Measuring the Impact of E&C Program, Culture, and Leadership on Employee Behavior

EMILY MINER
LRN CORPORATION

Why do catastrophic compliance failures continue despite investment in ethics & compliance programs?
408 Bank accounts frozen
Including those owned by:
81 individuals & 55 companies
Funds amounting to RM1.1 billion
Believed to be linked to the alleged embezzlement & misappropriation of
1MDB funds
Involving 900 transactions between March 2011 & September 2015
Source: 1MDB Special Task Force
Bersama Infographics

#MeToo
“Compliance is a culture, not just a policy.”

US Department of Justice, Deputy Criminal Director of the Antitrust Division, 2017

A focus on culture is now table stakes – Regulators agree

US Federal Sentencing Guidelines
“... undertake an appropriate assessment of corporate efforts to create an organizational culture that encourages a commitment to compliance with the law and ethical conduct.

The Department of Justice
“... A corporation is directed by its management and management is responsible for a corporate culture in which criminal conduct is either discouraged or tacitly encouraged.”

UK Serious Fraud Office
“Culture needs to be set from the top. Members of the corporation need to know that the corporation is committed to ethical standards of business and that executives at the most senior levels are role models for ethical business conduct”

The Securities and Exchange Commission
“Keep up your vigilance, avoid complacency, and remain steadfast in your efforts to maintain strong compliance programs, built on the foundation of a culture in which investor interests are placed first. Let your business and compliance decisions always be guided by that principle.”

Australian Compliance Standard
“The development of a compliance culture requires the active, visible and consistent commitment of the chief executive and management to a common, published standard of behaviour that is required throughout every area of the organization.”

International Monetary Fund
“Ultimately, we need more individual accountability. Good corporate governance is forged by the ethics of its individuals. That involves moving beyond corporate ‘rules-based’ behavior to ‘values-based’ behavior. We need a greater focus on promoting individual integrity.”
Organizations with strong, values-based cultures outperform

Source: LRN 2016 The HOW Report

The trend is growing

Over the past five years, my organization’s ethics & compliance program and efforts have increasingly focused on values, not just rules.

Source: LRN 2018 E&C Program Effectiveness Report
Compared to last year, rate the impact your organization’s E&C program has had on each of the following:

**Employees recognizing and reporting misconduct**
- High Performing: 78%, 13%, 1%, 8%
- Low Performing: 50%, 26%, 13%, 7%

**Levels of speaking up/out**
- High Performing: 79%, 14%, 0%, 6%
- Low Performing: 45%, 27%, 21%, 6%
You manage what you measure....

There are few ways businesses can get away with reporting on activity because business is about outcomes, but we haven’t translated that to ethics and compliance.

We absolutely need to have [culture metrics]. Culture is 90% of the work.

We don’t do culture diagnosis... Management and the board think they know the company culture but then are ... surprised when something goes wrong.

Source: LRN The Role of Boards in Overseeing Corporate Ethics & Compliance
How do you measure culture?

The strongest E&C programs feature regular evaluation.

Which of the following methods does your organization use to assess its ethical culture? (check all that apply)

- General employee survey with some questions focused on cultural factors such as trust: 55%
- Employee focus groups: 24%
- Cultural diagnostics focused specifically on the presence or absence of factors such as trust, respect, and transparency: 21%
- Other: 10%
- My organization has no formal mechanism to assess ethical culture: 20%

Source: LRN 2018 E&C Program Effectiveness Report

Other methods:
- E&C roundtable discussions
- E&C-specific survey
- Exit surveys
- External assessments
- D&I surveys
- Dedicated email box
- Investigations
- Hotline trends
- Code of Ethics certifications
What you measure matters

**Traditional Program Assessments**
- Evaluate program design and implementation
- Track lagging indicators
- Do not gauge underlying causes
- Try to assess risk as a function of observed misconduct

**Ethical Culture Assessments**
- Consider how behaviors and decisions are shaped and enabled by values, culture and leadership
- Surface the behavioral antecedents of misconduct
- Identify sub-cultures, exemplars, and pockets of risk with precision
- Communicate to employees the organizational commitment to ethical behavior

**Engagement Surveys**
- Focus on work enablers and barriers
- Assess satisfaction with the employee experience

So what should you measure?

To protect reputation and propel growth, organizations must go beyond program design to encompass interdependent forces operating at different levels of an organization.
**Suggested metrics**

- **PROGRAM ACTIVITY**
  Does the E&C program resonate with employees? Is it useful and relevant to their roles?

- **VALUES-ORIENTATION**
  Do values guide behavior and decisions, and to what extent?

- **TRUST**
  Are relationships marked by trust in all directions?

- **ETHICAL LEADERSHIP**
  Do leaders model values and reinforce the importance of ethical behavior?

- **ORGANIZATIONAL JUSTICE**
  Are standards of conduct applied appropriately and consistently?

- **SPEAKING OUT**
  Do employees voice their opinions or report improper behavior? If not, why not?

- **PRINCIPLED PERFORMANCE**
  How do people behave when they are under pressure?

- **RETAILIATION**
  Do people experience retaliation when they report misconduct?

**ROI (return on insights)**

- Develop a deliberate E&C strategy and roadmap
- Prioritize training
- Hone leadership communication
- Proactively address risks
- Demonstrate effectiveness to business leaders, regulators, and audit committees / boards
- Engage employees and create a wave

LRN | Inspiring Principled Performance
Let’s hear from you

1. How does your organization gain insight into your ethical culture?
2. What have you learned?
3. What has your organization done differently as a result?
4. In what ways has your E&C function been involved?
5. What has been the impact (or what do you expect the impact to be)?
Case studies

Example #1

- **Company profile**
  - Industrial manufacturing company with 6,000 employees in the U.S. and Mexico

- **Organizational context**
  - Rapid growth and diversification through acquisition

- **Assessment objectives**
  - Baseline ethical culture and program effectiveness to inform E&C strategy

- **Say “our education and training has prepared me”**
- **Think the Code of Conduct is relevant and useful**
- **Are confident mgmt. handles reports appropriately**

- **65%** Know how to access the hotline
- **Only 46%** of those with less than one year of tenure

- **One business unit stood out** consistently scoring **10% lower** than the next and up to **30% lower** than the highest-performing business unit

- **ACTION**
  - “Speak Out” campaign
  - New hire training and onboarding

- **ACTION**
  - Targeted training
  - Incorporate culture into M&A due diligence
Example #2

Company profile
Private health and wellness company with about 10,000 employees in the U.S.

Organizational context
Founder-led with strong values, experiencing rapid geographic expansion

Assessment objectives
Inform the strategy of the newly-formed ethics and compliance function

Employees are inspired by the mission and purpose

Values resonate and are a key driver of recruitment

Say the company pursues growth at the expense of employees

Feel pressured to achieve objectives even if in conflict with values

"I think we believe patients are first...as long as (we're) making enough money.

"We have struggled to maintain a culture of ethics, honesty, value, etc. in our growth.

Example #3

Company profile
Manufacturing and sales organization with 3,800 employees worldwide

Organizational context
Transitioning from legacy operating model to the standardization and product focus required for scale

Assessment objectives
Understand the cultural factors contributing to a speak out problem surfaced by internal employee surveys

Employees are inspired by the mission and purpose

Most people do the right thing, even under pressure

Employees are highly engaged in helping the company be its best

Key drivers of low speak out culture:
- Lack of leadership transparency and accountability
- Mistakes not accepted

Experience a high level of trust

Leaders not effectively modeling ethical behavior

Do not report misconduct when they see it

55%

40%

55%

40%

ACTIONS
- Focus groups in high- and low-performing locations
- Speak out campaign and manager training on
  - Executive alignment
  - Inspirational leader video
  - New team norms
- Experiential, manager-led workshops with all employees to contextualize values to their day-to-day
When should you measure ethical culture?

Proactive

- To establish a baseline
- New program leadership
- Prior to program strategic planning
- Following a major E&C initiative (e.g., a new Code)
- During or after major organizational change
- To demonstrate program effectiveness to regulators, auditors or boards

Reactive

- Following serious violation of Code or standards of conduct
- To understand patterns in misconduct or reporting data
- To demonstrate program effectiveness to regulators, auditors or boards

QUESTIONS?

Reach out and say hi
emily.miner@lrn.com
Want to lend your voice to E&C program effectiveness?

Participate in LRN’s 2019 E&C Program Effectiveness Report
Click here to take the survey or go to https://bit.ly/2rjHzL

THANK YOU