

Ethical Intelligence in the Boardroom

WGOB E-Guides provide tips for your board journey, empowering you with the confidence and courage to lead and serve on corporate boards.

In the wake of numerous business scandals and corporate failures, there has been an increasing demand for higher ethical standards in business. Ethics lie at the core of every business decision; they establish the foundation of a company's underlying culture. However, a company's culture and ethics are determined by the tone set at the top — the board.

How can boards foster a sound, sustainable culture and robust ethical practices that enhance transparency, mitigate fraud risk, and minimize the potential for reputational damage? Every board should aim to establish practices that clearly define expectations for appropriate conduct and implement controls to ensure these standards are upheld.

To ensure proper ethical oversight, boards should implement these five effective governance practices.

1. Code of Conduct

A Code of Conduct guides the board and each director to focus on areas of ethical risk, helps them identify and address moral dilemmas, provides mechanisms for reporting unethical behaviour, and ultimately promotes a culture of honesty and accountability. Each director is responsible for adhering to both the letter and the spirit of this Code, which should be reviewed and signed annually.

The Code of Conduct should address areas such as:

- Director responsibilities
- Conflicts of interest
- Corporate opportunities
- Confidentiality
- Compliance with laws, rules, and regulations; fair dealing
- Reporting illegal or unethical behaviour
- Compliance procedures and waivers

2. Whistleblower Policy & Program

Whistleblower policies are mechanisms that allow frontline employees to report legal and ethical business concerns of which management and the board may not be aware. These policies should give employees a sense of anonymity that encourages them to share their observations without fearing retaliation.

When implemented correctly, these policies benefit the business by facilitating early detection of wrongdoing. However, many programs falter, placing the responsibility on the board. Whistleblower programs that fail to create a supportive environment for employees or compromise their confidentiality cultivate a culture characterized by neglect, fear of retaliation, and resentment.

It is the board's responsibility to ensure that bad news can rise to the top by implementing and enforcing anonymous, independent, rewarded, and responsive whistleblower policies. An effective board should also demand proper channels for reporting directly to them.

3. Ongoing Board Renewal Process

Board renewal — the review of a board's composition — ensures the maintenance of good governance practices and promotes relevance in a changing business environment. Newly appointed board members are valued for their ability to view matters through a fresh lens, offering perspectives that long-standing board members may lack due to their extended terms.

The board's Corporate Governance & Nominating Committee (CGNC) is responsible for regularly reviewing the board's composition and identifying new board candidates. To consistently re-evaluate a board's effectiveness, establishing term or age limits for directors is crucial, which is why regulators are already implementing this practice in several countries.

An ongoing board renewal process — along with an effective DEI strategy — fosters diversity of thought, facilitates critical thinking, and prevents groupthink. [This blog post explains why a diverse board makes good business sense.](#)

4. Review your Diversity, Equity & Inclusion Policies and Practices

Most organizations have adopted diversity, equity, and inclusion (DEI) policies and even incorporated diversity-related questions in job applications. However, these initiatives should extend beyond a pre-hire questionnaire or a legalistic human resources policy.

Boards should aim to clearly express their commitment to fostering an inclusive culture by providing concise and relevant education on LGBTQ+ issues, Indigenous reconciliation, ageism, racism, ethics, and gender diversity. There must also be communication about appropriate workplace interactions and the implementation of training on unconscious bias.

These efforts should be further strengthened by benchmarking diversity, equity, and inclusion. [For more on inclusion in the boardroom, read this blog post from Dr. Deborah Rosati.](#)

5. Internal Controls/Review of Culture & Integrity

Incorporate an internal audit annually to test the controls for culture and integrity (including complaints, reaction time, investigation protocols, record keeping, and non-retaliation) and report these findings to the board.

To ensure that unbiased information is communicated at the board level, consider implementing controls such as regularly removing management from the boardroom. These controls create a safe space for directors to express their candid views and seek disconfirming feedback on company culture and executives. Moreover, these measures should be complemented by unaltered employee feedback gathered through regular surveys on employee morale, exit interview results, and comparing staff turnover and litigation rates with industry peers.

Ethical intelligence in the boardroom safeguards companies against legal and reputational risks while fostering sustainable businesses that benefit society. It assists leaders in making decisions that align with their moral responsibilities and the expectations of the communities they serve, enhancing corporate responsibility and overall success.