Rethinking Compliance’s Role in Culture

Brian K. Lee, Managing Vice President
22 October 2018

What We Know About Culture
Overview of Our Cultural Assessment

Over the past decade, RiskClarity has collected cultural data from:
- More than 2.1 million employees from over 220 companies
- More than 115 different countries
- 20 industries
- 20 different corporate functions
- All employee position levels

RiskClarity Analyzes the Strength of Key Attributes That Impact a Culture of Integrity

Culture Reduces Observed Misconduct

The Impact of Culture on Observed and Reported Misconduct
Percentage of Respondents, 2009-2016

Individuals with the most favorable perceptions of culture are almost nine times less likely to observe misconduct than employees with unfavorable perceptions.

Observation Rate
- Unfavorable: 4.6%
- Neutral: 8.8%
- Favorable: 65.2%
- Most Favorable: 3%

Reporting Rate
- Unfavorable: 48.4%
- Neutral: 48.3%
- Favorable: 54.5%
- Most Favorable: 72.9%

The main gains in reporting rate do not emerge until employee perceptions are “most favorable.”

n = 1,621,514 employees; 233 companies.
Source: CEB 2009-2016 RiskClarity: A Corporate Integrity Service™ Benchmark.
* Percentage of employees within category who observed misconduct in past year.
* Percentage of employees within category who reported the misconduct they observed.
Culture Drives Business Performance

Shareholder Return for Higher- and Lower-Integrity Companies
Average 10-Year Total Shareholder Return

- Lower-Integrity Companies: 3.57%
- Higher-Integrity Companies: 10.61%

n = 75,
Source: CEB 2009-2016 RiskClarity: A Corporate Integrity Service* Benchmark.
Note: Results of Pearson Correlation: r = 0.25, p < 0.05.

Culture Influences Individual Performance

Likelihood of Employee Overperformance in Strong vs Weak Cultures
Percentage of Respondents

- Overperformance on Individual Annual Goals (Financial and Non-Financial):
  - Weak Culture: 27%
  - Strong Culture: 56%
  - 2.1x More Likely to Overperform

- Overperformance on Annual Team Goals (Financial and Non-Financial):
  - Weak Culture: 21%
  - Strong Culture: 55%
  - 2.7x More Likely to Overperform

n = 5,025,
Source: CEB Compliance and Ethics 2017 Global Culture Assessment.
Culture Contributes to Employee Satisfaction

"I would recommend my company as a great place to work"

![Graph showing different categories of companies and employee satisfaction percentages.](image)

Noncompliance Decreases Intent to Stay

Effects of Employees Observing Noncompliance

<table>
<thead>
<tr>
<th>Percentage of Respondents Who Agree</th>
<th>Employees Who Have Not Observed Noncompliance</th>
<th>Employees Who Have Observed Noncompliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>I intend to look for a new job with another company within the next year</td>
<td>36.2%</td>
<td>63.2%</td>
</tr>
<tr>
<td>I frequently think about quitting my job and leaving this company</td>
<td>32.6%</td>
<td>63.0%</td>
</tr>
<tr>
<td>I have recently made phone calls or sent out my resume to find another job with another company</td>
<td>28.6%</td>
<td>59.9%</td>
</tr>
<tr>
<td>I am actively looking for a job with another company</td>
<td>28.7%</td>
<td>58.6%</td>
</tr>
</tbody>
</table>

Source: CEB Compliance and Ethics 2017 Global Culture Assessment.
How Climate Affects Culture

Not Making Much of a Dent

Change in Perceptions of Culture of Integrity
Percent Change in Average Integrity Index Score, 2008-2016

Despite increases in program time and resources devoted to measuring and improving culture, we have seen less than a 1% increase in the average employee’s perceptions of culture, which translates into only a 1 percentage point decrease in observed misconduct.

n = 1,941,736.
Source: CEB RiaClarity 2008-2016 Benchmarks.
Some Success, But Some Work Still to Do

Ranking of Our Performance on Elements of the Integrity Index from Strongest to Weakest

Average Perceptions of Culture, 2008-2016

<table>
<thead>
<tr>
<th>Strongest</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity of Expectations (e.g., awareness of consequences for violations)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Manager Leadership (e.g., my manager possesses integrity)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comfort Speaking Up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Justice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tone at the Top</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Openness of Communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust in Colleagues (e.g., my colleagues are willing to lie if it means advancing in the company)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Our Successes
Most employees are aware of the consequences of ethical violations and perceive their managers as ethical leaders.

Our Consistent Challenge
We have been unable to make meaningful improvements in employees' perceptions of the positive behavior exhibited amongst colleagues. In fact, for senior leaders and non-managers, perceptions of colleagues have actually gotten worse over time.

Some Success, But Some Work Still to Do

We Tend to Build Culture Top-Down

Compliance and Ethics' Typical Leader-Driven Approach to Culture Building

Build buy-in for culture amongst senior leaders so they can set the cultural tone for the organization.

Provide managers with scripts and talking-points they can use to spread cultural messages.

Raise employee awareness of the company's cultural values.

Assumed Benefits of This Approach
- **Efficiency:** Compliance and ethics can spread cultural values downward, while using limited program resources.
- **Effectiveness:** Employees will learn about culture from individuals that they know and trust.

Source: CEB analysis.
Culture Breaks Down Amongst Colleagues

Perceptions of Integrity at Different Levels of the Organization

Average Perceptions of Culture, 2008-2016

Tone at the Top: 51%
Direct Manager Leadership: 61%
Trust in Colleagues: 25%

n = 5,025.
Source: CEB Compliance and Ethics 2017 Global Culture Assessment.

Sample questions about perceptions of integrity:
Tone at the Top: Senior leaders at my company are honest and possess integrity; Senior leaders at my company take appropriate action in response to unethical or inappropriate behaviors and practices; Senior leaders at my company respect employees.
Direct Manager Leadership: My manager respects his/her employees; My manager is honest and possesses integrity; My manager listens carefully to the opinions of others.
Trust in Colleagues: My team members are honest and possess integrity; In my team, people are willing to tell the truth; In my team, power is more important than honesty.

Defining “Climate”

Culture Deeply held assumptions and beliefs of a company and its employees
- Evolves slowly and over long periods of time
- Is more difficult to influence and change

Climate A group’s shared perceptions of the nature of work
- Requires far less time to take hold
- Is relatively easier to assess, influence, and control

Sample Drivers of Climate

Signals Individuals Receive
The signals (formal and informal) that managers and local influencers convey to teams that suggest what is and isn’t accepted.

Processes and Practices Individuals Follow
The processes and practices that teams follow and how well they support desired behaviors.

Understanding What Moves Culture

What actions can compliance and ethics leaders take to improve employee perceptions of culture?

What We Want
Business Value
- Reduced Compliance Risk
- Improved Individual and Team Performance
- Increased Employee Engagement

How We Drive Business Value
Culture of Integrity
- Comfort Speaking Up
- Organizational Justice
- Tone at the Top
- Direct Manager Leadership
- Trust in Colleagues
- Openness of Communications
- Clarity of Expectations

How We Drive a Culture of Integrity
Potential Drivers
- Awareness of Values
- Awareness of Policies
- Cultural Training
- Emotional Commitment to Culture
- Belief in Company’s Values
- Perception of Cultural Risk
- Self Interest in Culture
- Prior Cultural Experiences
- Access to Cultural Resources
- Burden of Exhibiting Positive Behavior
- Climate Employees Work In
- Compliance Recognition of Positive Behaviors
- Burden of Compliance Processes
- Compliance Provided Cultural Examples

Steps Taken to Collect and Analyze Data

CEB Compliance and Ethics 2017 Global Culture Assessment
- In order to better understand culture, we tested over 150 items across:
  - 5,000+ Employees
  - 20 Industries
  - 15 Countries
- We performed regression analysis to determined the strongest drivers of culture.

Climate Explains Cultural Variation

Impact of Drivers Tested on Employee Perceptions of Culture
Determined by the Percentage of Variation in Culture They Explain

The Increasing Role of Peers
Perceptions of Integrity at Different Levels of the Organization for Employees Who Work in Strong Climates
Percentage of Respondents with Favorable Perceptions

Climate’s Impact on Culture
When employees work in strong climates, cultural perceptions are amplified by the signals employees receive and the behaviors they see around them, with 88% of employees in strong climates having strong perceptions of their company’s culture of integrity.

Understanding Climate
A Weak Climate Is:
- Employees just avoiding misconduct
- Positive behaviors occurring, but not visible
- Messages focusing solely on the consequences of bad behavior
Understanding Climate

A Weak Climate Is:
- Employees just avoiding misconduct
- Positive behaviors occurring, but not visible
- Messages focusing solely on the consequences of bad behavior

A Strong Climate Is:
- Employees helping each other avoid misconduct
- Explicitly and visibly rewarding positive behaviors
- Messages focusing on how employees can exhibit positive behaviors in their work

Most Employees Work in Weak Climates

Employee Perceptions of Climate Overall
Percentage of Respondents

- 29% Strong Climates
- 71% Weak Climates

* N = 5,025.
* Source: CEB Compliance and Ethics 2017 Global Culture Assessment.
* Employees in “Strong Climates” are employees that on average agree or strongly agree with the statements in the Climate Index.
* Employees in “Weak Climates” are employees that on average disagree or are neutral to the statements in the Climate Index.
## How to Build Strong Climates

### Two Requirements to Building a Strong Climate

**Climate**
- A group’s shared perceptions of the nature of their work, including:
  - Signals they receive about what behaviors are acceptable
  - Processes and practices they follow as part of their daily work

### What’s Required

<table>
<thead>
<tr>
<th>What’s Required</th>
<th>Employees need to know what behaviors to exhibit.</th>
<th>Employees must see others’ positive behaviors.</th>
</tr>
</thead>
</table>

### Compliance’s Role

<table>
<thead>
<tr>
<th>Compliance’s Role</th>
<th>Help employees see how to exhibit good behaviors as they do their jobs.</th>
<th>Help managers avoid sending conflicting messages that undermine climate.</th>
<th>Make peers’ positive behaviors more visible to employees.</th>
</tr>
</thead>
</table>

## Making Expectations Relevant-to-Role

**Example of “How Goals” for Medtronic’s Employee Financial Objectives**

<table>
<thead>
<tr>
<th>Individual Contributor</th>
<th>Business Objectives (&quot;What Goals&quot;) What business goals an employee must achieve</th>
<th>“How Goal” How an employee meets the visible compliance and ethics expectation while achieving the “What Goal”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log all journal transactions in the new Financial IT system by the system cutover date</td>
<td>Provide updates on project progress at department bi-weekly staff meetings and foster discussion, encouraging candid feedback from others on implementation efforts and issues</td>
<td>Measured by feedback from peers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>People and Program Leader</th>
<th>Implement alternative payment models for region to increase X% in Q3</th>
<th>Champion a team to partner with Regulatory and Legal to inventory applicable laws and regulations governing the payment model by Q2</th>
<th>Measured by quality of interactions and inclusion in team meetings with Regulatory and Legal partners</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Vice President and Above</th>
<th>Achieve 100% of annual sales targets and revenue</th>
<th>Bi-monthly, communicate with team about the importance of ethical decision making and raising concerns</th>
<th>Ensure business objectives are met in a way that supports company values of ethics and integrity by linking “How Goals” to business objectives.</th>
</tr>
</thead>
</table>

Source: Medtronic, PLC.; CEB analysis.
Key Takeaways

1. Despite additional efforts by compliance and ethics executives, there has been little improvement in the average employee’s perceptions of their company’s culture of integrity over the past 9 years.

2. A strong culture of integrity can significantly improve employee performance and employee engagement, while reducing the likelihood an employee will observe misconduct.

3. The biggest determinant of an employee’s perception of culture is their perceptions of the climate they work in. An employee’s perceptions of their climate has an impact on their culture of integrity that is 7 times greater than the next most important driver.

4. More than 70% of employees report working in weak climates where their managers, teams, and colleagues send weak signals about the importance of compliance and ethics.

5. Compliance and Ethics can work to create strong climates by:
   - Helping employees exhibit good behaviors in their work,
   - Ensuring managers send consistent messages, and
   - Making colleagues’ positive behaviors more visible.