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

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Why do catastrophic compliance failures continue despite investment in ethics & compliance programs?

1MDB INVESTIGATIONS
408 Bank accounts frozen
81 Individuals & 55 Companies
Funds amounting to RM1.1 billion
Believed to be linked to the alleged embriellment & misappropriation of
1MDB funds
Involving 900 transactions between March 2011 & September 2015
“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
- A corporation is directed by its management and management is responsible for a corporate culture that encourages a commitment to compliance with the law and ethical conduct.

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 conduct.

The Department of Justice
- A corporation is directed by its management and management is responsible for a corporate culture that encourages a commitment to compliance with the law and ethical 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.

International Monetary Fund
- Ultimately, we need more individual accountability. Good corporate governance is founded on the ethical behavior of individuals. This includes being open to speaking up, reporting any wrongdoing even if it’s seen as unlikely to result in personal or professional consequences or advancement.

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 behavior that is required throughout every area of the organization.
Organizations with strong, values-based cultures outperform.

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.

Indicate how you would characterize the effectiveness of your organization's E&C program as a business enabler (e.g., provides advice/counsel, enables better decision-making):
Compared to last year, rate the impact your organization’s E&C program has had on each of the following:

<table>
<thead>
<tr>
<th>Employees recognizing and reporting misconduct</th>
<th>Levels of spending upbeat</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Performing</td>
<td>Low Performing</td>
</tr>
<tr>
<td>78%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: LRN 2018 E&C Program Effectiveness Report

There are known knowns; there are things we know that we know.
There are known unknowns; that is to say, there are things that we now know we don’t know.
But there are also unknown unknowns – there are things we do not know we don’t know.

(Donald Rumsfeld)

You manage what you measure....

What CEOs say....

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

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

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

<table>
<thead>
<tr>
<th>Method</th>
<th>High Performing</th>
<th>Low Performing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General employee survey with open-ended questions focused on specific themes such as trust</td>
<td>59%</td>
<td>32%</td>
<td>91%</td>
</tr>
<tr>
<td>Employee focus groups</td>
<td>20%</td>
<td>13%</td>
<td>33%</td>
</tr>
<tr>
<td>Culture diagnostic focused specifically on the presence or absence of factors such as trust, respect, and transparency</td>
<td>21%</td>
<td>14%</td>
<td>35%</td>
</tr>
<tr>
<td>My organization has no formal mechanism to assess ethical culture</td>
<td>24%</td>
<td>16%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: LRN 2018 E&C Program Effectiveness Report

What you measure matters

Traditional Program Assessments
- Evaluate program design and implementation
- Track lagging indicators
- Use open-ended questions
- Try to baseline risk as a function of observed misconduct

Engagement Surveys
- Focus on work enablers and barriers
- Measurability of how the employee experience

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

Other
- E&C roundtable discussions
- E&C-specific surveys
- Exit surveys
- Employee assessments
- 360 surveys
- Behavioral and tone assessments
- Best practices
- Follow-up on problematic areas
- Call of ethics certifications

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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?

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

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

ROI (return on insights)

- Develop a deliberate E&C strategy and roadmap
- Prioritize training
- Hone leadership communication
- Actively address risks
- Demonstrate effectiveness to business leaders, regulators, and audit committees/boards
- Engage employees and create a wave
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)?
**Example #1**

**Company profile**
A leading industrial manufacturing company with 6,000+ employees and a diversified business portfolio.

**Organizational context**
Industrial manufacturing company with rapid growth and transformation through acquisition.

**Assessment objectives**
Transformation and operational alignment through acquisition.

[Image 1]

**Example #2**

**Company profile**
A private health and wellness company with 3,800 employees worldwide.

**Organizational context**
Private health and wellness company with 3,800 employees worldwide experiencing rapid geographic expansion.

**Assessment objectives**
Incorporate culture change during M&A due diligence.

[Image 2]

**Example #3**

**Company profile**
A manufacturing and sales organization with 3,500 employees worldwide.

**Organizational context**
Manufacturing and sales organization with 3,500 employees worldwide experiencing rapid geographic expansion.

**Assessment objectives**
Understand the cultural factors that contribute to the company's performance.
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
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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/2jrHczL

THANK YOU