

John Kyriazoglou

# Achieving Better Implementation of Controls

The Human Aspects of Management Controls - Part I

JOHN KYRIAZOGLOU

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# **ACHIEVING BETTER IMPLEMENTATION OF CONTROLS**

THE HUMAN ASPECTS OF  
MANAGEMENT CONTROLS  
PART I

Achieving Better Implementation of Controls: The Human Aspects of Management Controls

Part I

1<sup>st</sup> edition

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# PREFACE: INTRODUCING 'THE SOFT CONTROLS APPROACH'

'Man is the measure of all things'.

– Plato

## INTRODUCTION

Stress, anxiety and depression are found in all people and in all cultures, industries, economies and societies, regardless of the education, social status or economic background of the individuals concerned. This is due to a variety of reasons, but mostly because of the high and extremely demanding aspects of their workplace.

The fact is that most adults, all over the world, spend the largest if not a substantial part of their lives working in private companies or public organizations. Whether they are employed in Canada, the U.S., or Australia, in a high-technology startup in East Asia, a financial institution in England or Germany, or a garment factory in the Dominican Republic or India, they experience extreme occupational stress.

Also they are not engaged at all in their work!

The quality of their workplace experience is inevitably reflected in the quality of their lives. Gallup's finding that the vast majority of employees worldwide report an overall negative experience at work – and just one in eight are fully involved in and enthusiastic about their jobs – is important when considering why the global recovery remains sluggish, while social unrest abounds in many countries<sup>1</sup>.

Also my own consulting experience and various other international studies have shown that business managers (top, middle, bottom, etc.) and professionals, in all types (private, public, etc.) and size (small, medium, large, etc.) of companies in all business functions (Note: Sales, Finance, Production, Logistics, Customer Support, IT, Internal Audit, Compliance, External Auditing, Medical Services, Educational and Academic Services, etc.), have very difficult and stressful jobs.

*Why is that?*

My own guess and possible answer based on my experience and other sources is that this is due to the 21<sup>st</sup> Century's volatile and perplexed business environment all over the world.

This environment, among other things, is usually composed of:

1. Increased workloads and demands.
2. Constant shareholder demands for performance, cost-cutting, downsizing, etc.
3. Not well defined and overextended, many times, ranges of accountability.
4. Too wide span of controls assigned to individuals.
5. Turbulent socio-economic conditions (social, religious, etc.) of doing business across the globe<sup>2</sup>.

This makes it absolutely imperative for organizations, public and private, to have strong and motivated managers and professionals to lead their corporate staff toward accomplishing their strategic and operational business goals and objectives, in the best way.

To accomplish these general goals and specific objectives, in an organizational products and services framework, managers and professionals not only use their human resources, but they also use inputs, methods, and systems, to create outputs which can be translated into products and services for customers, and a control system to achieve all these in the most optimal way.

When you take into full consideration the full array of duties, roles and responsibilities in leading and managing their units, departments, organizations, etc., one thing becomes clear: business managers and professionals have difficult and **stressful** jobs.

All these, impact, in turn, not only their personal behavior in all aspects of their work (e.g. developing and implementing policies and procedures (hard controls), their health, their performance, etc.).

But how can business managers and professionals, such as military officers, medical experts and nursing staff, reporters, IT managers, internal auditors, firefighters, airline pilots, police officers, etc. handle this stressful environment and do a better job in managing both themselves as well as their company operations?

As a board member, enterprise owner, Chief Executive, business manager or professional, you must resolve the situation (**occupational stress and implementation of corporate policies and procedures (hard controls)**) troubling you and your business entity and its people, with specific actions and activities<sup>3</sup>.

## PROPOSED SOLUTIONS

*How can you effectively resolve the issue of occupational stress management?*

My answer is the use of ancient Greek wisdom and specific and practical methods and techniques that you can review, consider, customize and apply to yourself and your own business. More details are provided in my books (see 'Workplace Wellness Books') listed in the Bibliography section of this book.

*What does ancient Greek wisdom have to do with implementing corporate policies and procedures (hard controls)?*

**The current model** of living is based more and more on competition, technology, open markets and profit at all costs, and less on harmony, peace (in a true sense) and moral values. This way has been proven wrong. The way we look at harmony, peace, honor and justice does not, I think definitely, seem to resolve our current world problems, at both the personal as well as the business level.

Technology and all other developments have forgotten, in most cases, our psyche (mind). That's where philosophy steps in. As philosophy nourishes our psyche (soul) it becomes most important. And as the world problems are not being tackled and resolved to any level of satisfaction, we have to go back.

Back to the basic principles of philosophy so that we attain the proper principles and virtues so that we bring values, order and balance in our personal life, our business organizations, and our society. This is the only way so that we can all travel the difficult road to a better world.

**I selected the ancient Greek wisdom** for several reasons.

Firstly because of its breadth, non-religious and global appeal, as Ancient Greek philosophy saw life in a holistic sense. Secondly because of my ability to read and understand better the original philosophical texts. And thirdly because I had to work with people of many religions, cultures, socio-economic backgrounds and corporate settings, I had to find another approach.

### **Why the ancient Greeks?**

1. Based on my experience leading many organizations, there is a need for a common set of categories that gives a theoretical description of universal and cross-cultural virtues; the ancient Greeks have such categories.
2. The ancient Greeks showed that the most important criterion for wisdom is the recognition of higher powers in the universe than human beings, powers humans cannot control. Human beings must create cultures within the context of those greater powers; they must integrate culture with nature.



3. The ancient Greek view of the human psyche has a naturalistic foundation: a virtuous person is also a biologically flourishing person; virtue is not primarily based entirely on a specific cultural context; rather, the basic virtues are connected to the human condition and do not change over time.
4. The ancient Greek idea of a just society is one where those who are competent are given positions of authority based on their competence. Further, one important aspect of competence is that all authority – from the authority of parents over children, to positions of leadership in public life – is exercised for the well-being of those over whom the authority figure has power. Rule is for the sake of the ruled.
5. The most naturally just society is one where as many people as possible are given opportunities to develop their psyches to the highest level possible, including the exercise of personal, social, intellectual and professional virtues.
6. Children are born into a social context and they learn (or fail to learn) the virtues simply by exercising them. An unjust society will habituate its children to be unjust, to exercise vices while a just society will habituate children to behave in ways that conform to virtue and justice. However, every young person must compare his/her habituation and culture to the universal, natural standard and alter his/her behavior and society so that it conforms to the universal and natural standards of virtue and justice.
7. The model I am presenting is one way of articulating universal and cross-cultural standards, based on the ancient Greek wisdom of the past, wisdom that gets passed down from one generation to the next in theory but also applied in practice in ways that differ, based on historical contexts<sup>4</sup>.

*But why you may ask do you need all ancient Greek wisdom?*

You need all these, in my experience and according to social work studies, to inspire and engage people's hearts and minds.

Because if you want to win the hearts and minds of your people, your board members, your managers, your customers, your colleagues, or even your family, you need to provide them with three things:

1. People need to know 'what to do'.
2. They need to know 'how to do it'.
3. And they need to know 'why to do it'.

'What' and 'how' engage people's minds. But it's the 'why' that captures their hearts.

The specific soft control actions detailed in this book provide '*what to do*' and it is the first fundamental element in engaging people's minds.

Ancient Greek wisdom sayings, the workplace wellness model and the seven principles provide the '*why to do it*' and they are the primary elements that capture their hearts.

## THE SEVEN PRINCIPLES

Principles, as I described above, provide the '*why to do it*' and are one of the primary elements that capture the hearts of the people at your workplace.

Ethical principles are standards of conduct defining the kind of behavior an ethical person or business should and should not engage in. These principles driven by universal spiritual forces not only provide a guide to making decisions but they also establish the criteria by which your decisions will be judged by others.

Within the framework of this book and on the basis of the workplace wellness model (of four dimensions: **Believing; Bonding; Belonging; and Benefiting**<sup>5</sup>) and the ancient Greek wisdom, I have used the following principles to practically improve the implementation of corporate hard controls (plans, policies, procedures, etc.) by the use of specific soft controls.

**Principle 1: Temperance.** Prudence. What the ancient Greeks called '*sophrosyne*': the quality of wise moderation; Greek, 'prudence, moderation in desires, discretion, temperance', from '*sophron*' of sound mind, prudent, temperate.

The Seven Sages recommend: 'Control yourself'. 'Restrain your anger'. 'Hold your tongue'<sup>6</sup>.

**Principle 2: Faith.** Trust in others; Belief in a higher power; Being persuaded of something. '*Pistis*', the Greek word for faith denotes intellectual and emotional acceptance of a proposition. The Seven Sages: recommend: 'Follow God'. 'Worship God'. 'Pray for happiness'. 'Pray to fortune'<sup>7</sup>.

**Principle 3: Justice.** Justice, in its broadest context, includes both the attainment of that which is just and the philosophical discussion of that which is just. It denotes ethical correctness and fairness.

The Seven Sages recommend: 'Obey the law'. 'Your laws should be old, your dinners fresh'.

**Principle 4: Harmony.** Harmony is defined as the agreement in action, opinion, feeling or sounds in a social setting. The term harmony derives from the Greek '*harmonía*', meaning 'joint, agreement, concord', from the verb '*harmozo*', 'to fit together, to join'.

The **Seven Sages** recommend: 'Pursue harmony'.

**Principle 5: Friendship.** Friendship defines how people relate to each other, feel equal to them in most standards, but still respect each other irrespective of their attributes or shortcomings.

The Seven Sages recommend: 'Interact with everyone'. 'Behave always with courtesy'. 'Socialize with wise people'.

**Principle 6: Kalokagathia (Goodness and Kindness).** This is like a coin of two faces. Goodness defines the state or quality of being good. Kindness is a personal quality that enables an individual to be sensitive to the needs of others and to take personal action and do noble deeds on behalf of others to meet those needs. It also encompasses personal virtue, courtesy and moral excellence in character.

The **Seven Sages** recommend: 'Your words should be words of kindness and respect'. 'Pursue harmonic co-existence'.

**Principle 7: Courage.** Courage is one of the so-called 'cardinal values', first identified by Socrates and noted by Plato, his disciple, in 'Protagoras':

Cardinal Value 1: Prudence = Ability to judge between actions at a given time;

Cardinal Value 2: Temperance = Practicing self-control, abstention and moderation;

Cardinal Value 3: Courage = Endurance and ability to confront fear and uncertainty;

Cardinal Value 4: Justice = Proper moderation between self-interest and the need of others.

The Seven Sages recommend: 'Carry out your activities with no fear and without losing your courage'. 'Do not abandon what you have decided'. 'Do not be in a hurry to do something, although, once you have started, be steady in doing it'.

For more details and description of these principles, see: 'Appendix 11: The Seven Principles' in Part II of this book ('Tools and Techniques complementing The Soft Controls Approach').

*But why you may ask do you need all these in implementing soft controls?*

## THE SOFT CONTROLS APPROACH

'All human actions have one or more of these seven causes: chance, nature, compulsion, habit, reason, passion, and desire' according to Aristotle.

But how these (seven causes) impact human actions that are energized by other human factors which are required to implement, efficiently and effectively, management controls by board, management and employees in business entities (private, public, non-profits, professional associations, etc.) in the best way is quite a difficult and tedious job.

This quote and my varied business experience in several industries, sectors, projects and countries provides me the inspiration and motivation to describe the characteristics of these human factors, what they may mean for the implementation effort of management controls for all types of business entities, and a way to improve the situation: **'The Soft Controls Approach'**.

**'The Soft Controls Approach'** in implementing management controls for business entities is made up of four components, as presented next.

- Component 1: Business Management Controls Framework.
- Component 2: Mindset of Human Behaviors and Organizational Attributes.
- Component 3: Implementation of Soft Controls.
- Component 4: Evaluation of Soft Controls.

These are outlined in the following chapters of this book.

# 1 BUSINESS MANAGEMENT CONTROLS FRAMEWORK

‘Keep interested in the truth; make sure that your soul is as good as possible; and to get a good soul, maintain the four virtues of prudence, temperance, courage and justice’.

– Guidance of Socrates to his students

**Overview:** *This is the first component of **The Soft Controls Approach** in implementing business management controls.*

## 1.1 MANAGEMENT CONTROL

Managing and governing the specific business entity, having it under ‘management control’ and being accountable to stakeholders (owners, citizens, consumers, investors, regulators, state authorities, etc.) is not only a clear will of the board and management, but is also an identified specific request and formal requirement of internal control frameworks as well as a legal expectation by authorities<sup>8</sup>.

Management control is exercised via and by the full establishment, design, development and implementation of business management controls.

*Business Management Controls*, as I have described in very detail in my various books and articles<sup>9</sup> have to do with formal and informal plans, policies and procedures and how well or not they are organized, designed, implemented, evaluated, audited, supported and monitored.

These are usually described as ‘hard controls’ in strict business and auditing terms<sup>10</sup>.

## 1.2 HARD CONTROLS

**Hard control** are tangible things, usually well-defined, formalized and approved like organizational structure, assignment of authority and responsibility, corporate standards, policies and procedures, ethics code, compliance procedures, computerized systems, company books, registers, audit trail mechanisms, personnel controls like segregation of duties, taking vacation, job descriptions, confidentiality statements, etc.

For a list of such controls, see: ‘Appendix 1: Business Management Controls’ in Part II of this book (‘Tools and Techniques complementing The Soft Controls Approach’).

These hard controls are implemented and used, in everyday business practice to carry out the activities of the organization, by various participants, i.e., people such as employees, managers, board members, customers, etc.

These participants usually operate with their feelings, their beliefs, their trust and confidence, their motives, etc., collectively termed soft controls.

A good example of why strategies fail, these being hard controls, is the study of Paramount Consulting<sup>11</sup>.

It was found that around 65% of strategic plans fail and as much as 97% of plans are ineffectively implemented. And this is mainly due to human factors (soft controls).

### 1.3 SOFT CONTROLS

**Soft Controls** are intangible things that have to do with behavioral aspects and social properties inherent in employees and utilized in applying hard controls in their daily business activities, such as: tone at the top, understanding of the organization by the board, culture, structure of reporting relationships, morale, integrity and ethical values, operational philosophy, trust, etc., as described in the next paragraphs.



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These are most important as they fulfill the values espoused by almost all human beings, according to Schwartz and his associates who researched the concept of universal values of more than 25,000 people in 44 countries and came up with ten types of universal values<sup>12</sup>, such as:

1. Power,
2. Achievement,
3. Hedonism (pleasure of living),
4. Stimulation in life,
5. Self-direction,
6. Universalism (wisdom, justice, peace, inner harmony),
7. Benevolence (honesty, forgiveness, friendship),
8. Tradition (devoutness, moderation, accepting one's portion in life, humility),
9. Conformity (self-discipline, obedience), and
10. Security (family and national security, sense of belonging, stability of social order).

Soft controls may differ from organization to organization, but are typically set at a higher corporate level and are associated with the overall governance, mission and morale of the enterprise. In addition, measuring efforts like the ethics and integrity or the philosophy of the enterprise is not a simple task.

Business management is what business managers do. Business managers enable and support their organizations in reaching their targets, make more money and become more beneficial. Businesses make money by delivering some value to their customers that the latter are willing to pay for, either directly as consumers or indirectly as citizens and taxpayers.

Their tool for doing all these are business management controls.

## 1.4 ROLE OF BUSINESS MANAGEMENT CONTROLS

**The role** of business management controls (hard and soft) and related control activities is to provide an integrated set of governance, risk, compliance, strategic and operational controls and performance measures and compliance indicators to support and facilitate the operation of the primary, the support and the external parties' activities of a business entity, and enable the prosperity and longevity of an organization beneficial to all.

In conclusion, even though the emphasis in this document is in soft controls, it is noteworthy to consider that you need an integrated framework of hard (plans, policies, procedures, etc.) and soft controls (attitudes, etc.) to fully and effectively implement business management controls for your business entity. An example of such a framework containing examples of business management control processes (BMCPs) at each level of business operations (BO) is detailed next.

## **1.5 EXAMPLES OF BUSINESS MANAGEMENT CONTROL PROCESSES**

### **1.5.1 EXAMPLES OF BMCPs AT THE FIRST LEVEL OF BO:**

Board, management and committee roles, structure and responsibilities; Business functions and resources; Standards, policies and procedures; and Internal Controls Framework and Manual.

### **1.5.2 EXAMPLES OF BMCPs AT THE SECOND LEVEL OF BO:**

Corporate culture, vision, mission and values; Strategy, goals, objectives and targets; and Performance Framework and Management.

### **1.5.3 EXAMPLES OF BMCPs AT THE THIRD LEVEL OF BO:**

GRC (Governance, Risk and Compliance) controls; Operational controls (purchasing, finance, IT, data, security, fraud, etc.); Personnel administration, including segregation of duties, compensating controls, etc.; and Management & compliance reporting.

### **1.5.4 EXAMPLES OF BMCPs AT THE FOURTH LEVEL OF BO:**

Monitoring controls; Internal audits; Self-assessments; External audits; and Regulatory audits.

### **1.5.5 EXAMPLES OF BMCPs AT THE FIFTH LEVEL OF BO:**

Compare organization to external entities: Studies by external experts; Certify personnel; Certify organizational components (structure, service quality, policies and procedures); Corporate social responsibility<sup>13</sup>, including community involvement, etc.; and Soft Controls.

All these management controls are organized, designed, implemented, evaluated and generally carried out by people at levels of business entities<sup>14</sup>.

These people are executing these controls with a set of human behaviors and social attitudes, which is many times forgotten by even the best managers and academic teachers all over the world<sup>15</sup>.



## 2 MINDSET OF HUMAN BEHAVIORS AND ORGANIZATIONAL ATTRIBUTES

'The logical man thinks, the wise man doubts and the man who does not know anything is always certain'.

– Aristotle

**Overview:** *This is the second component of **The Soft Controls Approach** in implementing business management controls.*

### 2.1 INTRODUCTION

Mindset, in general terms, is defined as 'an established set of attitudes held by someone', or 'habits of mind formed by previous experience'<sup>16</sup>.

In business management terms a mindset of human behaviors describes the established set of attitudes held by people, the habits of mind formed by previous experience as well as formal or informal organizational rules of management that permeate people at all levels of a business entity.

Attitudes form, change and shape our personality and behavior and are constantly expressed in our personal and social life as well as our business interactions.

Psychologists define attitudes<sup>17</sup> as a learned tendency to evaluate things in a certain way. This can include evaluations of people, business entities, policies, procedures, plans, guidelines, laws, regulations, issues, objects or events. Such evaluations are often positive or negative, but they can also be uncertain at times.

Researchers and practical experience also suggest that there are several different components that make up attitudes:

1. An Emotional Component: How the object, person, issue or event makes you feel;
2. A Cognitive Component: Your thoughts and beliefs about the subject; and
3. A Behavioral Component: How the attitude influences your behavior<sup>18</sup>.

In the context of **The Soft Controls Approach** each human behavioral element (attitude, personal knowledge, skill, trait, or perception, etc.) and organizational attribute corresponds to one specific soft control type and its improvement actions, as outlined later on.

These human behavioral elements and organizational attributes or characteristics make up **The Mindset of Human Behaviors and Organizational Attributes**.

The elements of this mindset, I have found relevant in effectively implementing management controls for organizations, include:

- Tone at the top;
- Understanding of the organization by the board;
- Structure of reporting relationships;
- Culture;
- Morale;
- Integrity;
- Operational philosophy;
- Trust;
- Ethical climate;
- Empowerment;
- Corporate attitudes;
- Competences;
- Leadership;
- Employee motivation;
- Expectations;
- Openness and shared values; and
- Information flow throughout the organization<sup>19</sup>.

These are termed 'soft controls' in this book.

These bind the corporate people on an 'emotional contract' (also known as the psychological contract) with their organizations and enable them to carry out their management and employee tasks, more efficiently and effectively.

The term 'the Psychological Contract' usually in the areas of management, corporate administration and human resources refers to the actual – but unwritten – expectations of an employee or workforce towards the employer. The Psychological Contract represents, in a basic sense, the obligations, rights, rewards, etc., that an employee believes he/she is 'owed' by his/her employer, in return for the employee's work and loyalty<sup>20</sup>.

These are detailed next.

## 2.2 MINDSET OF HUMAN BEHAVIORS AND ORGANIZATIONAL ATTRIBUTES AND SOFT CONTROLS

### 2.2.1 TONE AT THE TOP

**Tone at the top (soft control 1)** refers to how an organization's leadership creates the tone at the top – an ethical (or unethical) atmosphere in the workplace. Board's and Management's tone has a trickle-down effect on all employees. If top managers and board directors uphold ethics and integrity so will employees.

But if upper management and board members appear unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud and feel that ethical conduct isn't a priority.

In short, employees will follow the examples of their bosses.

Top managers can reinforce the aspects of the organization's 'tone at the top' ethics attitude to their employees by soft control 'Tone at the top' improvement actions detailed in Chapter 3.

### 2.2.2 UNDERSTANDING OF THE ORGANIZATION BY THE BOARD

**Understanding of the organization by the board (soft control 2)** refers to the board directors' needs to fully understand the organization they supervise and control so that they are as effective as possible in discharging their duties. This understanding involves both the internal (size, form, strategy, structure, people, policies, procedures, operating style, culture, beliefs, etc.) and external (industry, rules, regulations, market, geopolitical locations, etc.) aspects of the organization.

Board members can attain better organizational understanding by **soft control improvement actions** detailed in Chapter 3.

### 2.2.3 STRUCTURE OF REPORTING RELATIONSHIPS

**Structure of reporting relationships (soft control 3)** is usually depicted in an organizational chart. This chart can provide a great deal of information and may help organizational members understand the overall structure of the organization and its strategy. The organizational chart allows employees and other stakeholders to see employee job titles and the reporting relationships in an organization. The vertical lines demonstrate the reporting relationships of supervisors and their reporting staff. The lateral or horizontal lines indicate a working relationship.

Managers can improve the elements of the organization's reporting relationships by **soft control improvement actions** detailed in Chapter 3.

## 2.2.4 CULTURE

**Culture (soft control 4)** usually refers to the environment that surrounds you at work all of the time. Culture is made up of the values, beliefs, underlying assumptions, attitudes, and behaviors shared by a group of people. Culture is the behavior that results when a group arrives at a set of – generally unspoken and unwritten – rules for working together. An organization's culture is made up of all of the life experiences each employee brings to the organization<sup>21</sup>.

Culture is especially influenced by the organization's founder, board of directors, executives, and other managerial staff because of their role in decision making and strategic direction. Managers can reinforce the elements of the organization's culture to their employees by **soft control improvement actions** detailed in Chapter 3.

## 2.2.5 MORALE

**Morale (soft control 5)** also known as 'esprit de corps' is 'moral principles or practice'. In corporate terms it describes the capacity of employees to maintain belief in the organization they work for, or a general goal and specific objectives set by their superiors. It refers to the level of faith of individual employees in the collective benefit gained by such performance.

Managers must pay special attention in improving morale by **soft control improvement actions** detailed in Chapter 3.

## 2.2.6 INTEGRITY

**Integrity (soft control 6)** refers to the inner sense of 'holistic sense' ('wholeness') deriving from qualities such as honesty, truthfulness and consistency of personal character.

In a corporate environment, integrity complemented by ethical values mean that both employees and their managers must interact with each other, in all their business activities, on the basis of integrity, honesty, truthfulness and consistency in the actions they execute, methods and measures they use to monitor performance, principles they activate, and expectations, results and outcomes they manage.

Also in this regard, managers must lead by example, so that their employees follow.

Board members and managers can reinforce and enhance the elements of the organization's integrity and ethical values by **soft control improvement actions** detailed in Chapter 3.

### 2.2.7 OPERATIONAL PHILOSOPHY

**Operational philosophy (soft control 7)** is usually an explicit (written) or implicit (unwritten) declaration of how a person, group or organization operates. In corporate terms, it represents how business is conducted by all levels of management in various areas, such as: investments, funding, managing employee relationships, customer transactions, regulatory authorities, risk-taking, quality, profits, ethical standards, environment, IT, etc.

All organizational managers can reinforce and enhance the operational philosophy of the organization by **soft control improvement actions** detailed in Chapter 3.

### 2.2.8 TRUST

**Trust (soft control 8)** means ‘reliance to another person or entity’. Aristotle<sup>22</sup> believed that trust of a speaker by the listener, was based on the listener’s perception of three characteristics of the speaker: the intelligence of the speaker (correctness of opinions, or competence), the character of the speaker (reliability – a competence factor, and honesty – a measure of intentions), and the goodwill of the speaker (favorable intentions towards the listener).

In corporate terms, trust forms the foundation for effective communication, employee retention, and employee motivation and is a major contributor of the extra effort and energy that people voluntarily invest in work. When trust exists in an organization or in a relationship, almost everything else is easier and more comfortable to achieve.

All managers can reinforce the aspects of trust in interacting with their stakeholders, employees, customers, authorities, etc., by **soft control improvement actions** detailed in Chapter 3.

### 2.2.9 ETHICAL CLIMATE

**Ethical climate (soft control 9)** is usually deemed to be the shared set of understandings about what is the correct behavior and how all ethical issues will be handled. This climate sets the tone for decision making at all levels of the organization and in all circumstances, activities and dealings of all participants in the affairs of the company.

All board members and organizational managers can reinforce and improve the ethical climate of the organization by **soft control improvement actions** detailed in Chapter 3.

### 2.2.10 EMPOWERMENT

**Empowerment (soft control 10)** refers to improving the spiritual, political, social, racial, educational, economic or other strength of individuals<sup>23</sup>. Empowerment in corporate environments for employees means that company employees are supported and enabled to make more, better and larger-scope decisions without having to refer to someone more senior in the organization.

All managers can reinforce and improve the implementation of empowerment as regards the employees of their organization by **soft control improvement actions** detailed in Chapter 3.

### 2.2.11 CORPORATE ATTITUDES

**Corporate attitudes (soft control 11)** represent an individual's degree of like or dislike for something (person, place, thing, or event). In a corporate work-place attitudes play a great role in employees executing corporate tasks and achieving strategic and operational goals predetermined by senior managers. If they like the organization or their manager or the task they will perform better, in most cases. If they dislike the organization or their manager or their task they are bound to perform at a lesser degree.

All managers can improve the corporate attitudes of the employees of their organization by **soft control improvement actions** detailed in Chapter 3.

### 2.2.12 COMPETENCES

**Competences (soft control 12)** refer to the 'sufficiency to deal with what is at hand'. Competence in a corporate environment is the ability, the will, the commitment, the knowledge, the skills and the dexterities of an individual to perform a job or task properly. Managers must manage and improve the competences of themselves and their employees through education, training, coaching, mentoring, etc.

Managers can improve their own competence as well as the competences of the employees of their organization by **soft control improvement actions** detailed in Chapter 3.

### 2.2.13 LEADERSHIP

**Leadership (soft control 13)** refers to how an organization's leadership is 'organizing a group of people to achieve a common goal'.

Leadership in a corporate environment is manifested in managers exhibiting traits, such as: intelligence, personal effectiveness and efficiency, high level of creativity in resolving issues and problems, adjustment, extraversion, conscientiousness, and motivation, which are used for accomplishing goals for the given corporate entity<sup>24</sup>.

Senior managers can improve the leadership qualities of the employees of their organization by **soft control improvement actions** detailed in Chapter 3.

#### 2.2.14 EMPLOYEE MOTIVATION

**Employee motivation (soft control 14)** refers to ‘inner or social stimulus for an action’ for employees of business entities. In a corporate environment, managers need to motivate employees to do a better job. This is achieved in a corporate setting, according to various thinkers such as Maslow, Argyris<sup>25</sup>, etc., by managers using various strategies.

In a specific business entity, managers may employ a set of **soft control improvement actions** detailed in Chapter 3.

#### 2.2.15 EXPECTATIONS

**Expectations (soft control 15)** is usually the act or process of knowing what is anticipated in a given work situation. This means that managers must consider the issue of expectations in dealing with their employees. Learning what interests and engages employees can help managers to distribute work in a way that promotes enthusiasm for completing tasks. This will help employees understand the employer’s expectations.

All managers can reinforce the aspects of expectations of the employees of their organization by **soft control improvement actions** detailed in Chapter 3.

#### 2.2.16 OPENNESS AND SHARED VALUES

**Openness and shared values (soft control 16)** usually refers to the quality of being open<sup>26</sup>. Values represent what a person believes in. In corporate terms openness and shared values characterize an environment in which decisions are made and communicated to all parties.

Senior managers can improve the characteristics of openness and shared values in their organization by **soft control improvement actions** detailed in Chapter 3.

## 2.2.17 INFORMATION FLOW THROUGHOUT THE ORGANIZATION

**Information flow throughout the organization (soft control 17)** refers to the information flow throughout the organization is usually attained by both informal and formal communication systems<sup>27</sup>. Formal communication is used to distribute and implement rules, policies and procedures. Managers, however, must pay attention also to informal communication as this type of communication may hinder or ensure the effective conduct of work in modern organizations.

Senior managers can improve the information flow throughout their organization by **soft control improvement actions** detailed in Chapter 3.



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### **2.3.1 MINDSET AND EMOTIONAL CONTRACTING**

The Mindset and corresponding soft controls, as detailed before (tone at the top, understanding of the organization by the board, culture, structure of reporting relationships, morale, integrity and ethical values, operational philosophy, trust, ethical climate, empowerment, etc.), refer to the emotional contracting issue, also referred to as 'the psychological contract'. This is the crucial and powerful link between the organizational performance intent, and the motivations, values and aspirations of the people.

This emotional contracting element is sometimes overlooked by organizations and managers, and that is the reason that may explain why the people have failed to do what the organization expected and asked them to do. In management and organizational theory many employee attitudes such as trust, faith, commitment, enthusiasm, and satisfaction depend heavily on a fair and balanced Psychological Contract.

Where the Contract is regarded by employees to be broken or unfair, these vital yet largely intangible ingredients of good organizational performance can evaporate very quickly.

Where the Psychological Contract is regarded by employees to be right and fair, these positive attitudes can thrive<sup>28</sup>.

## 3 IMPLEMENTATION OF SOFT CONTROLS

**Aristotle** provides us with the guiding principle: ‘We acquire virtues if we act earlier. If we are just, we become just; if we act with reason, we become reasonable; if we act bravely, we become brave’.

***Overview:** This is the third component of **The Soft Controls Approach** in implementing business management controls.*

### 3.1 DESCRIPTION

Soft internal controls (trust, integrity, values and beliefs, etc.) should be part of the organizational process of strategy setting and ethical environment establishment.

Corporate policies and procedures, vision and mission statements, strategic planning, ethics codes, job descriptions, training and coaching of staff, compliance programs, etc., are the tools and the hard controls that help define whether an organization consistently will do (supposedly) the right thing.

An organization might have written codes of conduct and other value defining type documents (vision, mission, values, social responsibility, etc.) but that does not guarantee whether they are actually followed consistently.

Most of the real understanding will not be expressly written in any document but better evidenced in the day-to-day discharge of everyday duties and interactions. For example, the ethical culture can only rise as high as the tone set by the board and the senior executive management.

If management distributes the message about ethics poorly or worst yet, delegates the message to subordinate levels, then the effectiveness of the ethical culture is greatly diminished. The best way to reinforce soft controls is to (probably) formalize them. This can be accomplished by Soft Controls Action Plan, as described next.

## 3.2 INTEGRATED SOFT CONTROLS IMPLEMENTATION PLAN

**Overview:** This plan contains a set of improvement actions (IA) aimed on improving each soft control (e.g., tone at the top, understanding of the organization by the board, etc.), as detailed next, on the basis of using a number of techniques and tools (such as: Dialogue; Behavior Model; Training; Organization; Review Process; Employee Engagement; and Monitoring Activities) and taking into full consideration the seven ancient Greek principles (Principle 1: Temperance; Principle 2: Faith; Principle 3: Justice; Principle 4: Harmony; Principle 5; Friendship. Principle 6; Kalokagathia (Goodness and Kindness); and Principle 7: Courage).

This plan is divided into three inter-related parts:

Part 1: Soft Controls Assessment Actions.

Part 2: Training and Learning Actions.

Part 3: Soft Controls Implementation Improvement Actions.

**Objective:** This plan may be used by organizational board members and all levels of corporate management to improve each of the identified soft controls so that better implementation is achieved for the full implementation of hard controls (plans, policies, procedures, etc.) of the given business entity (private company, public organization, etc.).

These plans are detailed next.

## 3.3 PART 1: SOFT CONTROLS ASSESSMENT ACTIONS

**Action 1: Carry out an Ethics Check.** Interview key organization personnel to review and assess their concepts on moral and other corporate issues and business conduct.

**Action 2: Use Emotional Intelligence Testing.** Carry out (formal or informal) emotional intelligence (EI) tests along the five recommended aspects of EI, according to Daniel Goleman: Self-Awareness, Self-Regulation, Motivation, Empathy and Social Skills on key personnel and improve the situation, as required<sup>29</sup>.

Experts in the field suggest that you need to do five things, at least to improve your EI:

1. Check and improve your way reacting to people.
2. Practice humility.
3. Do a self-evaluation and improve your weaknesses while increasing your strengths.
4. Take responsibility for your actions.
5. Examine how your reactions will affect others and change yourself<sup>30</sup>.

**Action 3: Carry out Self-Assessments.** Conduct self-assessment workshops and complete self-assessment questionnaires to ask hypothetical questions and record awareness of business ethics and other business management controls.

**Action 4: Employ Human Aspects Expert.** Use the services of a human resources expert to undertake a survey to analyze the human aspects issues of your workforce, such as trust, occupational stress, wellness, integrity, motivation, expectations, etc. The checklists contained in ‘**Appendix 2: Wellness Questionnaires**’ in Part II of this book (‘Tools and Techniques complementing The Soft Controls Approach’) may also be used for such purposes.

### 3.4 PART 2: TRAINING AND LEARNING ACTIONS

**Action 1:** Craft and execute a training plan with the purpose of getting all managers and board members to upgrade their emotional and mental dexterities and skills to implement better the company’s hard controls with the aid and support of the identified soft controls.

**Action 2:** This plan should enable managers to accomplish the following:

1. Learn ways on how to use dialogue, discussion, coaching and mentoring to improve corporate culture, employee morale, trust, ethical climate, and motivation, among other relevant and on-the-job human-related issues and aspects.
2. Increase knowledge of company operations by having senior executives and board members work in all critical business functions for a limited time.
3. Learn ways to manage teams better. For more details, see Appendix 3 ‘Seven rules for building and managing an effective team’ in Part II of this book (‘Tools and Techniques complementing The Soft Controls Approach’).
4. Learn to use strategic methods to organize and manage their company better. For more details, see Appendix 4 ‘Strategy Assessment Methods and Tools’.
5. Learn to use NLP to change their management behavior. For more details, see Appendix 5 ‘NLP Techniques’ in Part II of this book (‘Tools and Techniques complementing The Soft Controls Approach’<sup>31</sup>).

### 3.5 PART 3: SOFT CONTROLS IMPLEMENTATION IMPROVEMENT ACTIONS

#### 3.5.1 IMPROVING ‘TONE AT THE TOP’

Top managers can reinforce the aspects of the organization’s ‘tone at the top’ ethics attitude<sup>32</sup> to their employees by **improvement actions (IA)**, such as:

**IA #1: Dialogue.** Discuss and resolve all ethics and integrity issues.

**IA #2: Behavior Model.** Provide examples of behavior in your daily management duties and oversight activities.

### 3.5.2 IMPROVING 'UNDERSTANDING OF THE ORGANIZATION BY THE BOARD'

Board members can attain better organizational understanding by **improvement actions (IA)**, such as:

**IA #1: Board Selection.** Select and appoint board members on the basis of education, professional background and practical experience.

**IA #2: Board Attendance.** Ensure that board members attend critical business operations for a specific period.

**IA #3: Board Training.** Provide board members with specialized training courses on very specific issues and areas where the given organization is active.

### 3.5.3 IMPROVING 'STRUCTURE OF REPORTING RELATIONSHIPS'

Managers can improve the elements of the organization's reporting relationships by **improvement actions (IA)**, such as:

**IA #1: Organizational Chart.** Craft an effective organizational chart<sup>33</sup> and communicate it to all staff,

**IA #2: Duties Description.** Develop job titles for all employees and use them in all dealings, and

**IA #3: Organizational Review Process.** Review and improve both organizational chart and job titles, as the organization grows and its demands change.

### 3.5.4 IMPROVING 'CULTURE'

Managers can reinforce the elements of the organization's culture to their employees by **improvement actions (IA)**, such as:

**IA #Improvement Action (1): Discussion.** Discuss all cultural issues with employees,

**IA #Improvement Action (2): Model of Behavior.** Provide examples of behavior in your daily supervision activities, and

**IA #Improvement Action (3): Involvement.** Involve your employees in reviewing corporate statements on vision, mission and values<sup>34</sup>.

### 3.5.5 IMPROVING 'MORALE'

Managers must pay special attention in improving employee morale by **improvement actions (IA)**, such as:

**IA #1: Employee Engagement.** Provide opportunities for employees to make decisions about and influence their own work,

**IA #2: Provision of responses.** Provide timely, accurate and proactive responses to their questions and concerns,

**IA #3: Fairness.** Treat them as responsible adults with fairness and consistency,

**IA #4: Corporate Policies.** Develop and publicize corporate policies and procedures while ensuring that they work effectively,

**IA #5: Communication.** Communicate positively, effectively and constantly with all employees on all issues (e.g., performance, work details, etc.),

**IA #6: Opportunity.** Afford all staff the opportunity to grow and develop, and

**IA #7: Leadership.** Provide appropriate leadership and a framework of strategy, vision, mission, values and goals<sup>35</sup>.

### 3.5.6 IMPROVING 'INTEGRITY'

Board members and managers can reinforce and enhance the elements of the organization's integrity and ethical values by **improvement actions (IA)**, such as:

**IA #1: Ethics and Compliance Program.** Craft and implement an effective ethics and compliance program and communicate it to all staff,

**IA #2: Ethics and Compliance Office.** Establish and function the office of compliance and ethics,

**IA #3: Examples of Behavior.** Provide examples of behavior in your daily supervision activities, and

**IA #4: Ethics and Compliance Review.** Review and improve both ethics and compliance program and policies, as the organization grows and its regulatory aspects and expectations change<sup>36</sup>.

### 3.5.7 IMPROVING 'OPERATIONAL PHILOSOPHY'

All organizational managers can reinforce and enhance the operational philosophy of the organization by **improvement actions (IA)**, such as:

**IA # 1: Fairness.** Deal with all people (internal staff, outside auditors, customers, external suppliers, government authorities, regulators, stakeholders, community, etc.) on the same basis of fairness,

**IA #2: Business Conduct.** Deal with all people (internal staff, outside auditors, customers, external suppliers, government authorities, regulators, stakeholders, community, etc.) on the same written and approved rules and codes of business conduct,

**IA #3: Business Policies.** Craft and implement effective ethics, human rights and procurement policies, and

**IA #4: Accountability.** Communicate all company information to all parties on the basis of transparency and accountability<sup>37</sup>.

### 3.5.8 IMPROVING 'TRUST'

All managers can reinforce the aspects of trust in interacting with their stakeholders, employees, customers, authorities, etc., by **improvement actions (IA)**, such as:

**IA #1: Promotion Practice.** Promote personnel to higher levels of organizational hierarchy, who are capable of forming positive, trusting and caring interpersonal relationships with people who report to them,

**IA #2: Coaching.** Develop the interpersonal relationship skills of all personnel and especially those of current managers and employees desiring promotion, by sending them to relevant courses or by coaching and mentoring programs,

**IA #3: Information Sharing.** Keep organizational personnel informed, as much as possible,

**IA #4: Commitment.** Act with integrity and keeping commitments to all participants in the affairs of the organization (employees, authorities, customers, board members, stakeholders, etc.),

**IA #5: Protection.** Protect the interest of all employees in a work group, even those who are absent,

**IA #6: Effectiveness.** Be effective, efficient and results-oriented, within limits, and

**IA #7: Respect.** Listen with respect, sensitivity and full attention<sup>38</sup>.

### 3.5.9 IMPROVING 'ETHICAL CLIMATE'

All board members and organizational managers can reinforce and improve the ethical climate of the organization by **improvement actions (IA)**, such as:

**IA #1: Honesty.** Use honesty in ensuring that you always maintain a positive and ethical climate in managing and interacting with your employees, your superiors and your customers,

**IA #2: Greater Good.** Leave aside and amend, as required in certain circumstances, your personal self-interest, company profit, operating efficiency, rules, procedures, etc., in order to preserve and improve the ethical climate of your business and to serve the greater good, and

**IA #3: Fairness.** Deal with all your stakeholders (employees, external auditors, customers, suppliers, authorities, regulators, community, etc.) on the same basis of fairness, and,

**IA #4: Rules of Business.** Deal with all your stakeholders (employees, external auditors, customers, suppliers, authorities, regulators, community, etc.) on the same basis of written and approved rules and codes of business conduct<sup>39</sup>.

### 3.5.10 IMPROVING 'EMPOWERMENT'

All managers can reinforce and improve the implementation of empowerment as regards the employees of their organization by **improvement actions (IA)**, such as:

**IA #1: Authority Assignment.** Give authority and responsibility to selected employees to carry out specific actions to achieve general corporate goals and specific objectives,

**IA #2: Encouragement.** Encourage employees to assume a more energetic and effective role in their work, and

**IA #3: Involvement.** Involve employees in assuming responsibility for improving the way things are done in their daily work activities, and

**IA #4: Monitoring.** Monitor these results to ensure that these are properly done<sup>40</sup>.

### 3.5.11 IMPROVING 'CORPORATE ATTITUDES'

All managers can improve the corporate attitudes of the employees of their organization by **improvement actions (IA)**, such as:

**IA #1: Politeness.** Use polite and positive language and manners in assigning and managing tasks,

**IA #2: Awarding.** Connect tasks to awards,

**IA #3: Variety.** Add variety to tasks,

**IA #4: Balance.** Assign both liked and non-liked tasks to all employees,

**IA #5: Support.** Think out a solution regarding the difficult task and situation with the person involved, and

**IA #6: Coaching.** Work out a mutually-agreed solution with the person involved and coach them as required<sup>41</sup>.

### 3.5.12 IMPROVING 'COMPETENCES'

Managers can improve their own competence as well as the competences of the employees of their organization by **improvement actions (IA)**, such as:

**IA #1: Assessment.** Assess your skills (managers and employees) via self-evaluation methods, benchmarking or other tools,

**IA #2: Industry Training.** Take specific industry courses yourself as managers and send your employees to courses also,



**IA #3: Academic Courses.** Upgrade job-related knowledge by attending university and professional seminars,

**IA #4: Coaching.** Get involved in coaching and mentoring programs, and

**IA #5: Certification.** Get certified by a professional association<sup>42</sup>.

### 3.5.13 IMPROVING 'LEADERSHIP'

Senior managers can improve the leadership qualities of the employees of their organization by **improvement actions (IA)**, such as:

**IA #1: Envisioning.** Have a vision, a mission and values,

**IA #2: Organization.** Be organized to the fullest,

**IA #3: Execution.** Plan, supervise, and execute efficiently and effectively,

**IA #4: Delegation.** Delegate by assigning ownership of the work you give to employees, and always act with responsibility,

**IA #5: Passion.** Be passionate and enthusiastic and get your employees involved in the decision-making process,

**IA #6: Training.** Train and coach them as required to get the job done well,

**IA #7: Calmness.** Handle emotional issues with calmness and fairness,

**IA #8: Organizational Knowledge.** Know your organization extremely well,

**IA #9: Model Behavior.** Provide a positive and moral example to others, and

**IA #10: Motivation.** Motivate people and keep clear channels of communication<sup>43</sup>.

### 3.5.14 IMPROVING 'EMPLOYEE MOTIVATION'

Senior and middle-level managers can improve the motivation of the employees of their organization by **improvement actions (IA)**, such as:

**IA #1: Reinforcement.** Provide positive reinforcement to all employees,

**IA #2: Discipline.** Carry out effective discipline and fair punishment for all transgressions,

**IA #3: Fairness.** Treat all people fairly,

**IA #4: Needs Satisfaction.** Satisfy employee needs on a cost-benefit case,

**IA #5: Goal Setting.** Set achievable work-related goals,

**IA #6: Job Packaging.** Restructure jobs and tasks to become more manageable, and

**IA #7: Performance.** Reward people on job performance<sup>44</sup>.

### 3.5.15 IMPROVING 'EXPECTATIONS'

All managers can reinforce the aspects of expectations of the employees of their organization by **improvement actions (IA)**, such as:

**IA #1: Review.** Meet with employees on a regular basis to discuss problems, issues, goals and progress,

**IA #2: Enthusiasm.** Promote enthusiasm for completing tasks,

**IA #3: Acknowledgement.** Express confidence in each employee's ability, and

**IA #4: Reinforcement.** Reinforce past achievement so that employee motivation is sustained.

### 3.5.16 IMPROVING 'OPENNESS AND SHARED VALUES'

Senior managers can improve the characteristics of openness and shared values in their organization by **improvement actions (IA)**, such as:

**IA #1: Appreciation.** Appreciate the opinions, skills and knowledge of all employees, and

**IA #2: Review.** Re-examine traditional organizational standards in order to achieve better and more beneficial results<sup>45</sup>.



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### 3.5.17 IMPROVING 'INFORMATION FLOW THROUGHOUT THE ORGANIZATION'

Senior managers can improve the information flow throughout their organization by **improvement actions (IA)**, such as:

**IA #1: Communication Policy.** Draft and implement a communications policy, by identifying the strategic objectives of the organization, reviewing current communications practices, identifying the communications audiences and determining the communications methods and means to be used,

**IA #2: Executive Training.** Get executives trained on listening techniques and practices<sup>46</sup>.

**IA #3: Information Collection.** Ensure that information (internal and external), critical to achieving the objectives of the organization is identified, regularly collected and reported to management and stakeholders,

**IA #4: Performance System.** Implement a performance system that identifies, collects, stores, processes, analyzes and communicates corporate performance to all approved stakeholders of the organization, and

**IA #5: Information Monitoring.** Implement and monitor mechanisms to allow the easy flow of information down, across, and up the organization<sup>47</sup>.

## 4 EVALUATION OF IMPLEMENTATION OF SOFT CONTROLS

'It is a shame to concern yourself with more glory, money and honors  
while you ignore truth, wisdom and perfection of your soul'.

– Plato

***Overview:** This is the fourth component of **The Soft Controls Approach** in implementing business management controls.*

### 4.1 INTRODUCTION

Evaluating the implementation of soft controls (trust, integrity, values and beliefs, etc.) could be done by the following actions

and taking into full consideration the seven ancient Greek principles (Principle 1: Temperance; Principle 2: Faith; Principle 3: Justice; Principle 4: Harmony; Principle 5: Friendship. Principle 6; Kalokagathia (Goodness and Kindness); and Principle 7: Courage).

### 4.2 EVALUATION ACTION PLAN

**Action 1: Carry out Audit Reviews.** Use internal audit programs and questionnaires to ask and obtain the feedback of employees and management on all of the issues detailed in this book.

**You may use the following** in Part II of this book ('Tools and Techniques complementing The Soft Controls Approach'):

- Appendix 2: Wellness Questionnaires
- Appendix 6: Soft Controls Audit Questionnaires
- Appendix 7: Performance audit questionnaire of Board and Executive Management
- Appendix 8: Business Ethics Policy Checklist.

**Action 2: Develop, implement and monitor** performance measures and compliance indicators as presented next.

#### 4.2.1 SOFT CONTROLS PERFORMANCE MEASURES

- 1) Number of coaching hours.
- 2) Number of hours on mentoring programs.
- 3) Number of improvements after performance reviews.
- 4) Number of self-assessments.

#### 4.2.2 SOFT CONTROLS COMPLIANCE INDICATORS

- 1) Self-assessments policy for all departments (exist or not).
- 2) Coaching policy followed (or not).
- 3) Management reports on self-assessments, coaching and mentoring issues produced (or not).

**Action 3: Improve Process.** Review, evaluate, customize to your needs and expectations, and implement above-mentioned soft controls. Monitor and evaluate the results of this effort and make all necessary changes.

**Action 4: Improve Management Skills.** Review, consider and promote the use of **improvement** plans (details in ‘**Appendix 9: Improvement Plans**’ in Part II of this book (‘Tools and Techniques complementing The Soft Controls Approach’) by all company managers, top to bottom, as well as board members and other interested professionals and stakeholders that may want to improve their skills to manage better all issues and aspects of their company, such as: Corporate governance, corporate wealth, human factors, etc.

**Action 5: Ensure Good Fraud Management.** Review your company’s fraud management controls to ensure that the above soft controls implementation also contributes to your management skills as regards the protection of all your company assets.

For more details, see: ‘Appendix 10: Corporate and Financial Fraud Management Controls’ in Part II of this book (‘Tools and Techniques complementing The Soft Controls Approach’).

## 5 CONCLUSION AND RECOMMENDATIONS

Pythagoras has said over 2,500 years ago: ‘Seek the true value of all things, and enjoy all gifts of God according to Measure’.

### 5.1 CONCLUSION

Codes of conduct, business values and ethics and compliance communication programs should look beyond legal and regulatory boundaries to tone at the top, employee buy-in, motivation and promotion programs, and other factors that influence organizational culture. Statistics such as percentage of participation and the number of training modules conducted are vital for overall program evaluations, but they should be treated only as indicators. The ultimate goals are qualitative – open dialogue and a culture of accountability.

With this in mind, some companies have gone beyond traditional training and elected to rotate business managers through one of their ethics and compliance oversight functions.

This type of on-the-ground experience engenders ethical behavior as natural instinct for rising leaders, allowing them to make decisions in cases where clear right or wrong does not exist.

Socrates argued that the determination of good or bad behavior depended entirely on the integrity of the rational process.

Plato argued that to know good was to do good, that doing good was more useful and rational than doing bad, and that one who behaved immorally did so largely out of ignorance.

Aristotle argued that ethics was a purely logical outcome of human nature and it was useful because it was logical.

The design and deployment of controls in organizations is directly impacted by humans who act as the designers, operators and implementers of these controls.

As people execute transactions and manage business processes with the facilitation of specific controls, both hard and soft (as explained in this book), they are bound to commit errors, due to various reasons, such as inadequate training, lack of motivation, inaccurate instructions, etc.

The ability of personnel to perform tasks according to expectations, or the competence of personnel, is crucial to every organization because of the role it plays in ensuring tasks are carried out satisfactorily and safely.

Often assumptions of competence are made based on the adequacy of experience or training, possession of education and professional qualifications, or the availability of an efficient policy and associated procedures.

However, such assumptions may be incorrect and should not be made. Competence, dexterities and other required skills of personnel should be managed and improved otherwise, poor performance and operational accidents may result. These particularities are described next.

Various human factors issues are important in developing procedures. Also, a variety of documentation is used including manuals, guidelines, checklists, data sheets, logs, records, work orders, etc.

Documentation design can have a major impact on process safety and operability. Procedures that are not followed, guidelines that are not used, diagrams that are misleading, and records that are not completed properly can all increase the likelihood of accidents.

The simple message to employers from this – and a simple rule for managing this part of the Psychological Contract – is therefore to focus on helping employees to feel good and be happy.

Less sensible employers who ignore the relevance of employee happiness – or the relevance of the Contract itself – invariably find that the Psychological Contract is viewed more negatively, and this make corporate staff, in general, less inclined to support and cooperate with the leadership of the specific business entity.

## **5.2 RECOMMENDATIONS: VALUES AND GOLDEN RULES**

The internal control system and its related framework, policies, procedures, performance management and compliance controls (hard controls) should be the first priority of the organizational management. These should be complemented with a set of soft controls, quite necessary for the implementation of these hard controls by employees. Soft controls may function better when management implements them on the basis of the following values and ‘golden rules’ rules outlined next.

### 5.2.1 FOUR VALUES FOR IMPLEMENTING SOFT CONTROLS

I have found that the following four principles have supported a good if not excellent implementation of hard controls (plans, policies, procedures, etc.) while considering the soft control issues identified in this document and taking into full consideration the seven ancient Greek principles (Principle 1: Temperance; Principle 2: Faith; Principle 3: Justice; Principle 4: Harmony; Principle 5; Friendship. Principle 6; Kalokagathia (Goodness and Kindness); and Principle 7: Courage).

**Value 1: Commitment.** Commit to yourself, your values, your family, your country, and your company.

**Value 2: Convictions.** Align your actions with your beliefs and convictions, the Supreme Being and nature.

**Value 3: Co-operation.** Co-operate with others for the greater good of all.

**Value 4: Co-existence.** You exist not for yourself alone, but for your family, country, community and company.

### 5.2.2 SEVEN GOLDEN RULES FOR IMPLEMENTING SOFT CONTROLS

**Golden Rule 1:** Corporate ethics, principles and guidelines must be constantly communicated to all people of the organization.

**Golden Rule 2:** Board members and management must practice what they preach, at all times.

**Golden Rule 3:** All participants in the affairs of the organization must be trained in issues of soft controls.

**Golden Rule 4:** Employees must be rewarded on performance.

**Golden Rule 5:** Management should respond, resolve and manage all issues, if needed, related to all violations of corporate controls.

**Golden Rule 6:** Accountability and transparency should be established at all levels

**Golden Rule 7:** Decisions should be reached on accurate facts and data, and by understanding of all business functions and actions of individuals.



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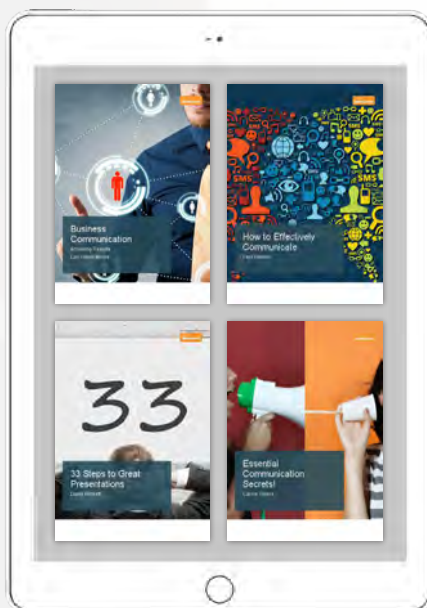
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# ENDNOTES

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[http://ipmajournal.com/articles/Vol11\\_Iss1\\_Article4.php](http://ipmajournal.com/articles/Vol11_Iss1_Article4.php))
6. The Seven Sages (of ancient Greece) or Seven Wise Men was the title given by ancient Greek cultural tradition to seven early 6th century B.C. philosophers, poets, rulers, statesmen and law-makers who were renowned in the following centuries for their wisdom, and which is still valid today.  
The seven sages were Thales, Pittacos, Bias, Solon, Cleovoulos, Periandros, and Chilon. They lived in ancient Greece over 600 years B.C. and before the advent of the classical Greek philosophers, like Socrates, Plato, Aristotle, etc.
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