

# Rethinking Compliance's Role in Culture

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# What We Know About Culture

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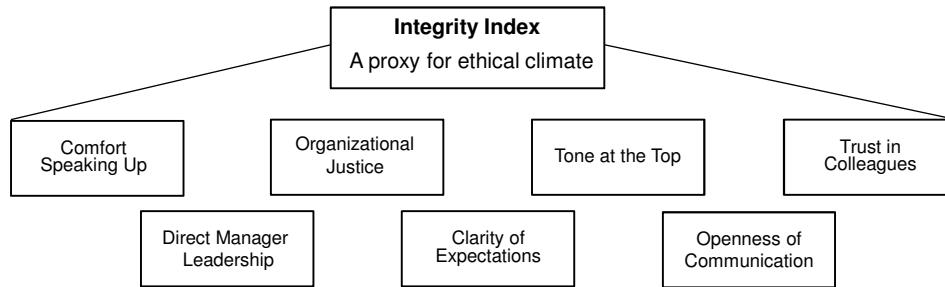
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# Overview of Our Cultural Assessment

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

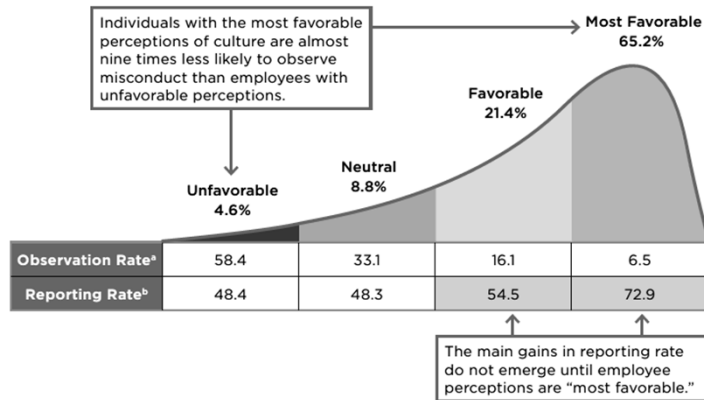


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# Culture Reduces Observed Misconduct

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



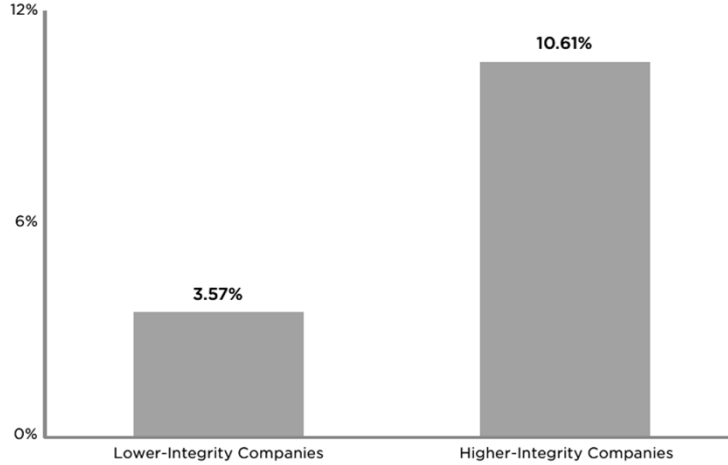
n = 1,821,514 employees; 233 companies.  
Source: CEB 2009-2016 RiskClarity: A Corporate Integrity Service™ Benchmark.  
<sup>a</sup> Percentage of employees within category who observed misconduct in past year.  
<sup>b</sup> Percentage of employees within category who reported the misconduct they observed.

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# Culture Drives Business Performance

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



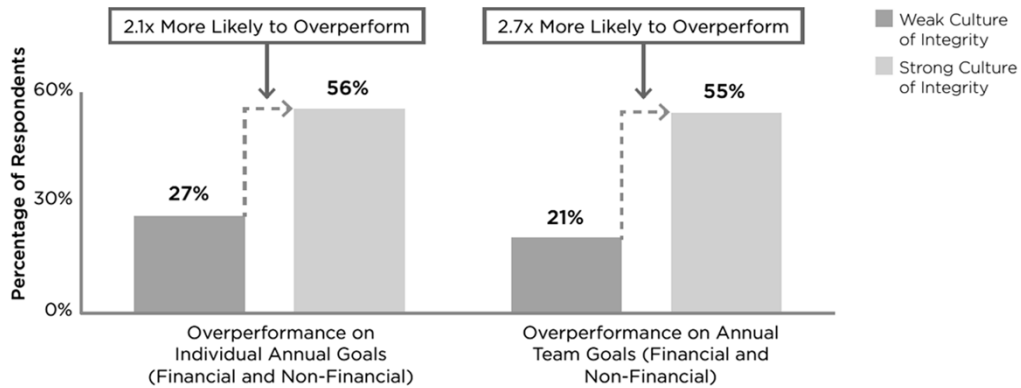
*n* = 75.  
Source: CEB 2009-2016 RiskClarity: A Corporate Integrity Service™ Benchmark.  
Note: Results of Pearson Correlation:  $r = 0.25$ ,  $p < 0.05$ .

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# Culture Influences Individual Performance

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



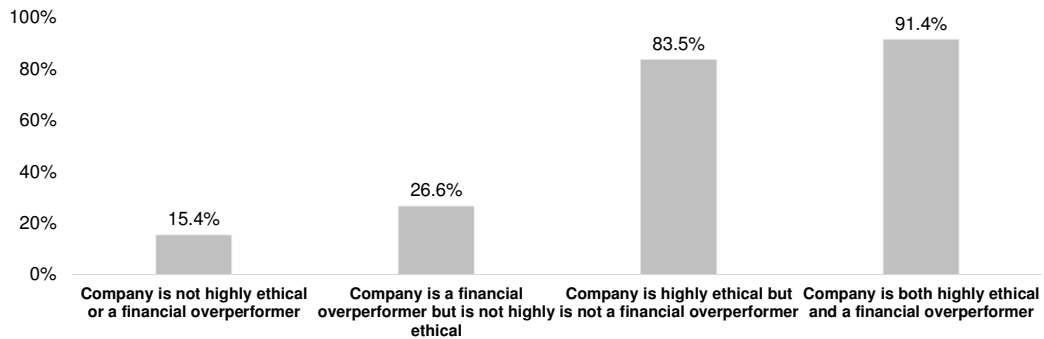
*n* = 5,025.  
Source: CEB Compliance and Ethics 2017 Global Culture Assessment.

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## Culture Contributes to Employee Satisfaction

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

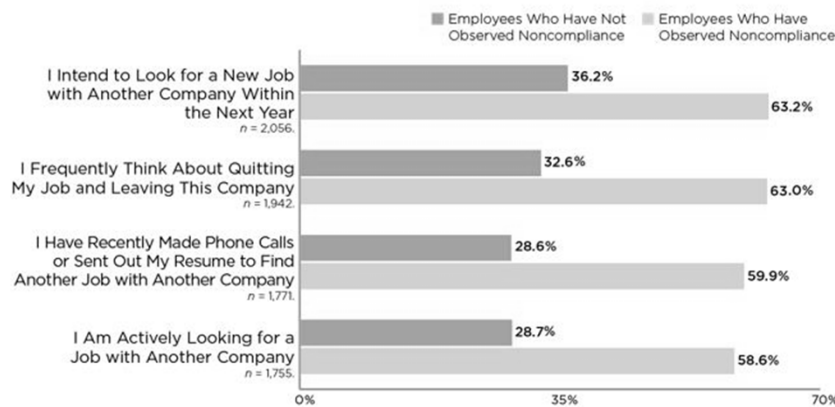


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## Noncompliance Decreases Intent to Stay

Effects of Employees Observing Noncompliance  
Percentage of Respondents Who Agree



Source: CEB Compliance and Ethics 2017 Global Culture Assessment.

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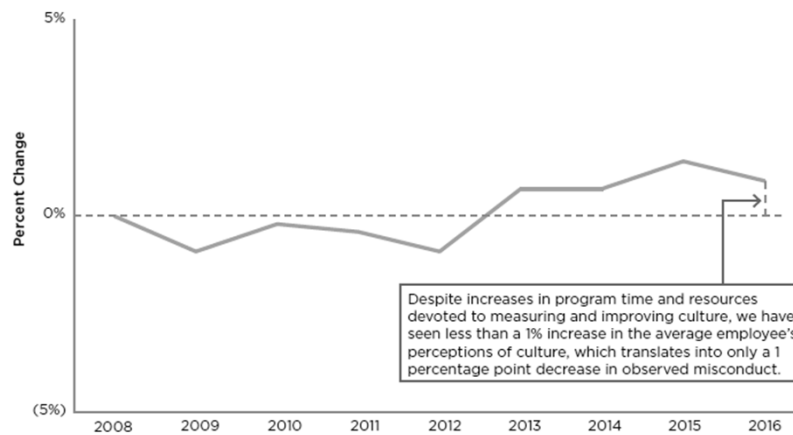
# How Climate Affects Culture

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# 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.

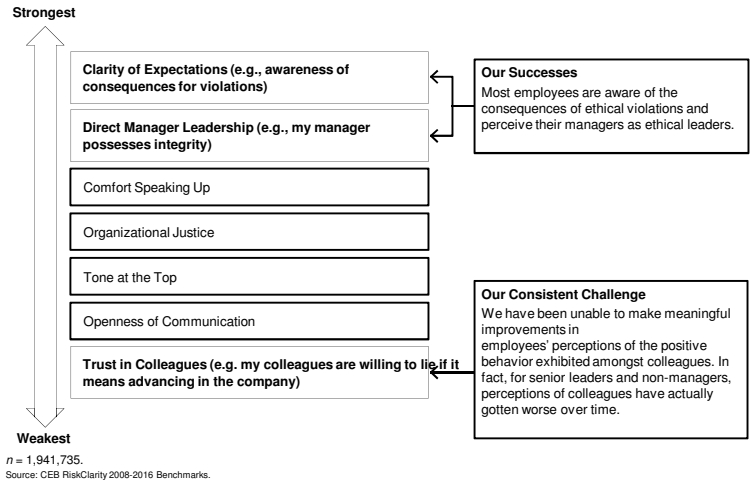
n = 1,941,735.  
Source: CEB RiskClarity 2008-2016 Benchmarks.

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# 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*

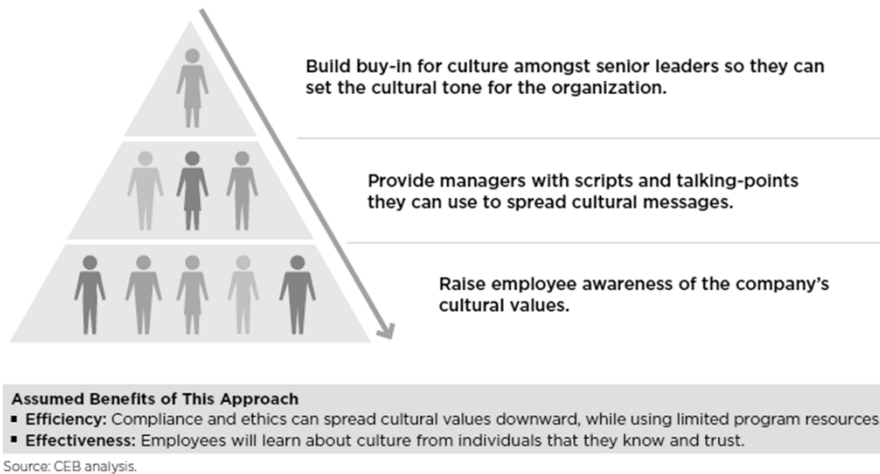


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# We Tend to Build Culture Top-Down

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

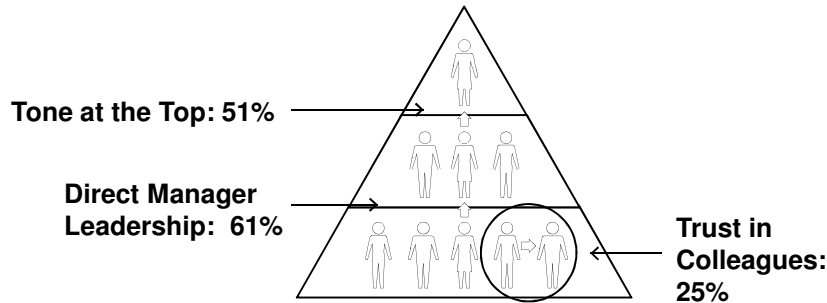


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# Culture Breaks Down Amongst Colleagues

Perceptions of Integrity at Different Levels of the Organization<sup>a</sup>  
*Average Perceptions of Culture, 2008-2016*

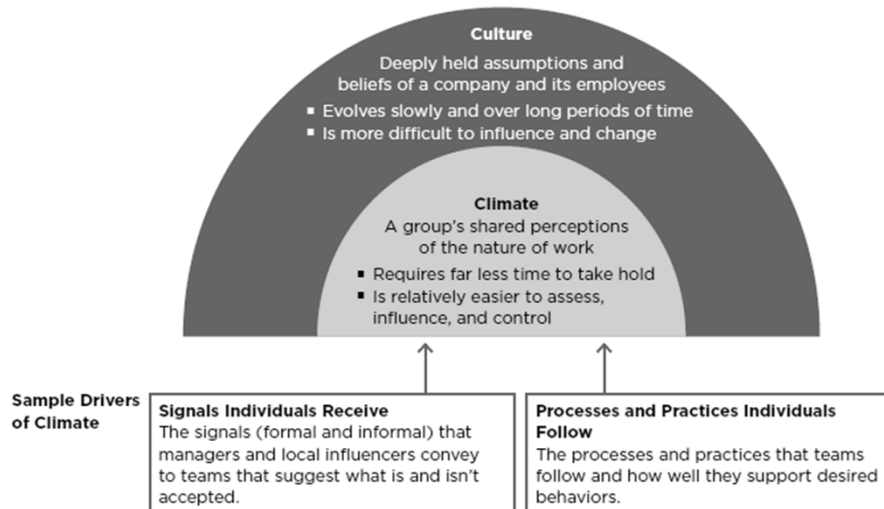


*n* = 5,025.  
 Source: CEB Compliance and Ethics 2017 Global Culture Assessment.  
<sup>a</sup> Sample questions about perceptions of integrity:  
 • Tone at the Top: Senior leaders at my company are honest and possess integrity; Senior leaders at my company take appropriate action in response to unethical 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 a lie if it means advancing in the company; In my team, power is more important than honesty.

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# Defining “Climate”



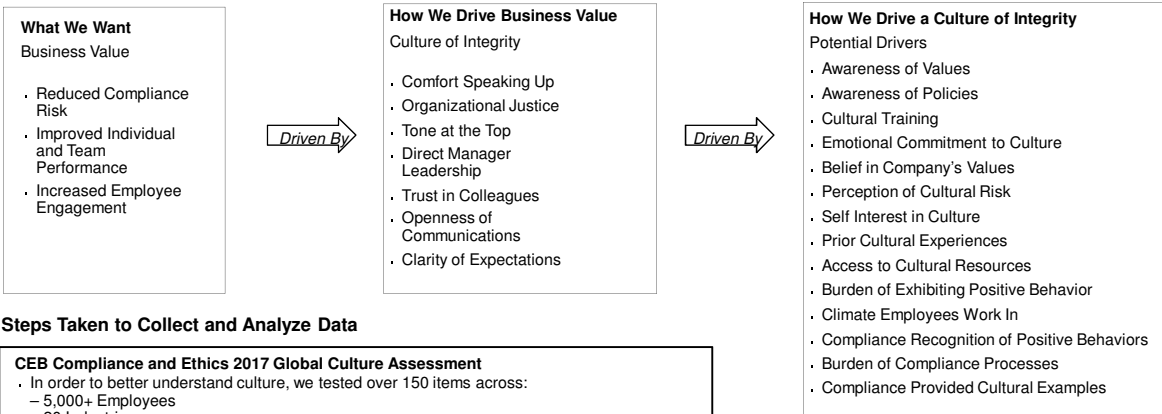
Source: Mark G. Ehrhart, William Macey, and Benjamin Schneider, "Organizational Climate and Culture," *Annual Review of Psychology* 64 (2012): 361-388; CEB analysis.

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# Understanding What Moves Culture

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



## 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 determine the strongest drivers of culture.

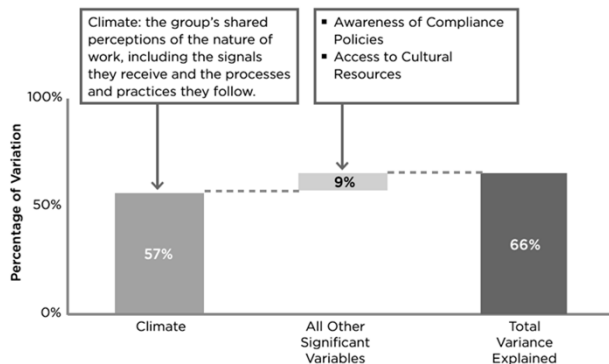
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# Climate Explains Cultural Variation

Impact of Drivers Tested on Employee Perceptions of Culture  
 Demonstrated by the Percentage of Variation in Culture They Explain\*



**Variables without a significant impact on culture include:** Awareness of Company Values, Belief in Company's Values, Emotional Commitment to Culture, Self Interest in Culture, Cultural Training, Perceptions of Cultural Risk, Prior Cultural Experiences, Burden of Exhibiting Positive Behaviors, Compliance Recognition of Positive Behaviors, Burden of Compliance Processes, Compliance Provided Cultural Examples.

n = 5,025.  
 Source: CEB Compliance and Ethics 2017 Global Culture Assessment.  
 \* Adjusted r<sup>2</sup> = 0.66.

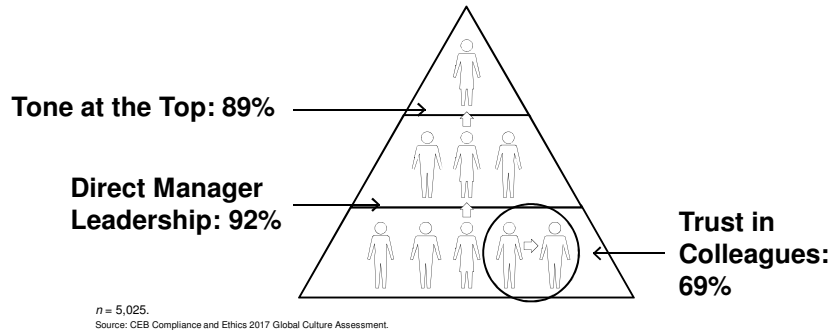
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# The Increasing Role of Peers

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.

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# 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

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# Understanding Climate

## A Weak Climate Is:

- ✗ Employees just avoiding misconduct
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## A Strong Climate Is:

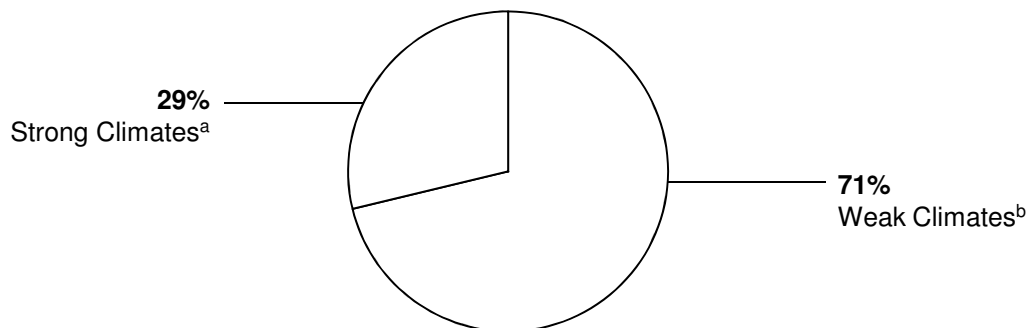
- ✓ Employees helping each other avoid misconduct
- ✓ Explicitly and visibly rewarding positive behaviors
- ✓ Messages focusing on how employees can exhibit positive behaviors in their work

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# Most Employees Work in Weak Climates

Employee Perceptions of Climate Overall  
Percentage of Respondents



*n* = 5,025.

Source: CEB Compliance and Ethics 2017 Global Culture Assessment.

<sup>a</sup> Employees in "Strong Climates" are employees that on average agree or strongly agree with the statements in the Climate Index.

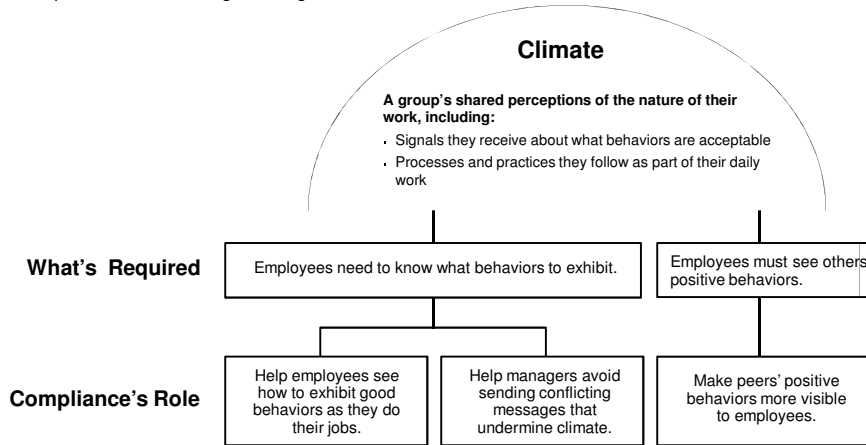
<sup>b</sup> Employees in "Weak Climates" are employees that on average disagree or are neutral to the statements in the Climate Index.

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# How to Build Strong Climates

Two Requirements to Building a Strong Climate



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# Making Expectations Relevant-to-Role

Example of "How Goals" for Medtronic's Employee Financial Objectives

*Illustrative*

	<b>Business Objectives ("What Goals")</b> What business goals an employee must achieve	<b>"How Goal"</b> How an employee meets the visible compliance and ethics expectation while achieving the "What Goal"
<b>Individual Contributor</b>	Log all journal transactions in the new Financial IT system by the system cutover date	Provide updates on project progress at department bi-weekly staff meetings and <b>foster discussion, encouraging candid feedback from others</b> on implementation efforts and issues • Measured by feedback from peers
<b>People and Program Leader</b>	Implement alternative payment models for region to increase X% in Q3	<b>Champion a team to partner with Regulatory and Legal</b> to inventory applicable laws and regulations governing the payment model by Q2 • Measured by quality of interactions and inclusion in team meetings with Regulatory and Legal partners
<b>Vice President and Above</b>	Achieve 100% of annual sales targets and revenue	Bi-monthly, <b>communicate with team about the importance of ethical decision making and raising concerns</b> • Measured by team feedback, communications and presentations, and employee feedback about willingness to raise concerns (as reported in the cultural survey)

Normalize compliance and ethics expectations on teams by defining "How Goals" that require visible actions from employees.

↑  
Ensure business objectives are met in a way that supports company values of ethics and integrity by linking "How Goals" to business objectives.

Source: Medtronic, PLC.; CEB analysis.

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## 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.

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