

Building lasting relationships based on trust

**Annual FISA Conference
Sandton Convention Centre**

17 November 2021

Outline of the programme



Outline

- **Imperatives for building relationships based on trust**
 - The cost of dishonesty - ACFE Global study
 - Legal duties of persons in a position of trust
 - The impact of Covid-19 and organisational changes
 - The impact of social context on ethical behaviour
- **The value of a culture of trust**
 - The new role of leadership
- **Case studies**
 - What do you do when your employees have switched off
 - Building your reputation as a trustworthy leader
- **Conclusion**

Imperatives for building lasting relationships based on trust



The cost of dishonesty The ACFE Report to the Nations

2020 Global Study on Occupational Fraud and Abuse



KEY FINDINGS

OUR STUDY COVERED



2,504 CASES

from



125 COUNTRIES

Causing total losses of more than

\$3.6 BILLION



TYPICAL FRAUD CASE

lasts
14 MONTHS
before
detection

causes a
loss of
\$8,300
per month

CFEs ESTIMATE THAT
ORGANIZATIONS
LOSE

5% OF REVENUE
TO FRAUD
EACH YEAR

MEDIAN LOSS
PER CASE:

\$125,000

AVERAGE LOSS
PER CASE:

\$1,509,000

CORRUPTION

WAS THE
MOST COMMON
SCHEME IN EVERY
GLOBAL REGION

ASSET MISAPPROPRIATION SCHEMES

are the
most common and least costly

86%
OF CASES

\$100,000
median loss

FINANCIAL STATEMENT FRAUD SCHEMES

are the
least common and most costly

10%
OF CASES

\$954,000
median loss

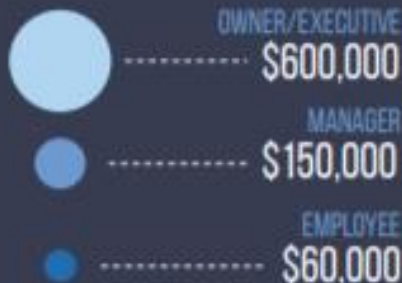


MALE
\$150,000
Median loss

FEMALE
\$85,000
Median loss

Men committed **72%** of all occupational fraud, and also caused larger losses than women

Owners/executives committed only 20% of occupational frauds, but they caused the **largest losses**



MORE THAN HALF of all occupational frauds came from these four departments:



OPERATIONS 15%



ACCOUNTING 14%



EXECUTIVE/UPPER MANAGEMENT 12%



SALES 11%



FACED SOME FORM OF INTERNAL DISCIPLINE FROM THE VICTIM ORGANIZATION

46% of victim organizations declined to refer cases to law enforcement because

INTERNAL DISCIPLINE WAS SUFFICIENT



42% OF OCCUPATIONAL FRAUDSTERS WERE

LIVING BEYOND THEIR MEANS



26% OF OCCUPATIONAL FRAUDSTERS WERE

EXPERIENCING FINANCIAL DIFFICULTIES

Legal duties of persons in a position of trust

- The **common-law duties** of company executives are to manage the affairs of the organisation with **care, skill, in good faith** (*bona fide = best interest*) and with **diligence**.
- The main duty of an executive is to care for the organisation.
- In other words, an executive has to act as if the organisation is an incapacitated family member in his/her care.
- “We become the heart, mind and soul of an organisation when we become a director/board member.” (Prof. Mervin King)

Companies Act 2008 Section 76: Standard of care

Section 76(2): A director of a company must –

- (a) not use the position of director, or any information obtained while acting in the capacity of a director –
 - (i) to gain an advantage for the director, or for another person other than the company or a wholly-owned subsidiary of the company; or
 - (ii) **knowingly to cause harm** to the company or a subsidiary of the company; and
- (b) communicate to the board at the earliest practicable opportunity any information that comes to the director's attention (duty of transparency).

Section 76(3): A director of a company –

must exercise the powers and perform the functions of a director –

- (a) in good faith and for a proper purpose (do not exceed powers);
- (b) in the best interests of the company; and
- (c) with the degree of care, skill and diligence that may **reasonably** be expected of a person –
 - (i) **carrying out the same functions** in relation to the company as those carried out by that director; and
 - (ii) **having the general knowledge, skill and experience** of that director.

**The State of Ethics &
Compliance in the Workplace**
A look at global trends
2021 GLOBAL BUSINESS ETHICS SURVEY REPORT

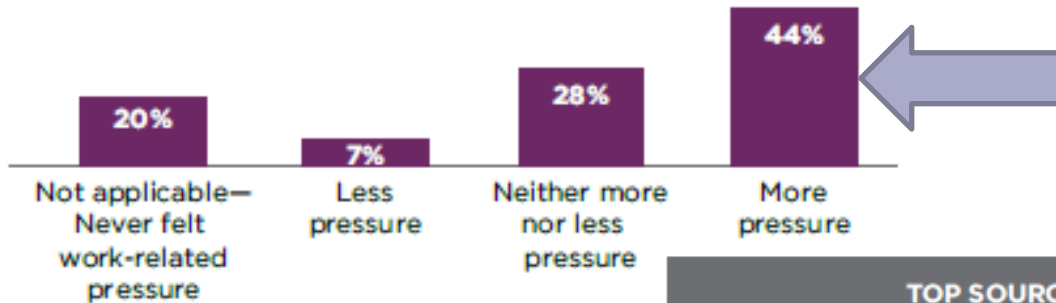


COVID-19 and the impact on employees

- The Global Business Ethics Survey (GBES), published in March 2021 by the US **Ethics & Compliance Initiative**, found that the **uncertainty and stress** that employees are experiencing amid **health and safety concerns** have undoubtedly led to **changes in how employees experience and interact within the workplace**.
- More than 44 per cent of employees indicated that they were experiencing more work-related pressure than before the COVID-19 pandemic began.

Changes in Work-related Pressure Since the COVID-19 Pandemic Began

Covid and work-related pressure



TOP SOURCES OF PRESSURE AMID COVID-19 PANDEMIC	
IN THE PAST MONTH, HOW MUCH PRESSURE DID YOU FEEL...	"SOME" OR "A GREAT DEAL"
To meet performance goals	49%
To always be available	49%
To show your contribution(s)/value	46%
Related to your job security	42%
To minimize costs and/or generate more revenue	42%
To satisfy expectations of people who support or invest in your organization	39%
To save the jobs of others in your organization	38%
To be in a work environment in which you are in the same physical work space as colleagues, customers, clients, etc.	36%
To work more hours	35%

Note: Sources of pressure are listed in descending order based on the percentage of respondents who indicated they experienced "Some" or "A great deal" of pressure.

Source: *The State of Ethics & Compliance in the Workplace: A Look at Global Trends (ECI, 2021)*

Organisational changes and the impact on ethics outcomes

- Previous studies by the GBES has shown that **any organisational changes typically have an adverse effect on ethics outcomes.**
- The pandemic and the changes many organisations were forced to make in response, have had a significant impact on organisations.
- *“In both the U.S. and global data, pressure, observed misconduct, reporting and retaliation all increased. **Particularly noteworthy are the jumps in pressure and observed misconduct.**”*

IMPACT OF ORGANIZATIONAL CHANGE ETHICS OUTCOMES—GLOBAL					
	STRONG ETHICAL CULTURE	PRESSURE	OBSERVED MISCONDUCT (Based on General Misconduct Question)	REPORTING	RETALIATION
At least one organizational change	17%	36%	43%	84%	66%
No organizational changes	14%	17%	17%	69%	49%

- Thirty-seven per cent of employees globally indicated that their organisations **implemented new policies** in reaction to the COVID-19 pandemic.
- Organisations are cautioned in the GBES 2021:
 - *“The data suggest that organizations move cautiously forward if implementing organizational changes at this time or in the upcoming months. If the economy worsens and organizations react by implementing recessionary tactics, it is strongly advised that they take **precautionary action** to limit increases in pressure, misconduct and retaliation, and **support behaviors that epitomize a strong ethics culture.**”*

The impact of social context on ethical behaviour

- RiskWise (Pty) Ltd has found that the Covid pandemic has in certain aspects increased the reputational risk for organisations as employee integrity is “tested” under such difficult conditions.
- Human beings are “social” by nature and having to work from home or remotely can have a negative impact on ethical decision-making.
- The social context within which one finds oneself helps one to identify what “doing the right thing” is under particular circumstances.
- Without positive environmental cues (like a strong ethics code), a person could struggle when he / she faces an ethical dilemma.

- Feelings of **disconnectedness** can also decrease motivation and increase unethical conduct as all the “rules and regulations” are so far away that it becomes less important to follow high ethical standards.
- The temptation to put personal interest first at the cost of being honest may become greater.

Source: www.Riskwise.co.za

The value of a culture of trust



The value of a culture of trust

- The best set of policies will have little impact if there is an unethical organisational culture.
- Organisational culture may be defined as **the principles and values guiding the behaviour of an organisation's employees.**
- Organisational culture is also often explained as “**the way we do things around here** (when no one is watching)”.
- Because we all have different backgrounds and (often different moral values), we have different ways of doing things. It is therefore imperative that **organisational values** set a common standard for all stakeholders.

- When the values are **lived** there will be a culture of doing things ethically (a culture of integrity) in the workplace.
- An ethical organisational culture is important because it provides guidance when employees face choices that cannot be properly regulated before the event.
- However, the values that employees perceive are more important than the advertised ones.
- **Expressed ethical leadership and support is therefore paramount.**

The new role of leadership

- In an article titled: “The benefits of ethical leadership”, published by Managing Values, it is stated that a new ethical leadership model is required to release employee discretionary effort. They say:
 - *“Despite annual employee engagement surveys to assess engagement, **organisational leaders hold back from purposefully and actively designing their organisation’s culture.** Too often, organisational values are not operationalised and organisational cultures remain dysfunctional through lack of management consistency.”*

- The new ethical leadership model involves three specific activities:
 - Identifying the **social purpose** of the organisation beyond shareholder needs so employees can feel good about the organisations they work for and also find their place in the larger picture of how business can be a force for social good.
 - **Purposely designing an organisational culture** where known risks are eliminated and leaders have forearmed and forewarned employees of the ethical challenges they will inevitably face.
 - **Holding leaders accountable** to ensure their employees are fully engaged. To date this has been a critical leadership skill that has gone unmeasured.

- This failure has meant, as Gallup revealed in 2013, that **only 13% of the global workforce is engaged at work** because the organisational cultures they work in do not meet their social needs.”
- They believe that ethical leaders need to “*design a culture that enables employees to fully contribute their diversity of skills and willingly collaborate with each other to ensure the sum is far greater than the parts.*”

Source: <https://values.com.au/the-benefits-of-ethical-leadership/>

Case study

“What to do when your employees have switched off”



Resource

Study by Dan Cable, Professor of Organisational Behaviour at London Business School and Francesca Gino, Professor of Business Administration at Harvard Business School

Decrease of employee engagement

- The study published in July 2021 in Leader.co.za, starts with an acknowledgement that the pandemic has led to a **global sense of fatigue**.
- Home and professional lives have been blurred, too many hours are spent in front of screens, **virtual connections have replaced human interaction** and there is a **relentless uncertainty about our health, our safety, the economy and our future**.
- It is not surprising that an employee engagement survey of more than 8000 US employees in July 2020, showed that **employee engagement has decreased by an average of 16 per cent**.

Findings of employee engagement study

- Encouragingly, the study found that people’s level of engagement during the pandemic was **directly tied to their crises mindset**.
 - Those who just saw the pandemic as a threat, switched off and they **became detached from work**.
 - *“However, if they were able to embrace change, and see the disruption as an **opportunity to learn and grow**, they were more resilient.”*
 - Some people even became more engaged and energised by the work.
- Interestingly, it was found that **bosses have a significant influence on how their staff adapt**.

Findings of employee engagement study (2)

- “You might think that most people are set in their ways: their glass is always half-empty or half-full. But in fact, our survey findings show that employees can **be swayed towards (or away from) a positive crisis mindset by the actions and behaviours modelled by leaders.** And this has a real impact on how engaged they feel.”
- In a subsequent survey with workers, the Professors discovered three critical things a leader can do that will influence positive or disengaged behaviour by staff.
- This led to the extrapolation of **three key questions** that a leader can ask when he / she wants to boost employee engagement during stressful times.

Question 1: How are you responding to the crisis?

- Evaluate your own state of mind – is it positive and up-beat?
- Psychologists refer to the term “**emotional contagion**”.
- It is the way in which our own emotions are influenced by those of other people around us.
- The Professors refer to a test case in which groups of speakers were randomly given gift certificates before addressing an audience. Those who received the gift expressed more positive emotions in their talk and, tellingly, the audiences were emotionally positively impacted. The listeners also felt more energised by the talk.
- It is thus worthwhile to reflect if you are inadvertently modelling a crisis or an opportunity mindset to others.

How are you responding to the crisis? (2)

- We are cautioned not to equate an **opportunity mindset** with **blind optimism**.
- By adopting an opportunity mindset one finds ways to **acknowledge the seriousness of a situation** (understanding the challenges) while at the same time **embracing the belief that there are solutions**.
- *“If you see the pandemic as an opportunity to reset and to rethink – to acquire knowledge, aptitudes, new capabilities and so on – it’s more than likely that your own learning mindset will become contagious. You will influence your employees positively and drive that critical engagement so much more successfully.”*

Question 2: You're putting out fires right now, but do you still have your eye on the bigger picture?

- It is well-known that a key driver of engagement in normal work circumstances is having a **shared sense of purpose** and **knowing the importance of your job**.
- The survey showed that those employee who felt the most disengaged were those whose bosses neglected the “why” of their jobs.
 - Their leaders did not talk about the purpose and impact of their jobs or what the organisation stood for.
 - **Employees lost sight of the bigger picture.**



Question 3: Do you know what is happening in your employees' lives outside work?

- Meaningful engagement is built around **trust** and the small informal interactions that help us see each other as complete human beings.
- This will prevent stress, resentment and even burnout in times of crisis.
- Research has also shown that those leaders who are seen as humble and relatable, are more successful at helping people bring more of themselves to work. The same study tells us when bosses were genuinely interested in the personal well-being of their staff, employees felt more engaged and were more likely to see the pandemic as **an opportunity to learn and grow**.

Case study

“Build Your Reputation as a Trustworthy Leader”

by Ron Carucci, June 11, 2021

Harvard Business Review

The story

- The author of the article had to tell an executive client that people struggle to trust him. This is what happened:
- *“The executive’s reaction and defensiveness was intense. He insisted he had kept his commitments, delivered positive results, and hadn’t ever acted deceitfully or unscrupulously. And all of those things were true.”*
- The executive was shocked to learn that the standards of trustworthiness have risen significantly as the world’s experience of honesty and trust have descended into a freefall.
- This was shown in the **2021 Edelman Trust Barometer** which revealed that government, NGOs, and media have **continued to lose trust**.

The research

- The same barometer showed that business barely hung on as the only institution people view as competent and ethical.
- Carucci found that people's expectations and definition of trustworthiness have broadened for leaders, and **it now takes a lot more to gain that trust.**
- In his 15-year longitudinal study of more than 3,200 leaders on honesty in organisations, Carucci discovered that to earn and keep trust, leaders must accept that **reliability and integrity do not on their own earn leaders a reputation of being trustworthy.**
- It may cause you **to be seen as dependable or easy to work with,** but to be trusted consistently requires the mastering of four practices that are discussed next.

Be who you say you are

- There need to be congruence between our words (our professed values) and our actions.
- If you have not articulated your values, people may make assumptions that may not align with what you actually believe.
- Once expressed, ensure that you embody those values by defining the ways you intend for them to be **shown** in your day-to-day activities.
- **Having good intentions are not enough** - identify where your actions have belied your values, leading to unintended negative consequences for others and apologise to those you have harmed.
- Demonstrating humility for the impact of those failures (that happens to most of us) can be a **trust multiplier** as people see that you take responsibility when your words and actions don't match.

Treat others and their work with dignity

- *“In an economy where people’s primary output is often a reflection of themselves - their ideas, insights, and ingenuity - the importance of treating both the contributor and the contribution with dignity is vital.”*
- One can achieve this by:
 - Creating opportunities for others to shine or to look for ways to allow others to showcase their talent.
 - Dignifying the contributions of staff by ensuring that they are seen and celebrated across the organisation.
- People must also feel safe to fail in your company, knowing that accountability will include keeping their dignity in tact.

Balance transparency with discretion

- *“Discerning when to be vulnerable and open and when to protect confidences are both key to being transparent. You earn trust when you disclose information that helps people learn who you are and how you think, as well as when you withhold information while being transparent about why.”*
- By disclosing a level of personal information like your hobbies or perhaps challenges you face, you are building a connection and trust between you and others.
- **Share any work-related information** like progress on a project within the boundaries of confidentiality. You will be seen as a useful source of trusted data, but **stay away from office gossip** and rumours.

Balance transparency (2)

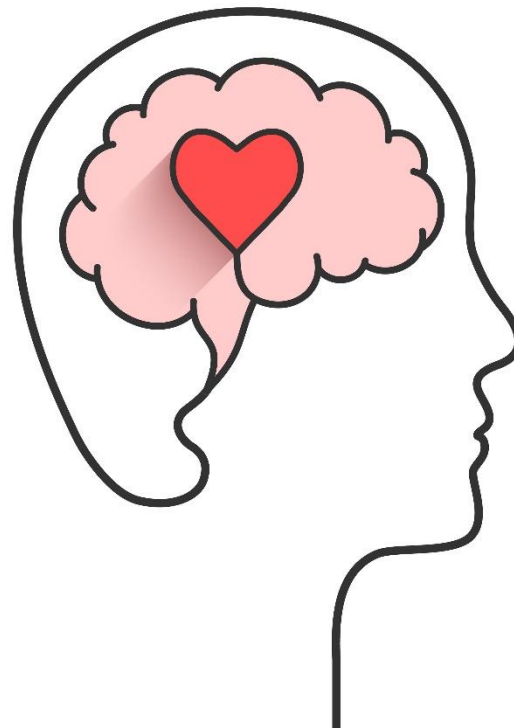
- Encourage staff to **share their ideas openly** and to even **disagree** with you when they believe you are wrong.
- When you start a meeting, you could ask everyone to write down a creative idea and then randomly choose one or two to share. As this is anonymous people will feel encouraged and safe to participate freely.
- Do not hesitate to give honest feedback to assist others to improve their work.
- *“If you struggle to be candid with important people in your life, worrying about how they’ll react, it likely means you haven’t earned their trust.”*
- **People are more likely to trust those who care enough to graciously (and in private) give them feedback others will not.**

Build bridges that unify

- The challenges presented by the Covid pandemic has caused many organisations to become **disjointed**.
- A leader who is willing to create a sense of unity across departmental silos might not be liked at first but he/she will eventually be far more trusted than those who perpetuate division between departments or units.
- *“The courage to serve a greater good with others instead of remaining antagonistic toward them shows a willingness to put your ego aside and trust those you might once have struggled to trust - in turn, inviting greater trustworthiness.”*

- Actively cultivate a sense of belonging among staff by carefully listening for important details people share about their lives and be enthusiastic to find out more.
- *“When people believe you care about the things they care about, you make them feel welcomed. And the more you learn about what’s important to others, especially people different than you, the less likely you are to misjudge them, securing greater levels of their trust.”*
- In times of unprecedented uncertainty, we cannot presume we are seen as trustworthy just because we believe we haven’t done anything to breach it.
- Carucci ends with these words of wisdom: ***“If you hope to enjoy a career of great influence and impact, start by cultivating a trustworthy reputation.”***

Conclusion



- It is now the time for persons in a position of trust to:
 - Be ethical, even when no one is around
 - Evaluate their own **emotional contagion**
 - Cultivate an **opportunity mindset** where a crisis is seen as a chance **to grow and learn**
 - **Build a culture of trust that stimulates meaningful engagement**
 - Actively **build a sense of collective purpose**
 - Share a **vision of the future that will inspire employees, colleagues and clients to feel connected and find new perspectives around ways of working.**

May you be
SAFE

May you be
HAPPY

May you be
HEALTHY

May you live
WITH EASE

Thank You

