressure observed a 17 per cent higher frequency of dysfunctional behaviours than the group who described pressure as "moderate".

Box 1: Ford's faulty cost benefit analysis

The requirements for the Ford Pinto were that it was not to weigh an ounce over 2,000 pounds and not cost a cent over US$2,000." [i]

During design and production in the late 1960s and early 1970s, crash tests revealed a serious defect in the fuel tank. In crashes over 25 miles per hour, the gas tank always ruptured, which could cause a fire. To correct it would have required changing and strengthening the design.

In a "cost-benefit analysis" of altering the fuel tanks Ford estimated that the unsafe tanks would cause 180 deaths, 180 serious burn injuries and 2,100 burned vehicles each year. It calculated that it would have to pay US$200,000 per death, US$67,000 per injury, and US$700 per vehicle, making a total of US$49.5 million.

On the basis of these calculations, Ford staff chose not to correct the defect. The use of purely financial targets narrowed their focus and led them to ignore ethical and reputational issues that are obvious to outsiders.

[i] <http://www.engineering.com/Library/ArticlesPage/tabid/85/ArticleID/166/Ford-Pinto.aspx> [accessed 15 July 2016].

Bonuses and other payments for performance

A large body of research indicates that bonuses and performance-related pay are problematic and do not always result in desired outcomes. Money can be an effective incentive when tied to straightforward and repetitive tasks but, in a modern context where most jobs require creativity, it can actually reduce overall performance.[13]

Although a payment or other external reward may initially boost performance, its benefit to the company can quickly fade. It reduces a person's interest in the desired activity, impairs creativity and reduces intrinsic motivation – where a person's behaviour is driven by internal, rather than external, rewards. External rewards narrow people's focus, making it harder to solve problems that require conceptual understanding or lateral thinking, and can also disincentivise people from seeking out better targets, finding better ways of doing a job or coming up with innovative practices. In some cases, a person may stop work altogether after achieving a performance objective.

Financial incentives can also incentivise unethical behaviour. People may regard a financial penalty as a price worth paying or simply another cost of doing business. A reward for doing something may also signal that the act itself is intrinsically undesirable - if it is desirable, why the need for an extra inducement? The addictive quality of rewards - whereby increasingly higher rewards are needed to have the same effect - can distort decision-making and lead to risk taking and mistakes.

A discretionary payment that is lower than expected (or lower than an employee considers fair) will be a powerful disincentive, perhaps even more powerful than the incentivising effect of the expected bonus. For example, the employee may be driven to more risky behaviour to recoup the loss or take reprisals against the employer.

Box 2: Financial reward – it may be better not to

A recent Harvard Business Review article[i] summarises the evidence that, with the exception of repetitive and routine work, it is better not to pay for performance:

- Contingent pay only works for routine tasks.
- Extrinsic motivation crowds out intrinsic motivation.
- Contingent pay leads to cooking the books.
- All measurement systems are flawed.
- Fixating on performance can weaken it.

The evidence suggests that it is better to pay people fixed amounts instead of variable pay. Once the rate for a job has been agreed, staff should be left to pursue the intrinsic rewards which accrue from doing a job well, working with others, pleasing customers, etc.

It may not be realistic for many companies to abolish variable pay altogether, but it is worth bearing in mind that the risks may outweigh the rewards. Companies should take care that they – and their employees – are not too heavily reliant on financial incentives that fixed pay is sufficient and that consideration is given to intrinsic rewards.

[i] Cable, D. and Freek, V., "Stop Paying Executives for Performance", Harvard Business Review, 23 February 2016. A blog along similar lines was published in 2011 by Knowledge at Wharton, <http://knowledge.wharton.upenn.edu/article/the-problem-with-financial-incentives-and-what-to-do-about-it/> [accessed 15 July 2016]. .

2.2 Informal incentives

Informal incentives can arise from external circumstances – such as the company's business model – or internal circumstances, such as the company's culture.

Peer and managerial pressure are both examples of informal incentives, as is a desire to save one's own or other people's jobs. Another example is a strong team spirit whereby team members want to support the team and conform with the team's goals. This can be a good thing for an organisation. It can also be a corrupting factor if, say, dominant individuals in a team are inclined to behave corruptly and drive the team's behaviour. It can also manifest as a strong sense of loyalty, which can make people willing to overlook rather than report wrongdoing.

Box 3: "We did it for the company"

Reinhard Siekaczek was a former Siemens manager. He was found guilty in July 2008 on 49 counts of being a party to misappropriation of corporate funds while working for Siemens.[i] He claimed he was acting on the order of superiors.[ii] In a YouTube video[iii] he said:

"We knew what we were doing was illegal. I did not really look at it from an ethical standpoint. We did it for the company. It was about keeping the business unit alive. And not jeopardising thousands of jobs overnight. We always thought top management would back us up which unfortunately did not happen."

[i] "Siemens Verdict: Former Manager Convicted of Corruption", 28 July 2008, <http://www.spiegel.de/international/business/siemens-verdict-former-manager-convicted-of-corruption-a-568504.html> [accessed 15 July 2016].. .
[ii] "Former Siemens executive found guilty over bribery schemes role", Financial Times, 29 July 2008, <http://www.ft.com/cms/s/0/9fe710b8-5d05-11dd-8d38-000077b07658.html#axzz4A2IhaimL> [accessed 15 July 2016].
[iii] https://www.youtube.com/watch?v=BmXWQm3d2Lw> [accessed 15 July 2016]..

Where it can go wrong

Informal incentives can influence employee behaviour for good or for bad. Some informal incentives can be understood as “risk factors” that, if left unchecked, can drive corrupt or unethical behaviour, distort the operation of formal incentive schemes or override ethical messaging, expectations and obligations.

External drivers

Short-termism and investor expectations. Listed companies face pressures, real or perceived, from investors to meet profitability and share price targets. Some companies have gone to great lengths, sometimes including accounting fraud, to ensure their financial numbers are in line with analysts' expectations. Senior managers may feel they have no choice but to focus on short-term gains at the expense of the longer term.[14] This in turn puts pressure on many, if not all, employees whose job it is to achieve targets which, in aggregate, enable the company to satisfy investor expectations.

Sector issues and business model. Some sectors are more vulnerable to corruption than others, driven in part by a combination of investor, regulatory and business model issues. Employees may feel pressure to resort to corruption if the company is financially stressed. Companies may therefore be more vulnerable to corruption if they have a weak business model or if their business model makes them more vulnerable to external shocks such as low oil prices.

For example, in the pharmaceutical industry, pressures to be competitive, regulatory hurdles and investor expectations have led companies to, among other things:

- Put more resource into marketing relative to research and development.
- Fail to disclose negative results.
- Enter into uncompetitive arrangements with other drug manufacturers.

Regulation. Where regulation is against a company’s interests, there is an incentive to try and defeat or circumvent it. This can be translated into incentives structures, whereby employees actively seek loopholes in regulations to increase sales or financial performance.

Box 4: Medicaid – incentives in the US pharmaceuticals industry

The US Medicaid Rebate Program in many instances requires that states receive rebates from pharmaceutical manufacturers based on the best price offered to other purchasers. The OIG Compliance Program Guidance for Pharmaceutical Manufacturers notes that “manufacturers have a strong financial incentive to hide de facto pricing concessions to other purchasers to avoid passing on the same discount to the states”. [i]

[i] OIG, Office of Inspector General’s Compliance Program Guidance for Pharmaceutical Manufacturers (68 Fed. Reg. 23731, 5 May 2003).

Regional issues. Regional issues, including perceptions of what constitutes corruption and what behaviour is "necessary" to achieve outcomes, can also influence the operation of incentives. The situation can be blurred by social pressures arising from customs of gift giving and relationship building. In some cultures, there is an expectation of patronage and social obligation: someone in a powerful position is expected to use their influence to help their kin and community of origin.[15] What may look to outsiders like corrupt favouritism might be regarded locally as the behaviour expected of a good person.

Internal drivers

Peer pressure. Peer pressure occurs when an employee is expected by their peers or employer to engage in unethical or corrupt practices. This can be one of the most powerful drivers of unethical behaviour, as employees often do not feel able to stand up to their peers and do things differently.

Box 5: Libor trial – pressure to keep quiet

During the trial of five former Barclays traders in April 2016, the jury was told by the prosecution that the defendants stood to gain or lose hundreds of thousands of pounds if they succeeded in manipulating Libor, a key global financial benchmark that determines the cost of borrowing for households and companies, and that moving the Libor rate even by tiny amounts could have a "huge impact on the profitability of the Barclays book".[i]

In May 2016, a former Barclays employee, Jonathan Mathew, admitted that he had previously lied about submitting rates for traders, claiming he felt under pressure from his manager. "He wanted me to lie about us accepting these requests", Mathew said of his manager. "I felt under pressure". He also claimed his employer had pressured him to keep quiet. "The bank wanted me to toe the line, I got the impression," Mathew said. "Otherwise they might have to pay a bigger fine ... I was married to the lie." [ii]

The instances of misconduct highlighted by the Libor trial led Barclays to undergo a global review of its policies, practices, culture and behaviour, one example of which is the Barclays Lens (see Box 15).

[i] "Libor trial: ex-Barclays staff earned big bonuses, court hears", The Guardian, 6 April 2016, <https://www.theguardian.com/business/2016/apr/06/libor-trial-barclays-bonuses> [accessed 14 July 2016].
[ii] "Ex Barclays trader says pressured to lie about Libor setting", Reuters, 3 March 2014, <http://uk.reuters.com/article/uk-libor-trial-barclays-idUKKCN0Y42AX> [accessed 14 July 2016].

Socialisation. Socialisation is the way that newcomers to a workplace are induced to accept and practise ongoing unethical acts. There are four types of socialisation: [16]

1. **Co-option:** Rewards, such as commissions, gifts or the prospect of future work for the individual or company, are used to induce a change of attitude towards the unethical behaviour.
2. **Incrementalism:** Newcomers are initially asked to perform only slightly unethical acts and then asked to do more obviously unethical things.
3. **Compromise:** A person does something in good faith, but which they think is unethical, in order to resolve a conflict.
4. **Euphemistic language:** For example, a bribe is called a "facilitation payment" to make it seem routine and harmless.

Isolation. Isolation from the rest of the organisation means isolation from the wider company culture and can result in "micro cultures" where different values and behaviours are allowed to develop.

Isolation creates opportunities for corruption to occur and to go undetected. Senior management may be unaware or may suspect that corrupt behaviour is occurring in pockets of the company but decide not to probe further to ensure plausible deniability. In a 2016 study, Taylor found that in "corporate cultures in which pressure is high and information is hoarded, high-performing teams may avoid scrutiny" or even develop a mystique that others are afraid to question.[17]

Complexity. Complexity creates opportunities to disguise corruption and other unethical behaviour especially in combination with isolation. For example, an FSA review of risks to customers from financial incentives[18] found that complexity was a risk factor where management did not understand how the specific features, complexity and value of their incentive schemes could increase mis-selling.

Personal drivers

Rationalisation. A knowing cooperation among numerous employees was a common factor in each of the corruption scandals at Enron, HealthSouth, Tyco, WorldCom, and Parmalat. [19] These employees did not fit the typical profile of a criminal but were upstanding community members able to justify committing corrupt acts through a process of rationalisation.

Examples of rationalisation include:[20]

- **Denial of responsibility:** A person might say, "I was helpless, I had to do it to keep my job and please my boss, what else could I do? I need to feed my family and pay the mortgage".
- **Denial of harm:** A person thinks no one is actually harmed by the act so it is not really corrupt or they decided the harm was necessary to achieve an outcome.
- **Denial of victim:** A person justifies their action by claiming that the person harmed deserved it.
- **Social weighting:** A person justifies their action by claiming "everyone is doing it" or that other people's actions are equally as bad.
- **Appeal to higher loyalties:** A person justifies their action on the basis that they avoided violating a more important value, e.g. "I did it out of loyalty to protect my boss/colleague/family", etc.
- **Ends justify the means:** A person claims that their action resulted in a higher benefit to someone.
- **Entitlement:** A person thinks they are entitled to a benefit because of their previous hard work or status.

Self-deception. With self-deception, a person believes their own explanations for their unethical actions and actually believe they have done no wrong. They may even think they are being ethical while in reality committing corrupt behaviour.

Ethical distance. Ethical distance is a phenomenon in which the further removed people are from the results of their actions the less emotion they will feel about them. A person may be more likely to engage in corrupt behaviour if they do not know who will suffer from their actions.

Figure 1: Informal incentives that influence employee behaviour

3. Designing and embedding incentives for ethical behaviour

Creating a corporate culture, with supporting incentive structures, where high ethical standards are embedded so that corruption and other improper behaviour does not occur is a challenge, particularly where many of the incentives come from outside the organisation.

This guide sets out five key steps:

1. Ensuring strong culture and values
2. Risk assessment
3. Designing ethical incentives
4. Embedding ethical incentives
5. Monitoring and evaluation

Each component should flow from and build on the next to create a virtuous circle, as shown in Figure 2 below.

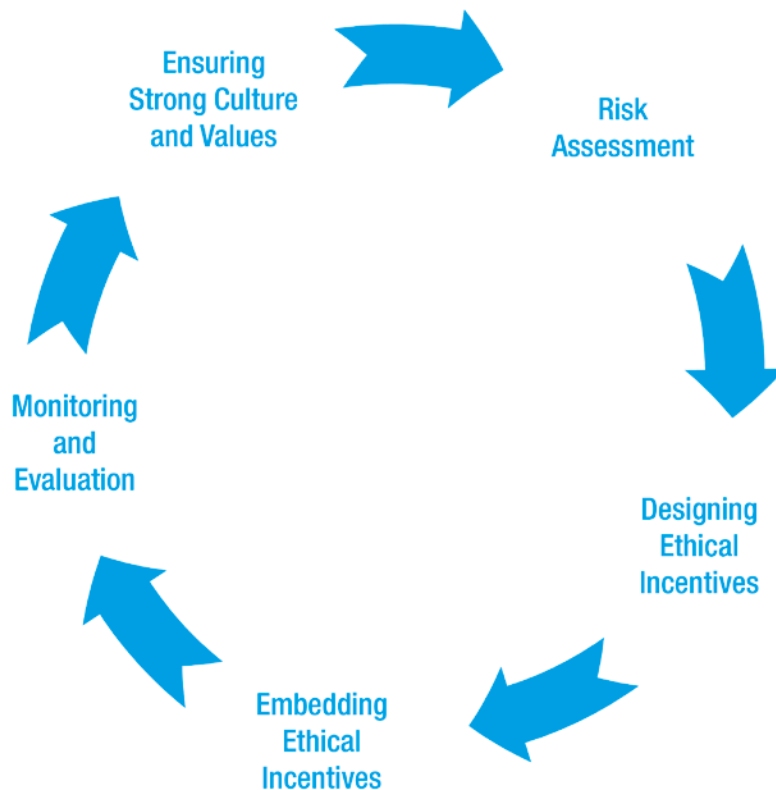

Figure 2: Framework for managing bribery and corruption risks posed by incentives

3.1 Ensuring a strong culture and values

Key principles – Ensuring strong culture and values

1. Ensure the organisation's culture supports and encourages ethical, sustainable business practices.
2. Establish a strong tone at the top and set clear values that resonate with staff.
3. Demonstrate commitment to ethical business conduct through actions that are consistent with the tone at the top.

Ethical behaviour based on sound values will lead to trust and help to counter corruption. It is the role of the board to decide the desired company culture and appropriate company values and ensure that their vision – and commitment - flow downwards to reach all levels of the company. For this to work, the espoused culture and values need to resonate with staff, and managers at all levels need to demonstrate through their actions the importance attached to them.

Having a strong culture and set of values means that, when under pressure or faced with ethical dilemmas, employees are able to judge what is right and wrong and act accordingly. This relies on several key factors, including a strong example being set by management, properly aligned values and business objectives, and effective communications and training on values and ethical issues.

Culture

> "Fundamental to a successful anti-corruption programme is to imbue in the organisation an ethical culture, where abuse is not tolerated. This must be led from the top, and be constantly reinforced through management messages, training, leadership example, etc. Those who do not comply need to be disciplined. This will help avoid rationalisation of corrupt practices."
>
> – Interview, leading expert on business integrity

To ensure a positive, enabling environment in which incentives act to deter corruption and enable ethical behaviour, the board should periodically assess the company's culture and measure it against the culture desired for the company. This desired culture should drive ethical, sustainable business practices and underpin the company's overall business strategy, and not just financial performance.

One common definition of culture is the "way we do things around here". But culture can also be said to include "why we do things the way we do". When dealing with culture, most companies focus attention on corporate behaviours, and particularly on processes, procedures, targets and performance management. However, as illustrated by Figure 3, corporate behaviours both influence and are influenced by personal and corporate values and beliefs and it would therefore benefit companies to devote more attention to these factors.

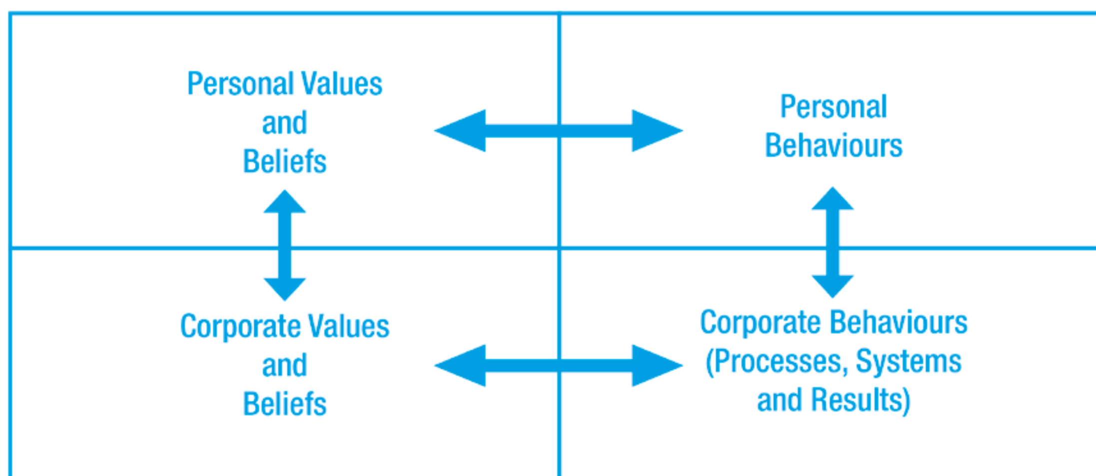

Figure 3: Interaction of values and behaviours[21]

Box 6: Case Study - Assessing ethical culture at BP[i]

BP regularly assesses the pervading culture across its different businesses. These assessments are made in various ways, including:

- Reviews by its Ethics and Compliance Function, the reports from which are shared with leadership to stimulate continuous improvement. These include assessment of aspects of corporate culture, including leadership tone, speak-up, engagement with audit and other functions and sharing of lessons learned from incidents. Leadership tone is assessed by looking at what people are saying, how they are saying it, and how often they are saying it. BP look at both actions and words so actions would need to be consistent with what people are saying.
- Detailed staff surveys of a large proportion of the employee base, completed on an anonymous basis, which include many questions about employee perspectives of leadership and the indicators of ethical corporate culture.

Direct feedback from employees in their annual appraisals on how they are carrying out their role in accordance with BP's Values and Behaviours. There is no set response – the value is in the conversation which shapes the response.

[i] Content provided by BP

Values

Values are beliefs in which a person or a group has an emotional investment. They set the terms on which people – and companies – make choices.[22] Values are expressed within a company in various ways, including corporate values statements, communications by senior management and incentive structures.

Box 7: Metaphors and beliefs

Unseen and often buried deep within the culture of any company are beliefs and metaphors about the business itself and the way to do business. Examples such as “greed is good”, “everybody does it”, “business is survival”, “the ends justify the means”, “it's none of my business what goes on” and “it's not personal, only business” are all too commonplace and help create a culture where corruption is more likely.

Metaphors or beliefs such as “what I do matters”, “I am/we are responsible”, “I/we want to do the right thing”, “I/we want to do a good job”, “that's not how we do things here”, “quality matters”, “I feel trusted”, “I feel valued” and “not all value is measurable” are more healthy and support a strong culture and values.

Corporate values statements are intended to guide employees’ decision-making when faced with situations that require them to make value judgements. However, when faced with a choice between competing priorities, employees may not be guided by these espoused values, but rather by what they perceive that the company “really” values; namely, the actions for which employees are promoted, fired or awarded a bonus.

Incentive structures give a clear indication of a company’s true values. Rewarding employees for profits, sales and achieving targets is a powerful measure of the kinds of behaviours valued by the board and senior management. Rarely, however, are these listed in corporate values statements. It is important therefore to understand that there may be a mismatch between the values stated in a values statement and the behaviours that seem to be valued in practice.

Ensure alignment

The board should ensure that the company’s espoused values and its commercial values are as aligned as possible. To do this, it is important to understand how different values may apply differently across the organisation. Core values, such as fairness, honesty and trust, will apply to everyone, while other values, such as entrepreneurship and risk-taking, may be appropriate in some parts of an organisation but not others. As a result, the risk of misaligned values may be higher in certain parts of the business. The board should consider where and how conflicts are most likely to arise and, should they arise, what the desired outcomes would be.

Consult with employees

When deciding the company values, the board should consult with employees. Staff are more likely to uphold a company's espoused values if they have been involved in drafting them. They are more likely to feel a connection with values they can identify with personally as opposed to values handed down from above.

Tone at the top

The Chairman, the board, the CEO and senior management all have a responsibility to set the right tone at the top in terms of company culture, values and what is considered "the right thing to do." This can be communicated in many ways, such as through codes of ethics, informal statements by management in emails and town hall discussions, and formal statements in annual accounts and sustainability reports.

A recent study by Alison Taylor, based on interviews with prominent lawyers, investigators, scholars and policymakers, found that "leadership plays the most critical role in determining whether a firm's culture is vulnerable to corruption".[23] According to Taylor, "leaders who set unrealistic targets based on opaque considerations yet keep themselves personally disengaged with frontline operational concerns may implicitly encourage corrupt activities while maintaining plausible deniability". She cites one expert as saying that employees pay particular attention to "whether management is doing anything to cook the books when they need to, which sets the tone that it's okay to break a couple of rules to get things done".

Examples of factors that have a strong influence on employees include:

- Misalignment of objectives, targets and corporate values
- Retaliation against people who speak up
- Clauses in employment contracts preventing staff from reporting wrongful acts
- Little risk of wrongdoing being caught or acted upon
- A culture of "looking the other way"
- Inappropriate sanctions or penalties for wrongdoers
- Promotions or rewards for people who break the code of ethics or do not display the company's values
- Rewards for results and not the means of achieving them
- Perceived unfairness
- No second chances for those who fail to make targets

The board and senior management therefore need to ensure that the espoused tone at the top is reflected in the actual perceived tone throughout the company and that the board and senior management lead by example or "walk the talk".

3.2 Risk assessment

Key principles – Risk assessment

4. Identify and assess the risks created by existing incentive structures.
5. Take a cross-functional approach to risk identification and management, including HR, ethics and compliance and the risk function, and integrate the assessment of incentives into existing risk assessment processes.

In order to understand and mitigate the risks posed by misaligned, inappropriate or non-functioning incentives, it is necessary to conduct a risk assessment.

This section is intended to complement TI-UK's existing publication *Diagnosing Bribery Risk,* which sets out a framework for conducting a bribery risk assessment. When considering the risks posed by incentives specifically, it may be helpful to refer to the list of failings in the design and operation of incentive schemes highlighted by the FSA review (see Box 8 below). A list of risks and risk factors linked to incentives is also included in Appendix 1.

Box 8: FSA review findings – Risks to customers from financial incentives[i]

This 2013 review uncovered a range of serious failings on the part of financial services firms:

1. Failure to identify how incentive schemes might encourage staff to mis-sell, suggesting they had not sufficiently thought about the risks or had turned a blind eye to them
2. Failure to understand their own incentive schemes because they were so complex, making it harder to control them
3. Not having enough information about their incentive schemes to understand and manage the risks
4. Over-reliance on routine monitoring, rather than taking account of the specific features of their incentive schemes
5. Failure to manage clear conflicts of interest on the part of sales managers
6. Failure to build effective links to sales quality into incentive schemes
7. Not doing enough to control the risk of mis-selling in face-to-face situations

[i] FSA, 2013.

A cross-functional approach

Taking a cross-functional approach, involving staff from HR, ethics and compliance, risk management and business units, should ensure a complete overview of the different incentive systems that form part of the company's performance management system. It will also help to ensure as complete an assessment of risk as possible, as different units will be attuned to different forms of behaviour that might create risk for the company. It is particularly important to involve business unit managers, as responsibility for managing bribery and corruption risks ultimately lies with them.

Integration with existing processes

To maximise efficiency, reduce duplication of effort and reduce the scope for a risk being undetected or mis-assessed, the assessment of risks posed by incentives should be integrated with other risk management and anti-corruption processes.

Learning from past issues

Review recent risk management, ethics and compliance and internal audit work for any relevant information on corruption risks, including any lessons from instances of unethical behaviour and breaches of company rules. This should provide information about problem areas in the company and specific risks that may be driven in part by incentives.

Records of exit interviews can also help to identify any ethical concerns or incentives-related issues behind staff departures. This will provide insight into the kinds of negative behaviours to which the company is susceptible and for which incentives need to be identified.

Finally, reviewing corruption incidents or breaches at other companies can provide insights into possible risks faced by the company. The company should seek to determine what went wrong and ask themselves whether a similar breach could occur within their own organisation.

Staff input

Staff are often in the best position to understand how the company's incentive systems work in practice and identify which ones are successful and which ones may be dysfunctional. They are also well placed to identify any conflicting incentives or disparities between messaging and/or pressures coming from different levels of the company.

The company could consider using staff surveys, interviews or dedicated workshops to elicit staff views on incentives structures and their impacts on employee behaviour.

Box 9: Examples of questions to ask staff

- Have you ever faced an ethical dilemma in the course of your work?
- Have you ever experienced a conflict between the company values and your objectives and targets?
- Have you witnessed anything in the company that might cause embarrassment if it were made public?
- Do you feel able to discuss ethical issues or question targets and performance measures with your manager?
- Do the board and management set a good ethical example to employees?
- How would you describe the company culture?

Mitigating actions

Once a company's risk profile is understood, it should then decide how it can best mitigate identified bribery and corruption risks posed by incentives. This might include:

- Changes to incentive schemes and/or performance measurement systems.
- New or more detailed policies and procedures for staff to follow.
- New systems of oversight to detect whether procedures are being followed.
- Efforts to reinforce corporate values, culture and tone at the top.
- Sanctions for non-compliance.

The company should ensure that any new measures introduced are proportionate to the identified risks and do not create an undue "compliance burden" for the business, support functions or ordinary employees.

The company should also be aware that introducing measures based purely on an "if – then" or "carrot and stick" approach may not have the intended effect. The desire to simplify, and a belief that complex systems can be controlled by a few measures, can lead to oversimplification and generalisation. The reality is that people are complex, and companies more so, and therefore they may not behave predictably. Measures to mitigate risks should therefore be reinforced through communications and training and monitored regularly to identify what is working and any problems (see sections 3.4 and 3.5).

3.3 Designing ethical incentives

Key principles – Designing ethical incentives

6. Ensure the overall approach to incentives is aligned with and does not inadvertently undermine the company's values and culture.
7. Set targets which are achievable without resorting to illegal, unethical or negligent behaviour.
8. Set ethical targets or use ethical thresholds for rewards to distinguish outcomes from the means used to achieve them.
9. Avoid paying staff for performance based purely on output measures, and instead encourage the pursuit of intrinsic reward.
10. Ensure that staff are not promoted or rewarded if they have breached the company's principles, even if they have met or exceeded their targets.

Establishing the company's culture and values and mitigating risks posed by existing incentives structures will go a long way to countering corruption. The next step is to design (or redesign) incentives so that they encourage ethical behaviour.

This will not be as simple as substituting ethical behaviours for other desired outcomes in existing incentives structures, but will involve moving beyond purely financial rewards. Research suggests that people are motivated by many things besides money, including a desire to do good to help others.

Examples

Examples of incentives to prevent corruption include:

- Introducing ethics and values measures into performance reviews, such as the quality of work and how a job is done.
- Good ethical conduct being a prerequisite for promotion.
- Spot awards for good ethical practice, recognising special contributions as they occur for a specific project, task or activity, usually over a relatively short-term period.
- Awards for people who speak up or challenge questionable conduct.
- Recognition and/or prizes for people who excel in ethics and compliance training.
- Recognition for outstanding contribution to the ethics and compliance programme.
- A company-wide ethics award scheme.
- Coverage of examples of good ethical or anti-corruption practice in the company newsletter.
- Thank you letters from the CEO or senior managers for people who display ethical behaviour.
- Dinner with the CEO as a prize for people who demonstrate ethical behaviour.

The recognition and awards suggested above could be based on individual or team performance. An indirect incentive might be to link managers' bonuses to the aggregated responses to ethics and compliance questions in staff surveys by the staff who report to them.

Box 10: Case Study - HSBC Gratitude and Listening projects[i]

As part of its revamped incentive structure, HSBC is working on a number of initiatives, two of which are focused on gratitude and listening. Both are predicated on the assumption that people by their very nature need social closeness and feel valued when they are listened to. Neither constitutes a direct incentive for ethical behaviour but both should indirectly incentivise ethical behaviour and create an opportunity for risk factors to be discussed and dealt with before they become a bigger problem.

Gratitude

A button appeared on the bank staff website on 25 October 2015. The button simply allowed one staff member to bestow gratitude towards another. It works like an e-card. The thank you is displayed publically and can be turned into a longer message. It was not accompanied by any notice or fanfare but three months later it had had 50,000 users, demonstrating the viral impact of pro-social behaviour. The underlying concept is that gratitude creates a sense of connection. This can be a useful way to address the problems of ethical distance and can also be a nudge to good behaviour and reciprocate goodwill.

Listening

To ensure they spend more time listening to their staff, once a quarter managers and other leaders are encouraged to meet with the staff - of any grade, Global Business or Global Function – not just those who report to them. It is not mandated, but more than 50 per cent of managers make use of this opportunity – making those who do not the minority. The manager's role is to provide empathy, listen to what matters most to their staff and, where appropriate, acknowledge what they are hearing and answer questions. 90 per cent of the talking should be by the staff. There is no facilitator and no agenda. Staff tend to talk about what is motivating or demotivating them and come up with ideas for improvements. At the end of the meeting the manager will summarise what s/he has heard.

[i] Content provided by HSBC

Understanding the risks

As with tradional incentives, any programme to incentivise ethical behaviour carries with it the risk that it may not work fully as intended. If done poorly it could result in cynicism. For example, a reward dinner with the CEO may be regarded by some as a joke and others as a punishment. Employees may regard a financial incentive to behave in an ethical manner unfavourably and may even find it insulting, inferring that the company does not trust them. Financial incentives for ethical behaviour can also suggest that a company is putting a price on ethics. These interpretations are demotivating and might lead to a view among some employees that they can make more money by not being ethical.

The obvious difficulty with measuring ethical behaviour is that the measures used are necessarily subjective. Corrupt acts can go undetected and corrupt employees may create the impression of being ethical. Likewise, some but not all ethical acts will be noticed and rewarded, which risks creating resentment amongst staff. Any negative comments about behaviour in an individual performance review could be met with a rebuttal and managers may feel uncomfortable and ill-equipped to raise such matters. Any evaluation of “how” work is done is tricky and, if included in performance reviews, it should also be included in staff training.

Incentives to prevent corruption should include penalties for wrongful behaviour. A penalty must be appropriate to deter corrupt behaviour, rather than being accepted as part of the cost of doing business or cancelled out by disproportionate rewards for meeting targets. At the same time, companies should be rigorous in ensuring that penalties are handled in an objective, consistent and even-handed way. Making an example of someone who has misbehaved can act as a powerful deterrent for other employees, but not firing someone who has also misbehaved but who is liked by management or who excels in relation to performance targets would undermine the whole exercise.

Outlined below are some key principles to consider when designing ethical incentives.

Align incentives, objectives and values

For incentives to work they must be aligned with other incentives, corporate objectives and the company's broader values and culture. Within incentive structures themselves, it is important to ensure alignment of targets and goals, performance measures, rewards and responsibilities and accountabilities.

Any lack of alignment can create confusion, conflict and stress for both individuals and teams. The UBS Transparency Report[24] (2010) to its shareholders, which was commissioned following losses in dealings on sub-prime markets, highlighted problems where risks, rewards, measures and responsibilities were not aligned, including traders being rewarded for acting against the bank's interest. Similarily, in an ACCA members' survey[25] 32 per cent of respondents said there were incentives in their organisations that worked against achieving organisational objectives.

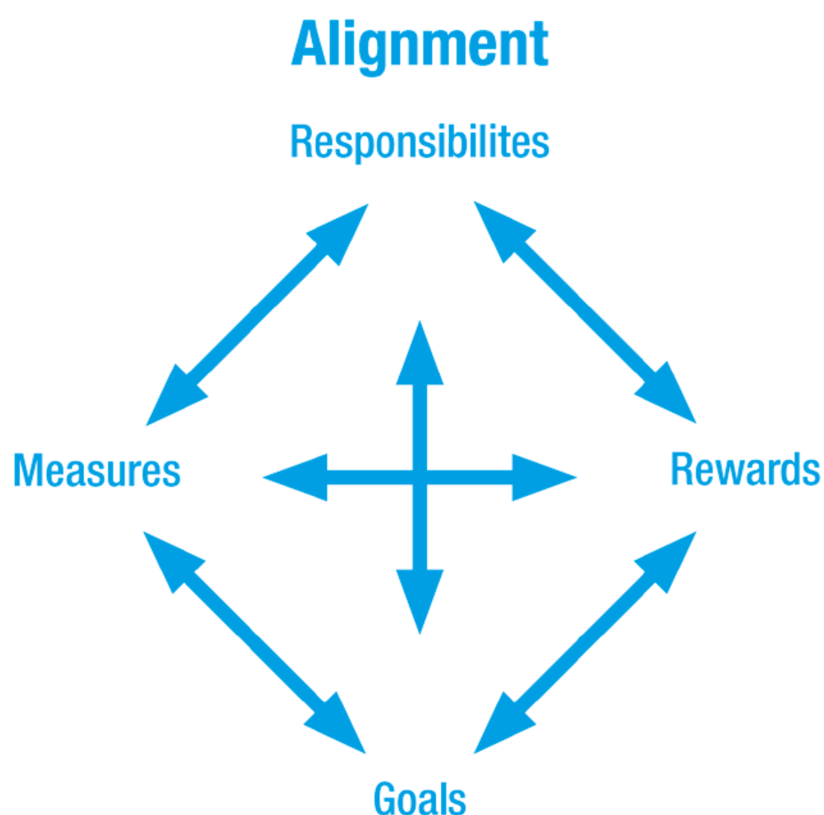

Figure 4: The need for alignment

Box 11: Case Study - ASMART alignment at GSK[i]

Personal objectives are often formulated to meet the SMART test: specific, measurable, achievable, relevant and time bound. The requirement for them to be "measurable" means that agreed objectives often exclude qualitative matters. It can also mean that objectives are agreed simply because they meet SMART criteria even when they may not be aligned with team or corporate objectives.

At GSK, individual's objectives are required to be ASMART, meaning that in addition to the usual SMART criteria, they must be "aligned" with the overarching strategy. The "aligned" measure includes a consideration of "what" is done and "how" it is done. GSK has a set of expectations which, together with the higher level corporate values, set out what is expected of employees. These six expectations are: living our values, drive performance, develop capability and talent, release energy, work across boundaries and set direction and inspire.

This means that to receive the higher ratings an employee must exceed all objectives AND exemplify and role model all the behavioural expectations to which employees are asked to adhere. This emphasis on expectations creates a space for managers and others to raise concerns if they have them.

[i] Content provided by GSK

Set achievable targets

Setting achievable targets is key to preventing corruption. Companies should ensure that staff have the resources they need – such as time, money or managerial support – to carry out the tasks required of them. Targets should be based on a realistic assessment of market conditions and available resources. Otherwise they risk effectively forcing staff into engaging in illegal, unethical or negligent behaviour.

Equally, companies should check ratios of fixed to variable pay to ensure that regular staff wages are sufficient so that staff are not overly reliant on incentives to pay their living costs. Capping bonuses may also help, as high targets with very high rewards are most likely to incentivise corruption.

Set ethical targets

Companies should consider setting ethical targets across all levels of the organisation. For example, if "trust" is a company value, an employee's aim or objective might be: "I commit to represent the company in ways that will generate trust in the company, its products and employees". Assessing performance against this kind of target might be difficult, but managers should identify actions which exemplify the value or behaviour in question as well as actions which demonstrate the opposite.

Many companies are now either abolishing bonuses for hitting sales targets or introducing ethical, behavioural and quality measures into personal assessment criteria. The aim is to distinguish outcomes from the means used to achieve them. Approaches vary from requiring staff to acknowledge or confirm they have complied with the company code of ethics, to a form of "values gate" or threshold which will determine if a bonus is paid, to a graduated assessment of ethics, behaviour or quality which may or not be built into performance-related pay.[26]

As with company values (section 3.1), measures imposed from above, particularly about questions of ethics and integrity, may not be popular with staff. They are more likely to be accepted and to work in practice if staff are involved in their selection and design.

Box 12: Case Study - Behaviour ratings at HSBC[i]

Why do we need a behaviour rating?

Behaviour ratings enable HSBC to promote and guide the right behaviours – enabling all employees to do the right thing, deliver fair outcomes for our customers and support the integrity of financial markets. They enable us to create an environment in which employees want to work, and can be at their best.

Through the behaviour rating managers can assess not just what employees have achieved, but also how they have achieved it.

Your behaviour rating can be a powerful form of recognition for positive behaviours that align to HSBC values and support our Global Standards and conduct outcomes. Exceptional positive behaviours can be recognised in a number of ways including through additional variable pay.

Behaviour ratings are used alongside performance ratings in determining differentiated pay recommendations during the annual pay review. They enable HSBC to reward you for demonstrating the right behaviours, taking into account desired values and conduct, including compliance with policies and procedures.

Behaviours demonstrated

- What values-aligned behaviours have you demonstrated?
- How have you supported our conduct outcomes, including compliance with policies and procedures, and the delivery of fair outcomes for customers and maintaining the integrity of financial markets?
- Do you feel that your behaviours have fallen short of those expected of HSBC employees at any time?

If so, why? And, what steps have you taken to change your behaviour?

[i] Content provided by HSBC

Focus on intrinsic reward

Rather than focusing purely on financial performance, performance management and appraisal schemes should actively encourage employees to be ethical. As such, companies should avoid paying staff for performance based purely on output measures and should encourage the pursuit of intrinsic reward.

Ensure pay reflects overall performance

If companies feel they have to pay for performance, they should ensure that pay and performance are properly correlated and that staff are rewarded for their overall (i.e. financial and ethical) performance. This will involve ensuring that performance reviews are unbiased and that financial performance is not allowed to trump ethical behaviour. [27]

Some employers - including Deloitte, Netflix, Accenture and Motorola – are doing away with annual staff performance reviews. There are several reasons for this, including the high cost of the process, unpopularity with reviewers and reviewed, perceptions of unfairness and doubts as to whether the ratings actually provide useful information. Research in 2000[28] suggested that most variance in performance ratings can be explained by reviewer bias rather than reviewee performance. In other words, ratings reveal more about the person doing the rating than they do about the person being rated.

Rating assessments on behavioural, ethical and quality matters is likely to be more subjective and care is obviously needed to ensure that ratings are as unbiased as possible.[29] It has been found that outcomes (job performance) can bias ethical judgments.[30] That is, successful people are judged to be more ethical than warranted on an appraisal of ethical performance.

Companies should ensure that no employee is promoted or rewarded if they have breached the company's principles, even if they have met or exceeded their financial targets. One way to guard against this is to design incentives structures involving variable pay with future behaviour in mind. For example, a bonus structure in which bonuses are deferred and can be recouped (or 'clawed back') if behaviour errs subsequently – or is discovered after the fact – may be more effective than simple cash bonuses.

Box 13: Case Study - A new approach to performance appraisal and sales force incentives at GSK[i]

Over the last several years GSK has changed how it rewards its sales force and, since January 2016, has ended payments to healthcare professionals (HCPs) to speak on its behalf about its prescription medicines or vaccines. Internal medical experts now offer knowledge and expertise when and how it is needed by HCPs, often through a combination of face-to-face and digital channels.

Industry Medical Representatives[i] are the touch point between the company and the HCPs who are prescribing GSK's products. The traditional approach in the industry to incentivising Medical Representatives was based on the idea of motivating highly competitive people with monetary rewards based on their personal performance in league tables of output based measures, such as direct sales, or input based measures, such as the number of sales calls with doctors to promote specific products.

Since January 2015, GSK Pharma Medical Representatives and their managers are no longer financially rewarded for the number of individual prescriptions generated. Instead, they are incentivised based on their technical knowledge, the quality of service they deliver to HCPs to support improved patient care, and a broader set of business performance measures.

This model covers both Medical Representatives and their managers. Representatives are incentivised to act in the right way for their customers. Managers are incentivised to make sure their representatives do so. The focus of interactions between Medical Representatives and doctors (or other HCPs) is all about value - enabling doctors to learn something new and useful about the product.

Although GSK no longer measures individual performance on sales, data is still collected for other things such as business planning. A Medical Representative will not get a good rating if their customer interaction quality is poor.

[i] Content provided by GSK

3.4 Embedding ethical incentives

Key principles – Embedding ethical incentives

11. Use training and communication to reinforce the primacy of ethical behaviour over achieving targets.
12. Listen to staff and create opportunities for them to consider their work and actions from an ethical perspective.

Incentives are only one factor impacting behaviour in the workplace. Other factors, such as training and communications, are also important and can help to embed incentives structures in an organisation and ensure that they work as intended.

All of the suggestions in this section for embedding ethical incentives involve communication. They will work best if they are built into corporate training, education and other forms of communication, such as speeches by senior management or statements in newsletters or on the intranet.

Company training programmes should sensitise people to the risks posed by incentives. Staff should also be involved in deciding how to mitigate these risks. Staff should be in no doubt after training that unethical behaviour is never justified whatever the imperative to get the job done. They should also know who to seek advice from if they face an ethical dilemma.

A specific area in which training is likely to be needed is performance appraisals in which behavioural matters are assessed. Such systems should also be stress tested and trialled before they are introduced.

Declaring ethical intent

Declarations of intent to be ethical can be an effective instrument to send a clear message to employees about the type of behaviour that is expected from them. In the Netherlands, in an effort by the Dutch Banking Association and the government to restore trust in the sector, the new Dutch Bank Code[31] requires bank employees to swear an oath promising they will perform their duties with integrity and that they will "endeavour to maintain confidence in the financial sector".

The value of swearing an honour code in unusual situations is supported by research.[32] In a 2012 study, the academic Dan Ariely found that everyone lies and cheats to an extent, but they are less likely to do so if they declare they will uphold an honour code. He also found that requiring people to sign a statement at the beginning of insurance claim forms to the effect that the information they are providing was true reduced cheating by 15 per cent compared with people who signed a declaration at the end.

Using codes of ethics

Codes of ethics are necessary documents as it is important to set out a clear policy in this area. Codes based on applying or living principles and values are generally better than codes based on rules. The efficacy of codes will be reduced if staff feel that the code is just a fig leaf and achieving targets is what really matters. It is therefore essential for the spirit of the code to be reflected in the example set from the top and by management. Companies should make clear that doing the right things the right way always prevails and ensure that employees know not to do the right things the wrong way.

Guidance on preparing codes is available from the Institute of Business Ethics.[33]

Discussing ethical dilemmas

According to a 2014 ACCA survey[34] of over 1,900 respondents from amongst its global membership, "creating an environment where people can comfortably discuss any concerns" and "actively encouraging teams to discuss ethical dilemmas in a safe environment" were the two most effective ways to foster ethical behaviour.

Discussing hypothetical ethical dilemmas seems to make it harder for unethical behaviour to happen in the same way an inoculation can prevent an infection. The discussion sensitises people to think more ethically and teaches them to question existing practices. This can help to challenge the primacy of targets and other formal incentives and encourage employees to take a broader view of acting in the company's interest.

Encouraging ethical decision-making

Companies should ask employees to consider the ethical implications of any decision they take. This could usefully be combined with a consideration of the risks that may be associated with any decision.

For example, Siemens uses four questions:

1. Is it right for Siemens?
2. Is it consistent with Siemens' values and with your own?
3. Is it legal?
4. Is it something you are willing to be accountable for?

The last question is similar to the newspaper headline test: "is there anything going on in the company that you know about which could cause embarrassment or scandal if it became publically known?"

Encouraging ethical decision-making reinforces the primacy of "doing the right thing" over meeting targets, while reminding employees that they will be held accountable for their actions can support the operation of "clawback" mechanisms and "values gates" or thresholds for the reward of bonus payments. Individual employees' considerations can also provide material for discussion during performance appraisals where behavioural matters are assessed.

Listening to staff

The importance of listening to staff cannot be overemphasised. Employees know what is going on in the company and they also often know best how to do their job and what additional resources could make improvements. The vast majority not only want to do a good job but also to be ethical and for the company to be ethical.

Many companies now are actively promoting speak-up or whistleblowing channels and encouraging staff to raise concerns with managers and colleagues before resorting to formal channels.

Advice lines and whistleblowing channels can be a useful way to gain feedback on new and existing incentives systems. Staff should be encouraged to ask questions about ethical dilemmas and pressures they are facing to act in unethical ways to meet targets and/or secure promotions or bonus payments, as well as reporting incidents of wrongdoing.

Box 14: Centrica – Reaching out to staff

Sir Roy Gardiner, chief executive of Centrica in 2002, once contacted a surprised gas engineer who had criticised the company's annual employee satisfaction survey. Not every employee would have felt like speaking frankly if s/he had a criticism and not every company boss would have welcomed such comment. Sir Roy, however, said "we had a long chat; I learned a lot from him and he learned a lot from me".[i]

[i] "Word from the top - tell it like it really is", Financial Times, 3 December 2002.

Using nudges

Positive reinforcement and indirect suggestions to act in certain ways can influence the motives, incentives and decision-making of groups and individuals at least as effectively – if not more effectively – than forced compliance.

Many staff work in a pressured environment where the team ethic might not match up to the expectations of their families or wider society. Nudges can be used to remind employees about their families and communities, for example by encouraging them to display family photographs, holding family open days and generally promoting activities which put people in a positive frame of mind. Charity days could be another way to make the business culture more reflective of the community.

Box 15: Case Study -The Barclays Lens[i]

Barclays introduced the "Barclays Lens" in late 2013 as a decision-making tool and everyone at Barclays is expected to champion its use.[35] The Barclays Lens is an assessment tool made up of five groups of questions to ensure that the bank is "taking into account the interests of our customers, clients, shareholders and communities in the decisions we make every day".

• How are we making a profit (directly or indirectly)?	Is Barclays obtaining profit (cost savings) from delivering value to the customer/client or through penalising them? Are we acting in a way that is likely to be viewed as fair and reasonable by most? Would the customer or external stakeholder think that an acceptable level of profit is being made? Is this decision/action legal and in keeping with the spirit of the law?
• How are we being transparent and clear in our communication and dealings with customers and stakeholders?	Is clear, simple language being used in our engagement with customers/stakeholders such that they understand what they are entering into? Have the interests of all those who may be adversely affected by this decision/action been considered? And how are you engaging with stakeholders who may be impacted, such as shareholders, clients/customers, industry groups, NGOs or affected communities? How will you provide on-going dialogue with the customer or external stakeholders that will engage and support them in their relationship with Barclays?
• How are we creating shared value, where win-win occurs to Barclays, the customer and society at large?	Are we realising profits today at the expense of relationships tomorrow? How will you move your customer and/or external stakeholders towards their aspirations and needs?

• How are we creating long-term value?	How could we change what we are doing to create value for our customers or stakeholders at limited or no cost to ourselves? What is the long term negative/positive value impact for Barclays, the customer and external stakeholders in what you are doing? What are the challenges faced by the customer/client and their communities with whom you are working, and how are we helping to meet these challenges?
• Is this the right thing to do? (acid test)	Does it reflect the Purpose and Values of Barclays, and is it consistent with the Barclays Way? Would I want someone to act like this on my behalf? Would you be comfortable seeing this decision/action on the front page of a newspaper? Would you have a clear conscience in explaining the action/decision to a colleague, family member or friend?

[i] Content provided by Barclays
[ii] <https://www.home.barclays/citizenship/our-approach/enhancing-decision-making.html> [accessed 3 October 2016].

3.5 Monitoring and evaluation

Key principles – Monitoring and evaluation

13. Ensure that internal functions (e.g. HR, ethics and compliance, risk, internal audit, finance and sales) are monitoring for signals that staff may be incentivised to contravene the company's code of ethics.
14. Record all breaches of the code of ethics and make adjustments to incentive structures as appropriate.

This section sets out good practices for monitoring how successfully the company has established a positive ethical culture and values, how well risks posed by incentives are identified, assessed and managed, and how well incentives are working throughout the company.

Many of the same methods used to gather information in the risk assessment process can also be used to monitor the effectiveness of the company's incentive scheme. Effective monitoring will require cross-functional working involving staff from HR, ethics and compliance, risk management, internal audit, finance and business unit management (e.g. sales).

Some examples are:

- Include questions on incentives in staff surveys and exit interviews and regularly review the responses to pick up any warning signs that incentive structures may be having unintended consequences.
- Hold regular employee workshops and ethical reflection sessions to identify risks linked to incentives and involve staff in designing solutions.
- Monitor the use of speak-up and whistleblowing channels to identify whether staff feel able to use them without reprisal and understand the role of incentives in corruption and other forms of unethical behaviour.
- Include an assessment of incentives in the annual internal audit plan.

Internal audit

Internal audit has a key function to play in monitoring the implementation and effectiveness of the company's incentives structures. As such, it should consider the impact of incentives and whether risks associated with incentives are being effectively addressed as part of its annual audit plan. This might form part of its usual programme of individual audits or it might include a specific focus on incentives as part of an anti-bribery and corruption audit.

Questions for internal auditors

Some specific questions which internal auditors may wish to consider are:

1. Do you consider the possible risks posed by targets and incentives in your audit work?
2. Do you ask auditees about possible risks posed by targets and incentives?
3. Do you consider what incentives there are in the organisation that could lead to corrupt or unethical behaviour?
4. Do you consider what objectives have been set for the business area being audited and for the staff working in that area and factor this into your assessment of risk?
5. Do you consider the working of, and comment on, the company's performance management scheme either when auditing particular business areas or as a whole across the company?
6. Could there be pockets within the company where bribery and corruption might happen and give senior management plausible deniability? If so, are there incentives in place that might increase the likelihood of this happening?
7. Are there marked differences in tone between senior management and middle management on the importance of achieving objectives and ethical behaviour?
8. Do you give assurance to the audit committee on the process for assessing risks posed by incentives?
9. Does the audit committee take an active interest in risks posed by incentives?
10. Is there resistance to the auditing of incentive awards?

Endnotes

[1] Page 508 of the 2015 US *Federal Sentencing Guidelines Manual* states: “the organization’s compliance and ethics program shall be promoted and enforced consistently throughout the organization through appropriate incentives to perform in accordance with the compliance and ethics program”.
[2] “Wells Fargo to pay $185m for aggressive, illegal sales tactics”, *The Guardian*, 8 September 2016 <https://www.theguardian.com/business/2016/sep/08/wells-fargo-settlement-illegal-sales-accounts> [accessed 26 September 2016].
[3] “Wells Fargo’s John Stumpf Takes Center Stage at Senate”, *The Wall Street Journal*, 20 September 2016 <http://www.wsj.com/articles/wells-fargos-john-stumpf-takes-center-stage-at-senate-1474363803> [accessed 26 September 2016].
[4] “Should Wells Fargo Bankers Give Back Their Pay?”, *The Wall Street Journal,* 19 September 2016 <http://www.wsj.com/articles/should-wells-fargo-bankers-give-back-their-pay-1474325287?mod=djemRiskCompliance> [accessed 26 September 2016].
[5] Financial Services Agency, *Final guidance: Risks to customers from financial incentives* (FSA, 2013).
[6] ‘PPI scandal: ‘serious risks’ of more mis-selling in financial services market’, *The Guardian*, 13 May 2016 < > [accessed 15 August 2016].
[7] “Wells Fargo CEO Defends Bank Culture, Lays Blame with Bad Employees”, *Wall Street Journal*, 13 September 2016 < http://www.wsj.com/articles/wells-fargo-ceo-defends-bank-culture-lays-blame-with-bad-employees-1473784452> [accessed 29 September 2016].
[8] “Volkswagen U.S. CEO Says He Didn’t Know in 2014 of Emissions Defeat Device”, *Wall Street Journal*, 9 October 2015, <http://www.wsj.com/articles/volkswagen-u-s-ceo-says-he-didnt-know-in-2014-of-emissions-defeat-devices-1444316371> [accessed 15 July 2016.
[9] “VW more than doubles emissions bill to €16.2bn”, *BBC*, 17 May 2016 < http://www.bbc.co.uk/news/business-36112333> [accessed 18 July 2016].
[10] Based on Armstrong, M. A, *Handbook of Human Resource Management*, 8th Edition (London and Milford USA: Kogan Page, 2001).
[11] WorldatWork and Deloitte Consulting LLP, *Incentive Pay Practices Survey: Publicly Traded Companies* (World at Work and Deloitte Consulting LLP, 2014).
[12] Leitch, M., *The Reality of Risk* (London: ACCA, 2012).
[13] Pink, D.H., *Drive: The surprising truth about what motivates us* (New York: Riverhead Books, 2009).
[14] This is discussed in more detail by Moxey and Berendt in *Creating value Through Governance - towards a new accountability* (London: ACCA, 2014).
[15] Fjeldstad, O., Kolstad, I. and Lange, S., *Autonomy, Incentives and Patronage: A Study of Corruption in the Tanzania and Uganda Revenue Authorities*, *CMI Report* (Norway: Chr. Michelsen Institute, 2003).
[16] Anand, V., Ashforth, B.E., and Joshi, M., “Business as usual: The acceptance and perpetuation of corruption in organizations”, *Academy of Management Executive*, Vol.18. No.2, 2004 (Anand et Al, 2004).
[17] Taylor, A., “What do Corrupt Firms Have in Common? Red Flags of Corruption in Organizational Culture”, *Center for the Advancement of Public Integrity*, April 2016 (Taylor, 2016).
[18] Financial Services Agency, *Final guidance: Risks to customers from financial incentives* (FSA, 2013).
[19] Anand et al, 2004.
[20] Ibid.
[21] Based on Richard Barrett's adaptation of Ken Wilber's Four Quadrants Integral Model <http://www.valuescentre.com/sites/default/files/uploads/2010-07-20/Fundamentals.pdf>, <http://joinintegrallife.com/what-is-integral/> [both accessed June 2016].
[22] Ringland, G., Sparrow, O., Lustig, P., *Beyond Crisis: Achieving Renewal in a Turbulent World* (Chichester: John Wiley and Son, 2010).
[23] Taylor, 2016.
[24] UBS, *Transparency Report to the shareholders of UBS AG* (Switzerland: UBS, 2010).
[25] Stathopoulos, K. and Tsileponis, N., *Culture and channelling corporate behaviour: Results from the ACCA member survey* (London: ACCA, 2016), Appendix 3.
[26] For a useful guide on how the performance management process can be used to help embed ethical values, see Steinholtz, R. N. and Dando, N., Performance Management for an Ethical Culture (London: Institute of Business Ethics, 2014).
[27] Langley, M., *Rewarding the Sales Force* (Exeter: Institute of Personnel Management, 1987).
[28] Mount, M., Scullen, S. and Maynard Goff, M., “Understanding the latent structure of job performance ratings”, *Journal of Applied Psychology*. Vol. 85, No. 6, pp.956-970, 2000. The study involved 2,142 managers from a variety of US industries.
[29] Cardy, R. and Dobbins, G., *Performance appraisal: A consideration of alternative perspectives* (Cincinnati, OH: South-Western, 1994), as cited by Selvarajan, T., 2006.
[30] Selvarajan, T., “A Cognitive Processing Model for Assessing Ethical Behavior of Employees”, *Journal of American Academy of Business*, 31 March 2006.
[31] Nederlandse Verenging van Banken, *Future-oriented Banking: Social Charter Banking Code Rules of Conduct* (the Netherlands: NvB, 2014).
[32] Ariely, D., *The Honest Truth About Dishonesty* (USA: Harper Collins, 2012).
[33] <http://www.ibe.org.uk/nine-steps-for-preparing-a-new-code/103/52> [accessed 26 August 2016].
[34] Stathopoulos, K. and Tsileponis, N., *Culture and channelling corporate behaviour: Results from the ACCA member survey* (London: ACCA, 2016).
[35] <https://www.home.barclays/citizenship/our-approach/enhancing-decision-making.html> [accessed 3 October 2016].

Appendix: Key risks and mitigating actions

Risk	Action
1. Staff cut corners, bypass company procedures and/or break laws to meet targets for bonus payments	Consider if performance-related pay is essential. If it is essential, include an ethical threshold which needs to be achieved before payment is triggered or introduce ethical and quality issues into the targets.
2. Employees game (manipulate, massage and muddle) targets and measures	Ensure that the targets or measures properly reflect what the person or team is expected to achieve and how they should achieve it, rather than being a poor proxy for what is really wanted. Multiple targets are harder to game as are qualitative targets. Audit the achievement of targets.
3. Staff misrepresent outputs/results or falsify figures to create the appearance of achieving targets	Ensure that targets are achievable with the resources provided and consider limiting the size of bonus payments and other rewards, as high targets with very high rewards are most likely to incentivise corruption.
4. Targets are missing/existing targets do not cover the performance required	Monitor, review and evaluate incentives systems regularly to identify where they may be driving under-performance or a disproportionate emphasis on certain activities at the expense of other desirable behaviours.
5. Targets narrow employees' focus solely to achieving targets, at the expense of other important behaviours	Encourage staff to pursue intrinsic rewards, such as satisfaction with "a job well done", pleasing customers and working with others, and measure staff satisfaction against these criteria. Encourage management to meet their reports regularly to listen to their concerns, and use staff surveys to encourage feedback on the appropriateness of targets and whether targets are taking focus away from other priorities.
Risk factor	**Action**
6. Values, targets and business objectives are misaligned	The board should consider whether the values lived in the company are the same as its stated or espoused values. It should consider what sort of values the company ought to have and where and find out if these values are shared by staff. Articulate a hierarchy of values so people know what to do if there is an apparent clash. Ensure staff are able to discuss any concerns about competing priorities or clashes of values.
7. Ethical tone lower down does not match tone at the top	Ensure actions by board and management are completely in alignment with the company values and code of conduct. Demonstrate to employees that board and management are serious and not simply "talking the talk". Establish a culture of openness, encouraging staff and contractors to think about, question and report any lack of alignment or incongruity.

8. Retaliation against those who report concerns or wrongdoing	Encourage rather than discourage reporting of concerns or wrongdoing. Communicate and enforce a policy of no retaliation for whistleblowing and provide anonymous or confidential whistleblowing channels. Management should ensure that staff who speak up or who simply raise concerns are properly listened to and understood rather than penalised.
9. Bars to external reporting of illegal or unethical activities	Remove the bars. Ensure that employment contracts and confidentiality policies and procedures do not bar the reporting of potential illegal or unethical activities directly to law enforcement or regulatory authorities.
10. A culture of "looking the other way"	Make it known to all employees and all levels of management that there are no excuses for corruption, everyone has a duty to report wrongdoing, managers are accountable for the behaviour of those who report to them and anyone engaged or complicit in corruption of any kind is likely to lose his/her job.
11. Inappropriate penalties for wrongdoing	Make the penalty appropriate to the wrongdoing. At the same time, be alert to the unintended consequences of sanctions. Punitive measures are limited in what they can achieve, but it is important that everyone- at all levels of the company - is held to account for wrongdoing.
12. Managers promote or reward employees who break the code of conduct or do not display the company's values	Introduce ethical and quality issues into performance measures. Include an ethical threshold which needs to be achieved before bonus payments or promotions are authorised.
13. Cascading of investor and shareholder-driven targets through the company leads to pressure to meet short-term business objectives	The board and senior management should ensure that investor pressures stop with them and are not translated into unworkable pressures for staff, and ensure that staff have the resources to do what is expected of them.
14. Competitor pressures generate a "race to the bottom"	The board should ensure it is aware of any particular susceptibility of the company's business model to incentivising high-risk behaviour, ensure that investors understand the business model, and understand the importance of balancing long and short-term decision-making.
15. Regulatory burdens or loopholes create incentives to change, circumvent or break the rules	Constantly reinforce the importance of the code of conduct and the importance of following the spirit as well as the letter of laws and regulations. Introduce and implement principles, policies and procedures governing political engagement and ensure they are aligned with the company's code and ABC programme.
16. Regional and cultural norms create an expectation or sense of obligation to engage in behaviour that the company would consider corrupt or unethical	Be aware of how regional issues can influence the operations of incentives structures. Use tailored communications and training to ensure that staff understand company policies and know what it expected of them in high-risk situations, such as gifts and hospitality, nepotism, etc. Make available channels for staff to seek advice on the code of conduct and ethical dilemmas.

17. A perceived imperative to do “whatever it takes” to meet business goals	Create an environment in which staff can speak to members of the company’s management, including at levels of management above their line manager, if they feel under pressure to meet objectives or hit targets at all costs. The board should ensure that managers are not motivated to make unreasonable demands.
18. Staff do not take the organisation’s code of conduct seriously	Ensure that management constantly reinforce the importance of the code of conduct (part of tone at the top).
19. Staff believe they will be rewarded for results, not the means used to achieve them	Ensure management communicate in words and actions that the way in which results are achieved is at least as important as achieving them.
20. Staff fear losing their jobs or missing out on promotions if targets are not met	Ensure staff can discuss work with management and that staff are not required to cut corners, cheat or fabricate evidence to achieve a target. The right tone at the top is critical, as is the same tone being articulated by management at lower levels.
21. Staff lack understanding of the standards that apply to their jobs	Provide training and ensure that managers give guidance and encourage staff to seek advice if they are unsure what is required of them.
22. Staff lack resources, including time, to get the job done without cutting corners	Create an environment where staff can speak to management and, if necessary, above their line manager if they are under too much time pressure and ensure that managers do not make unreasonable demands. Listen to staff and respond appropriately if they feel they lack the time or resources to do the job well.
23. Staff believe policies and procedures are easy to override (little risk of getting caught or sanctioned)	Strengthen controls and speak up (whistleblowing) channels. Emphasise the importance of policies and procedures and encourage staff not to look the other way through communications and training. Identify and target high risk areas of the business through analysing staff surveys and exit interviews.
24. Staff seek to bend or break the rules for their own personal gain	Implement strong controls, continuously reinforce the importance of ethical conduct and encourage other staff not to look the other way.
25. Peer pressure	Be careful about using bonuses based on team rather than individual performance, as this could increase peer pressure.
26. Isolation	Management should be alert to the risks. Encourage and create opportunities for teams to mix and for staff to be seconded to other teams.
27. Socialisation 28. Rationalisation 29. Self-deception	Consider organising ethical workshops and reflection sessions where staff discuss the ethical implications of their work. Where misconduct occurs, interview staff to find out if these factors were present, bearing in mind that even the employees involved may not be aware of them.
30. Ethical distance	Use nudges (section 3.4) to make staff more aware of others, hold workshops and ethical reflection sessions and, in training, encourage staff not to use euphemistic language to disguise unethical behaviour.

Glossary

Appraisal: A process for individual employees and those concerned with their performance, typically line managers, to discuss their performance and development, as well as the support they need in their role. (CIPD, 2015).[1]

Bonuses: Bonuses and cash incentives are a form of variable pay based on the use of cash lump-sum payments linked to individual, collective or organisational performance (or some combination of these). They are not consolidated into cash pay. Bonuses cover a wide range of purposes and can be discretionary or non-discretionary. (CIPD, 2016).[2]

Bribery: The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust.

Bribery risk: The risk of offering, paying or receiving a bribe through an officer, employee, subsidiary, intermediary or any third party (individual or corporate) acting on the commercial organisations behalf.

Corruption: The abuse of entrusted power for private gain.

Culture: A common definition of corporate culture is the "way we do things around here". This can be expanded to include why we do things, as well as the way we do them.

DoJ: The US Department of Justice.

FCPA: The US Foreign Corrupt Practices Act.

FSA: The Financial Services Authority in the UK, succeeded in its regulatory and enforcement functions in 2013 by the Financial Conduct Authority.

Incentive: Payments to employees that are linked to the achievement of previously set targets designed to motivate people to achieve higher levels of performance.[3] A second definition is used in the more general sense of a "reason for doing something".

Performance-related pay: A way of managing pay by linking salary progression to an assessment of individual performance, usually measured against pre-agreed objectives. (CIPD, 2015).[4]

Performance management: A process which contributes to the effective management of individuals and teams in order to achieve high levels of organisational performance. As such, it established shared understanding about what is to be achieved and an approach to leading and developing people which will ensure that it is achieved. (Armstrong and Baron, *Managing Performance* (CIPD, 2004)).

Performance review: See *Appraisal* above.

---

[1] < http://www.cipd.co.uk/hr-resources/factsheets/performance-appraisal.aspx> [accessed 15 July 2016].
[2] < http://www.cipd.co.uk/hr-resources/factsheets/bonuses-incentives.aspx> [accessed 15 July 2016].
[3] Based on Armstrong, M. A, *Handbook of Human Resource Management*, 8th Edition (London and Milford USA: Kogan Page, 2001).
[4] < http://www.cipd.co.uk/hr-resources/factsheets/performance-related-pay.aspx> [accessed 15 July 2016].

Plausible deniability: Circumstances in which a denial of responsibility or knowledge of wrongdoing (typically by senior officials in relation to the actions of subordinates) cannot be proved true or untrue due to a lack of evidence confirming their participation.

Risk: The possibility that an event will occur and adversely affect the achievement of objectives.

Risk assessment: The identification, evaluation, and estimation of the levels of risk involved in a situation, their comparison against benchmarks or standards and their determination of an acceptable level of risk (Business Dictionary).[5]

Risk factor: A characteristic or circumstance tending to increase the level of risk.

Risk identification: The exercise of identifying, characterising and – where appropriate – quantifying a set of risks.

Stakeholder: Those groups who affect and/or could be affected by an organisation's activities, products and services and associated performance. This does not include all those who may have knowledge of or views about the organisation. Organisations will have many stakeholders each with distinct types and levels of involvement and often with diverse and sometimes conflicting interest and concerns. (AccountAbility, 2013).

---

[5] <http://www.businessdictionary.com/definition/risk-assessment.html> [accessed 10 August 2016].

Supporting publications

Business Principles for Countering Bribery, third edition (Transparency International, 2013)

Diagnosing Bribery Risk: Guidance for the conduct of effective bribery risk assessment (Transparency International UK, 2013)

Additional publications

Managing Third Party Risk: Only as strong as your weakest link (Transparency International UK, 2016)

Wise Counsel or Dark Arts? Principles and guidance for responsible corporate political engagement (Transparency International UK, 2015)

Countering Small Bribes: Principles and good practice guidance for dealing with small bribes including facilitation payments (Transparency International UK, 2014)

How to Bribe: A typology of bribe-paying and how to stop it (Transparency International UK, 2014)

Anti-bribery Due Diligence for Transactions (Transparency International UK, 2012)

Adequate Procedures – Guidance to the UK Bribery Act (Transparency International UK, 2010)

Transparency International UK
7-14 Great Dover St,
London SE1 4YR
Tel: 020 3096 7676
info@transparency.org.uk
www.transparency.org.uk

This publication has been provided free of charge by Transparency International UK. If you would like to support our work or get involved, please visit:
www.transparency.org.uk/get-involved

www.transparency.org.uk