Rethinking Compliance's Role in Culture

Brian K. Lee, Managing Vice President
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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

Integrity Index
A proxy for ethical climate

- Clarity of Expectations
- Openness of Communication
- Manager Leadership
- Organizational Justice
- Tone at the Top
- Trust in Colleagues

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Culture Reduces Observed Misconduct

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

- Most favorable: 60.5%
- Neutral: 45.5%
- Least favorable: 5.5%

The main gate in reporting rates is not one’s interaction with immediate supervisors.

<table>
<thead>
<tr>
<th>Observation Rate</th>
<th>Reporting Rate</th>
</tr>
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<tbody>
<tr>
<td>10.8</td>
<td>40.4</td>
</tr>
<tr>
<td>33</td>
<td>40.5</td>
</tr>
<tr>
<td>6.1</td>
<td>54.5</td>
</tr>
<tr>
<td>0.5</td>
<td>73.5</td>
</tr>
</tbody>
</table>

Culture Drives Business Performance

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

- Higher Integrity Companies: 10.06%
- Lower Integrity Companies: 3.57%

Culture Influences Individual Performance

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

- 2.5x More Likely to Overperform
  - 27%
  - 55%
- 2.5x More Likely to Underperform
  - 21%
  - 54%

Strong Culture of Integrity
Weak Culture of Integrity

Sources:
- DB Consulting
- Gartner
- 2009-2016 Gartner survey on Culture, Integrity, and Performance

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**Culture Contributes to Employee Satisfaction**

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

- 15.4%: Company is not highly ethical or a financial overperformer
- 26.6%: Company is highly ethical but is not a financial overperformer
- 83.5%: Company is both highly ethical and a financial overperformer
- 91.4%: Company is a financial overperformer but is not highly ethical

**Noncompliance Decreases Intent to Stay**

Effects of Employees Observing Noncompliance

- Intend to Look for a New Job with Another Company Within the Next Year
- Frequently Think About Quitting My Job and Leaving This Company
- Have Recently Made Phone Calls or Texts Out for Business to This Other Job with Another Company
- Am Activity Looking for a Job with Another Company

**How Climate Affects Culture**
Not Making Much of a Dent

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

Average Perceptions of Culture, 2008-2016

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

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.

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

n = 1,941,735.
Source: CEB RiskClarity 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

Strongest
Weakest

We Tend to Build Culture Top-Down

Compliance and Ethics’ Special 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 leadership points they can use to spread cultural messages.
Distribute employee awareness of the company’s cultural values.

Possible Benefits of This Approach

We Tend to Build Culture Top-Down

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Culture Breaks Down Amongst Colleagues

Perceptions of Integrity at Different Levels of the Organization

Average Perceptions of Culture, 2008-2016

\[ n = 5,025. \]

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 a lie if it means advancing in the company; In my team, power is more important than honesty.

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
- 5,025+ Employees
- 20 Industries
- 15 Countries

Steps Taken to Collect and Analyze Data

- **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

- **What We Want**
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- **How We Drive Business Value**
  - Culture of Integrity
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    - Tone at the Top
    - Direct Manager Leadership
  - Trust in Colleagues
  - Openness of Communications
  - Clarity of Expectations

Defining “Climate”
Climate Explains Cultural Variation

- 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.

The Increasing Role of Peers

- Perceptions of integrity at different levels of the organization for employees who work in strong climates:
  - Trust in Colleagues: 69%
  - Direct Manager Leadership: 92%
  - Tone at the Top: 89%

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

<table>
<thead>
<tr>
<th>Percentage of Respondents with Favorable Perceptions</th>
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<tr>
<td>88%</td>
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Source: CEB Compliance and Ethics 2017 Global Culture Assessment.
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

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tr>
<td>Strong Climates</td>
<td>29%</td>
</tr>
<tr>
<td>Weak Climates</td>
<td>71%</td>
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</table>

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

What’s Required
- Employees need to know what behaviors to exhibit.
- Employees need to see what behaviors are expected.

Compliance’s Role
- Help employees see how to exhibit good behaviors as they do their jobs.
- Help managers avoid sending conflicting messages that undermine climate.
## Making Expectations Relevant-to-Role

### Business Objectives

#### What Goals

What business goals an employee must achieve to ensure compliance and ethics expectations are met.

#### How Goal

How an employee meets the visible compliance and ethics expectation while achieving the "What Goal".

### Individual Contributor

- **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 foster discussion, encouraging candid feedback from others on implementation efforts and issues.**

- **Measured by feedback from peers**

### People and Program Leader

- **Implement alternative payment models for region to increase X% in Q3.**
- **Champion a team to partner with Regulatory and Legal 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**

### Vice President and Above

- **Achieve 100% of annual sales targets and revenue.**
- **Bi-monthly, communicate with team about the importance of ethical decision making and raising concerns.**

- **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.

### Example of "How Goals" for Medtronic’s Employee Financial Objectives

#### Source: Medtronic, PLC.; CEB analysis.

<table>
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<th>People and Program Leader</th>
<th>Vice President and Above</th>
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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 5 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 75% 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.