Measuring Corporate Culture: Enhancing the Board’s Understanding

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Agenda

• What is this amorphous thing called “culture”?  
• The practical value of an ethical culture  
• Components and what we should measure  
  – Programs  
  – Leadership  
  – Assessment of ethical climate  
• Important findings  
• Ethics as a competitive advantage
Culture

• Here is a good working definition:

  “Culture is the set of enduring and underlying assumptions and norms that determine how things are actually done in the organization.”
Ethics and Values Define Culture

• The values that drive behavior are the foundation of any organization’s culture
• Ethical behavior is actually values in action
• All of these terms, “values,” “ethics,” and “culture” are frequently in the news today

• Why?
The Regulatory Environment

• The 2004 amendments to the Federal Sentencing Guidelines for Organizations
• Placed greater responsibility on Boards and top management to take active leadership to promote ethical conduct
• Organizations must now:
  – “Promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.”
Polling Question #1

Does your company have an ethics program that stresses core values and the importance of ethical behavior in business?

• We have a strong program
• We have some elements of a program
• We have no program
• Don’t know / not applicable
Altria’s Model of Ethical Culture

- Values
- Code, Principles, Policies
- Process
- Self Monitoring

Ethical Leadership
Audit Regime
Rules
Corporate Soul

Source: Altria Group, Inc.
Why an Ethical Culture Matters

• An ethical culture has significant practical business aspects:
  – Attracts and retains talent
  – Protects the enterprise
  – Results in better business performance

Let’s look at each one…
1. Attracting Talent

Altria utilizes social research from DYG, Inc. indicating post-9/11, all generations – Boomers, Gen X, and Gen Y - are now looking for a valuable life goal, and DYG sees the rise of integrity and ethics as a differentiator. Recruiting and retaining talent will now also be determined by a company’s ‘stewardship ethics.’

Source: Altria Group, Inc.
2. Protecting the Enterprise

• From a survey by the Association of Certified Fraud Examiners:
  – Audit activity uncovers 45.5% of cases
    • 18.6% Internal audit
    • 11.5% External audit
    • 15.4% Internal controls
  – Not bad, but note…

Source: Association of Certified Fraud Examiners
2. Protecting the Enterprise (cont’d)

- The *greatest* source to uncover fraud and theft is *individual tips*, uncovering 46.2% of total cases:
  
  - 26.3% Employee tips
  - 8.6% Customer tips
  - 6.2% Anonymous tips
  - 5.1% Vendor tips

Source: Association of Certified Fraud Examiners
Polling Question #2

What is your company’s view about the connection between ethical behavior and business success?

• It intuitively makes sense to us
• A bit of a stretch; it’s one of many factors in success, but not a critical one
• Our market competition is dog-eat-dog; ethical behavior actually inhibits good performance
• Don’t know / not applicable
3. Enhancing Business Performance

Numerous studies in both the US and UK have shown that companies that make values part of their business decision-making process have a strong record in achieving long-term business success.
Culture: Getting the Picture

• So, with that background, what should we be doing, and what should we be measuring?
• There is no single “magic metric” that provides a complete picture of your ethical culture.
• We must look at a number of different aspects:
  – Effective Programs
  – Effective Leadership
  – Assessment of the current ethical climate
1. Effective Programs

• All companies should have these basic activities in place, with metrics:
  – Communication of core ethical values
  – Conducting and tracking training (web and live)
  – Ability to raise issues, including anonymously
  – Tracking, addressing, and resolving issues
  – Conducting investigations
  – Communicating resolution of issues as appropriate
2. Effective Leadership

• Employees take their “ethical cue” from the observed behavior of their leaders. Does the organization:
  – Make character a part of the hiring process, especially for senior hires?
  – In performance evaluations is the ‘how’ as important as the ‘what’?
  – Hold leaders to the same (or higher) standard as everyone else?
  – Punish those who fall short in ethical behavior, in spite of revenue implications?
3. Assessing the Current State

- Altria’s approach has been ‘what gets measured, gets done’
- Measurement includes ‘hard’ and ‘soft’ data
- Key issue areas are:
  - View of ethical culture
  - Senior management support
  - View of ‘level-ism’
  - Retaliation
  - Pressure to violate policy or the law
  - Observing misconduct
  - Reporting what you saw

Source: Altria Group, Inc.
Polling Question #3

Does your company conduct a survey to gauge the ethical climate of your organization?

• We conduct an extensive survey, analyze the results, and report the findings
• We conduct a limited approach, with some aspects of surveying the ethical culture/climate of our organization
• We don’t survey this aspect of our organizational behavior
• Don’t know / not applicable
Deloitte-Funded Research Findings

• Does work-life balance influence positive ethical behaviors at work?
• According to the findings of the “2007 Deloitte & Touche USA LLP Ethics & Workplace” survey, there is a strong relationship between the two factors.
• The survey, conducted by Harris Interactive on behalf of Deloitte & Touche USA, also showed that the behaviors of management and direct supervisors, coupled with positive reinforcement for ethical behavior, are the top factors for promoting ethical behavior in the workforce.

Source: Altria Group, Inc.
Altria-Funded Research Findings

• Groundbreaking global research on ethical culture conducted by the Compliance & Ethics Leadership Council (CELC) of the Corporate Executive Board in 2007.

• The research found five leading indicators of potential misconduct:
  – Retaliatory culture and discomfort with speaking up
  – Willingness to compromise ethics for power and control
  – Direct manager lacks trust and respect for employees
  – Relative commitment to one’s job, manager, and company
  – Percentage of variable compensation

Source: Altria Group, Inc.
Altria-Funded Research Findings (cont’d)

• CELC found that concern about retaliation was the single greatest leading indicator by far.
• *Almost double* the importance of all other factors combined.
• The research for this study included the US, UK, Canada, Australia, and India, and the findings appear to be applicable on a wider, global scale.
Polling Question #4

How confident is your company about embedding ethical accountabilities into your performance expectations?

• Expectations of ethical behavior are identified for all jobs
• Expectations of ethical behavior are identified for critical jobs or specialized functions, but not for general positions
• We really haven’t given much thought about ethical behavior and expectations for our job positions
• We don’t think this is relevant to job performance
• Don’t know / not applicable
Altria’s Conclusions

• Workforce demographics are changing
• It’s a wired, transparent world
• Generational views focused on ‘values’
• In a very dynamic environment, businesses will compete hard for the best talent
• Emphasize values and ethics-based corporate culture
• Recruit and retain with a focus on corporate ethics

• Ethics becomes a competitive advantage
Altria’s Conclusions (cont’d)

• Building and maintaining a program that simply ‘meets’ the FSG is not enough

• But to build a strong corporate culture today, the balance among the phases of an ethics program must shift:
  – *Reactive*: correcting violations of law or company policy as they arise
  – *Proactive*: a comprehensive system of policies and procedures designed to prevent – or detect and correct – violations of the law or company policy
  – *Transformational*: a proactive program integrated into business practices and culture
Future Implications

CURRENT

FUTURE

Phase 1  Phase 2  Phase 3

Time Spent

Reactive  Proactive  Transformational

Reactive  Proactive  Transformational

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Revisiting the Altria Model

- **Values**
- **Policies**
- **Process**
- **Self Monitoring**

Source: Altria Group, Inc.
Conclusion

• Remember the slogan for the Clinton campaign during the 1992 presidential election?
  – “It’s the economy, stupid!”

• Today the watchword for organizations is:
  – “It’s the culture, stupid!”
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