

# smartnotes

## Putting the Principles into Practice

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**Ethical staff behavior** begins at the top of an institution, with a commitment from senior management. When this commitment is successfully integrated in the institution's strategy and systems, it permeates the institution. How the institution treats its staff and builds its culture directly affects how the staff live the institution's values and treat their clients.



The six core values at Compartamos.

Compartamos Banco derives its Code of Ethics from a set of six core values. The *Person* is the central value, and the institution's commitment to improving the lives of people is supported by *Responsibility*, *Passion*, *Profitability*, *Teamwork*, and *Service*. Shortly after establishing a code of ethics, Compartamos created a department to review, monitor, and institutionalize the code throughout the institution. As a result, the bank's emphasis on ethical behavior is evident throughout the institution.

## Compartamos: Building Institutional Culture around a Code of Ethics

Staff ethics have been at the heart of Compartamos Banco's institutional culture since its inception. Compartamos began as an NGO in 1990, lending to women microentrepreneurs in Mexico. By 2006, the institution had transformed from an NGO into a commercial bank. Although it now has 1.2 million clients and its staff has nearly quadrupled to almost 6,000, the bank always maintained a spirited institutional culture.

Compartamos established a formal Code of Ethics in 2004. The Code is a comprehensive document that addresses many of The Smart Campaign's Client Protection Principles, including ethical behavior, appropriate collections practices, and confidentiality of client information. The Code is built around a set of six institutional values, including *Responsibility*, *Passion*, *Profitability*, *Teamwork*, and *Service*. At the core of these values is the *Person* and the idea that each person, whether an employee or a client, is valuable to an integrated whole.

A Code of Ethics, however, has little effect if the institution does not take steps to ensure it is fully institutionalized. This is why shortly after adopting the Code, Compartamos created a suite of interconnected good practices that transformed the Code into a living document within the institution.

### STAFF RECRUITMENT AND TRAINING EMPHASIZE VALUES AND ETHICS

Compartamos starts its commitment to ethical staff behavior from the moment of recruitment and orientation. Human resources specialists administer psychological tests during the hiring process to gauge the compatibility between the candidate's and the institution's values.



Once selected, a new recruit receives training and an in-depth orientation about the Code. Concrete examples of ethical dilemmas are integral to the orientation, and these examples correspond to the specific position for which the new recruit was hired. Recruits explore acceptable and unacceptable behavior through role play and discussions. New recruits hear about real world ethical dilemmas that bank staff have confronted and discuss the “Compartamos way” of handling those situations.

When they begin orientation, new employees sign a letter of agreement with the Code of Ethics. At the end of the three-month training period, each employee must be certified in the Code of Ethics. Employees are required to pass an exam on the code with a score of at least 80 percent. Permanent contracts do not become effective until the staff member obtains this score.

The Code remains important after the training period as well, as all employees must also pass an annual re-certification exam. Online training is available through for those who do not pass. If an employee fails to re-certify successfully, both the employee and his supervisor receive an administrative sanction.

In order to extend the reach and depth of training on the Code and continue to deepen the bank’s commitment to promoting institutional ethics, Compartamos launched 14 staff training centers in 2008.

### **KEEPING THE ETHICAL CULTURE ALIVE**

As another means of promoting ethical behavior throughout the institution, Compartamos created its own Ethics and Values Department. One of the tasks of this Department is to select and maintain a network of 50 “Guardians of the

Esprit de Corps,” chosen because they practice Compartamos’ Philosophy (Mission, Vision, and Values) in their daily life, they make of it a reality through their leadership, they give a service of excellence, and they live it with consistency. They also have long-term tenure in the bank, which enhances their credibility. They act as exemplars of the institutional culture, upholding this spirit during the normal course of business. As part of induction, each new recruit meets with one of the Guardians, who functions as a mentor and answers questions and doubts.

Compartamos’s Ethics and Values Department has gone a step further by ensuring that the staff manual details a clear policy of expectations for performance and sanctions for violations of the code of ethics. Overall, the bank has done a superior job turning these policies into practice; the *Súper Empresas* 2009 report ranked Compartamos second of 50 firms for “Implementation of Policies.”

### **TO PROMOTE ETHICAL BEHAVIOR, TREAT STAFF RIGHT**

Compartamos manifests its commitment to the integrated concept of the whole person through how it treats its staff. The bank offers excellent benefits, for example, including additional leave for life events and an employee savings and loan association. It also prioritizes internal candidates for promotion to senior management positions. This practice facilitates the professional growth of employees and reduces outside hiring at senior levels, helping to keep employees’ commitment to the Compartamos values within the firm.

These practices have proven effective in creating a sense of institutional culture in the bank’s staff as well as a feeling of belonging within the institution. Compartamos conducts an annual survey to assess its workplace environment, and the 2008 survey showed that 90% of the staff felt the Code of Ethics gave them a sense of well-being and protection..

## The basics of...

### **BUILDING AN ETHICAL CULTURE AT COMPARTAMOS BANCO**

1. Staff recruitment procedures are aligned with the institutional philosophy. The “values fit” between candidates and the institution is tested during the hiring process.
2. Staff induction training explains the code of ethics and the institution’s values. It uses examples from staff experience and role-playing to model appropriate responses, enhancing the link between ethics and practice.
3. All new staff members commit to honor the Code by signing a letter of agreement and undergoing mandatory annual recertification.
4. Internal communications regularly address the Code of Ethics and the institution’s values, emphasizing how these help achieve the institution’s mission.
5. Staff manuals set clear expectations of ethical performance, reporting policies, and sanctions for violations.
6. “Guardians of the Esprit de Corps” act as examples.
7. An ethics committee has authority to supervise, enforce, and provide solutions to all complaints related to ethics.
8. Performance evaluations take ethics into account for bonuses, incentives, and other performance-based compensation.
9. Ethical behavior filters down from the top, with management held accountable to the Code and the board required to approve revisions every year.



## MONITORING AND ENFORCING THE CODE

Building an ethical staff culture that reinforces expected behavior has helped Compartamos prevent violations of the Code of Ethics. Nonetheless, as in any institution, violations will occur, so Compartamos couples its promotion of good behavior with a rigorous monitoring and enforcement program. The bank's Ethics and Values Department works in collaboration with other institutional departments to ensure that employees at all levels follow the Code. The bank encourages reporting, to detect corruption and code violations. Staff receive instructions on how to use this reporting system, whom to consult, and the severity with which claims of ethical violations are viewed.

Depending on the severity of the violation, sanctions can include: verbal and written warnings, reduction in performance bonuses, decreased promotion potential, temporary suspension, termination, and filing legal charges. More serious violations result in termination of employment

in accordance with labor law. These measures demonstrate the seriousness with which Compartamos defends its Code of Ethics.

In cases of fraud, Compartamos' policy is to sue ex-employees for breach of their employment contracts. In the event that the fraud damaged a client's interests, the institution advises the client at the beginning of the legal process.

## STRONG VALUES CREATE INSTITUTIONAL BENEFITS

At Compartamos, the consistent integration of the Code of Ethics into the bank's institutional culture keeps the institution's focus on the person, resulting in institutional and staff benefits that yield positive outcomes for clients as well:

- Induction and training on the Code, in addition to internal support from the Guardians, help create a strong sense of corporate identity.
- Staff understanding of acceptable and prohibited behaviors and the internal complaints system help reduce the risk of fraud and promote serving the bank's and the client's joint interests.
- Transparent guidelines on acceptable collections practices discourage abuses.
- Clear explanations of norms for the use of information help protect client privacy.

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