Measuring the ROI of Culture: Data Demonstrating Key E&C Impact & Outcomes.

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Society of Corporate Compliance & Ethics

About Me:
Todd B. Rowen
Todd Rowen is currently a Knowledge Leader at LRN where he focuses on developing solutions across the Compliance & Ethics terrain to help organizations equip employees to align their behavior to company values on a day to day basis. Among his responsibilities, Todd is the solutions lead responsible for LRN’s survey tool, The Governance, Culture and Leadership Assessment.

Prior to this, Todd served as an Associate Director at the Compliance and Ethics Leadership Council where he researched best practices across the C&E terrain in areas including: conflicts of interest, speaking up, FCPA, codes of conduct, data privacy and many more.

Across his career, he has held numerous roles in human resources - both as a consultant and practitioner; and is particularly interested in underleveraged partnership opportunities between Compliance and Human Resources.

In addition to professional experience, he holds a Masters of Education and a Masters of Arts, both from Columbia University. There he concentrated on approaches from industrial/organizational psychology towards education, leadership behaviors & policy creation as well as exploring questions around ethics education for adult learners. Additionally, he has published works on the connection between culture shock and its relationship to our expansion of sense-making frameworks.
Data from our 2011-2012 Annual Ethics & Compliance Leadership Survey

Key Priorities for Ethics & Compliance Officers in 2012:

- Increase Employee Comfort With Speaking Up: 73%
- Strengthen Ethical Leadership: 65%
- Strengthen the Ethical Culture: 64%
- Ethical Risk Management: 63%
- Shifting Regulatory Expectations: 60%
- Innovative Design and Delivery of E&C Education: 55%
- Ethics & Compliance Program: 56%
- Change Business Needs: 51%
- Ethical Leadership: 50%
- Adapt Ethics and Compliance Program: 44%

Typical Challenges In Building Values-Based Cultures

1. No consensus on how to talk about culture in concrete & actionable terms
2. Inability to benchmark and measure progress
3. Inability to identify specific initiatives to drive desired change

THE GOAL: Getting culture right - to drive Compliance & Ethics Outcomes

Objective

- Ethics & Compliance programs with a focus on culture

Response?

- A common culture framework & language

THE GOAL: Getting culture right - to drive Compliance & Ethics Outcomes
HOW WE KNOW

HOW WE BEHAVE

HOW WE RELATE

HOW WE RECOGNIZE

HOW WE PURSUE

TWENTY TWO DIMENSIONS OF CULTURE

THREE ORGANIZATION MODELS

Blind obedience

Informed acquiescence

Self-governance
And people get hung up on the term of ‘self-governance’, does this mean anarchy? No…

Organizations are “self-governing” when the individuals who comprise it are trusted to make decisions and do so in furtherance of the mission of the organization and in a manner consistent with its values.

Typical Challenges In Building Values-Based Cultures

1. No consensus on how to talk about culture in concrete & actionable terms
   Response: A common culture framework and language

2. Inability to benchmark and measure progress
   Response: A data-driven methodology to measure your culture and monitor it on an ongoing basis

THE GOAL:
Getting culture right - to drive Compliance & Ethics Outcomes

WYMIWYG
“WHAT YOU MEASURE IS WHAT YOU GET”
A Note on Our Methodology for Measurement—
A Corroboration Grounded in Detail:

The Global Governance, Culture, and Leadership Assessment (GCLA)

Total of 18 countries and 36,280 interviews

Measuring Culture Globally
The Global Governance, Culture, and Leadership Assessment (GCLA)
The HOW Report
New Metrics for a New Reality:
Rethinking the Source of Resiliency, Innovation, and Growth

The HOW Report
Every organization fits into a Governance, Culture, and Leadership Archetype. What’s yours?
THREE ORGANIZATION MODELS

Blind obedience

Informed acquiescence

Self-governance

Finding #4 – Trust, Values, Mission
The Enablers of Self-Governance

Blind Obedience

- Outcomes
  - Trust: 1%
  - Values: 1%
  - Mission: 8%
  - 47% Observed unethical behavior
  - 27% Unethical behavior reported
  - 28% No retaliation for reporting unethical behavior

Informed Acquiescence

- Outcomes
  - Trust: 14%
  - Values: 6%
  - Mission: 44%
  - 34% Observed unethical behavior
  - 61% Unethical behavior reported
  - 57% No retaliation for reporting unethical behavior
Finding #4 – Trust, Values, Mission

Self-Governance

Outcomes
- Trust 88%
- Values 78%
- Mission 100%

- 24% Observed unethical behavior
- 88% Unethical behavior reported
- 79% No retaliation for reporting unethical behavior

Finding #2 – Self-Governance Outperforms

BLIND OBEDIENCE
INFORMED ACQUIESCENCE
SELF-GOVERNANCE

Observing misconduct
Reporting misconduct
Retaliation

Self-Serve

Loyalty
Effort
Staff referrals
Innovation
Customer satisfaction
Typical Challenges In Building Values-Based Cultures

1. No consensus on how to talk about culture in concrete & actionable terms
   Response:
   - A common culture framework and language

2. Inability to benchmark and measure progress
   Response:
   - A data-driven methodology to measure your culture and monitor it on an ongoing basis

3. Inability to identify specific initiatives to drive desired change
   Response:
   - Clear action items that a C&E Officer can wield to make significant change

THE GOAL:
Getting culture right - to drive Compliance & Ethics Outcomes

Mission, Values and Trust are the Key Drivers of Behaviors and Outcomes

Values, Mission and Trust
- Information, Collaboration, Inspiration, Horizon, Speaking Up, Resiliency, Operational Efficiency
- Innovation, Loyalty, Ethical Behavior, Customer Satisfaction, Reputation, Financial Performance

Enablers
Behavior
Outcomes

2x 1x

“Give me a place to stand and a lever long enough and I will move the world.”

- Archimedes
If you were chopping down a tree would you rather use…

1. 

2. 

If you were digging a hole in your backyard, would you rather use…

1. 

2. 

So, let’s discuss the strongest cultural levers to move the dial on the Compliance & Ethics metrics you care about…

Story of Chicago’s Cook County Hospital

- Overcrowded & with limited resources
- Previously doctors considered numerous indicators that could potentially signal a heart attack.
- After examining data they decided to diagnose heart attacks with ECG & only 3 risk factors – whereas previously doctors had looked at dozens of risk factors.
- 70% better than the old method at recognizing who was having heart attacks & was safer
- Sometimes acting on fewer inputs means better results.
The Leading Indicators of Misconduct

Impact Factor for cultures where employees agree with all three:

6x

Creating a Retaliation-Free Culture

Impact Factor for cultures where employees agree with all three:

3x

Fostering a Culture that Encourages Reporting

Impact Factor for cultures where employees agree with all three:

8x
Lowering Retention & Succession Risks

Impact Factor for cultures where employees agree with all three:

5x

Willingness to stay working at the organization

Impact factor of biggest factor alone: 2.7x

A clear mission and purpose driven company

Driving Individual Performance

Impact Factor for cultures where employees agree with all three:

2.5x

Willingness to put in extra effort to help the organization be successful

Impact factor of biggest factor alone: 1.25x

Company values inspire behavior

A Toolkit for Addressing Your E&C Priorities:

<table>
<thead>
<tr>
<th>If you want to:</th>
<th>Make cultural lever to achieve change</th>
<th>2nd cultural lever to achieve change</th>
<th>3rd cultural lever to achieve change</th>
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<tbody>
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Some Noteworthy Patterns Emerge:

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<tr>
<th>If you want to:</th>
<th>1st cultural lever to achieve change</th>
<th>2nd cultural lever to achieve change</th>
<th>3rd cultural lever to achieve change</th>
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</thead>
<tbody>
<tr>
<td>Reduce Levels of Observed Misconduct</td>
<td>Reducing fear of speaking up because of manager’s reaction</td>
<td>People take actions at odds with company values</td>
<td>When employees are more concerned about own goals than mission &amp; values</td>
</tr>
<tr>
<td>Increase Willingness to Report Observed Misconduct</td>
<td>Foster: Comfort raising everyday concerns in the workplace</td>
<td>Foster: A clear awareness of company’s mission &amp; purpose</td>
<td>Foster: Employee comfort using company values as a reason to challenge decisions</td>
</tr>
<tr>
<td>Reduce Retaliation for Reporting</td>
<td>Foster: A clear awareness of company’s mission &amp; purpose</td>
<td>Foster: Employee comfort using company values to make business decisions</td>
<td>Foster: Greater transparency and information sharing</td>
</tr>
<tr>
<td>Employee Retention</td>
<td>Foster: A clear awareness of company’s mission &amp; purpose</td>
<td>Foster: CSR efforts and employee awareness of those efforts</td>
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</tr>
<tr>
<td>Discretionary Effort (Employee Performance)</td>
<td>Foster: Values-based behavior</td>
<td>Foster: Employees more concerned about own goals than mission &amp; values</td>
<td>Foster: CSR efforts and employee awareness of those efforts</td>
</tr>
</tbody>
</table>

Follow me on this syllogism:

a) IF Fostering a culture with: a) a strong connection to a central mission, b) that’s guided by values-based behavior, and c) where employees are encouraged to raise concerns …has a disproportionate impact on such business drivers such as
• lower misconduct overall
• higher willingness to report
• lower retaliation for reporting
• (in addition to numerous HR metrics!)

b) AND typically, the Compliance & Ethics Program stewards the organization’s Code of Conduct and (as such) training & education around values and mission and expectations for reporting...

c) THEN: The Office of Compliance & Ethics already has within its power the tools to affect massive cultural change for the business outcomes it cares about.
Summary / Key Takeaways:

- In order to build an ethical culture you need to:
  - Develop language to talk about your culture beyond lagging indicators
  - The ability to benchmark your culture and measure change over time
- In order to keep your E&C program from plateau-ing, you’ll need to move beyond solid controls to an emphasis on values-based behavior & connection to the mission’s purpose
- In terms of affecting meaningful change to your culture, certain attributes have a disproportionate impact, if you concentrate on those, you’ll experience better C&E results faster.
- Three giant levers for change are:
  - Stronger employee connection to and use of corporate values to make decisions
  - A more significant, inspirational effort to connect employees to the mission of the organization
  - Fear of Speaking Up is the leading indicator of misconduct. If people are scared to speak up, then you can bet misconduct is present. Focus foremost on this issue.

Questions…

Thank you!

If you have any other questions, or would like a free copy of the HOW Report (the book detailing the larger research this presentation is based upon)

…but please speak to me afterwards

…or feel free to email me your questions at: todd.rowen@lrn.com
Principles-Based Organizations: In absence of deeply-held principles and values, RULES-BASED thinking is limited

1. **Rules require enforcement**: With laxity, they lose credibility and effectiveness. They necessitate expensive bureaucracies of compliance.
2. **Rules speak to boundaries and floors but create inadvertent ceilings**: We can’t legislate “the sky’s the limit.”
3. **The only way to honor rules is to obey them exactly**: They speak to coercion and motivation. The inspiration to excel must come from somewhere else.
4. **Too many rules breeds overreliance**: We think, “if it mattered, they would have made a rule.”
5. **Rules are typically prohibitions**: They speak to can and can’t. We view them as confining and constricting.
6. **Rules are external**: They are made by others. They present us with a puzzle to be solved and loopholes to be found.
7. **We are ambivalent about rules**: We know we need some and we want others to play by them, but we say “rules are meant to be broken.”
8. **Rules are reactive**: They respond to past events.
9. **Rules are both over- and underinclusive**: Because they are proxies, they cannot be precise.
10. **Proliferation of rules is a tax on the system**: Few people can remember them all. We lose productivity when we stop to look them up.