Sustaining a Culture of Trust and Integrity in Challenging Times

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Building a Culture of Trust and Integrity in Challenging Times

- Are you seeing increased compliance or integrity issues in your workforce?
- Are you struggling to identify the root cause?
- Are you finding that your metrics and incentives are unsuccessful in driving compliance and performance?
- How do you build and sustain a culture of Trust and Integrity?

Scenarios to Frame the Discussion

- Despite clear policies, procedures and training, a person responsible for checking groundwater monitoring wells at an environmental site, having seen no regulatory exceedances, decides to save time by only checking those wells easiest to reach, entering false data on the remainder.
- A well trained and seasoned Captain of a cruise ship violates established safety policies and procedures when he takes his cruise ship too close to shore, resulting in the grounding and sinking of the vessel and the loss of numerous passengers.
- A Human Resources representative conducts an employee investigation of a long time worker, reviewing only the specific allegations about the employee (all that is required under policy). In the investigation other suspicious behavior about the employee is discovered. The HR representative chooses to complete the investigation without further action.
- A large group of employees, led by their manager, engage in a 10 year conspiracy to allow a customer free service in return for kickbacks. The conspiracy circumvents all compliance checks and continues unnoticed until one of the participating employees is terminated for other causes and then reports it.
- A CEO of a non-profit, takes unauthorized compensation through lies and false reporting, conscious efforts to silo employees and his Board of Directors from information, compromises staff with gifts, bonuses and favors, and hand picks Board members who are unlikely to provide oversight or question decisions. This practice continues for 6 years unnoticed by outside auditors before his executive assistant reports it to a new Chairman of the Board.
Policies, Procedures & Systems

• Companies use Policies to establish the rules of conduct and desired behavior for their employees. Policies may serve a number of important purposes:
  – Regulatory
  – Performance
  – Customer
  – Brand & Reputation

Policies, Procedures & Systems

Procedures serve to provide a detailed uniform set of processes for employees to follow that serves and supports compliance with the policies.

  – Regulatory – required by law
  – Performance – often industry or company specific
  – Customer – processes that support customer satisfaction and value
  – Brand & Reputation – serves to grow customer loyalty, employee pride and engagement
Policies, Procedures & Systems

Systems are often automated processes, programs or tools that can monitor or check on compliance.
- Regulatory – confirms required processes are completed and signals Company if they are not
- Performance – can track performance and trends
- Customer – provides independent confirmation of satisfaction
- Brand & Reputation – surveys or tracks complaints, compliments, perception, press and other communications that reflect on reputation

Metrics

“You can’t manage what you don’t measure”

- Metrics help measure and track successful implementation of policies, procedures and performance
- Metrics are used to govern and reward desired behavior
- Metrics can help support Culture
Metrics

- **Metrics should Align** with Vital Business Functions and Values.
- **Keep it simple.** A common problem managers face is overloading a metric.
- **Good enough is perfect.** Instead, select metrics that are easy to track, and easy to understand.
- **Use metrics as indicators.** Key Performance Indicators are metrics! A KPI does not troubleshoot anything, but rather the KPI indicates something is amiss.
- **A few good metrics.** Too many metrics, even if they are effective, can overwhelm a team.
- **Metrics drive both good AND bad behavior.** People do what you pay them to do, so choose carefully.

Important But Not Enough

- Critical to defining required and desired behavior
- Policies, Procedures, Systems & Metrics – without the right Culture, will not sustain Compliance or Ethics
- If Metrics and Incentives are poorly designed and implemented – they can, in fact, cause undesired behavior and a confused Culture
- Best compliance programs may not ensure right decisions in tough situations
We are Human – Right?

• What happens when Policies, Procedures & Metrics bump up against Financial Pressures, Short Term Gain or Greed?
• Corporate Scandal Sheet:
  • Adelphia: Founding Rigas family collected $3.1 billion in off-balance-sheet loans backed by Adelphia; overstated results by inflating capital expenses and hiding debt.
  • Arthur Anderson: Shredding documents related to audit client Enron after the SEC launched an inquiry into Enron.
  • Enron: Boosted profits and hid debts totaling over $1 billion by improperly using off-the-books partnerships; manipulated the Texas power market; bribed foreign governments to win contracts abroad; manipulated California energy market.
  • Tyco: Ex-CEO L. Dennis Kozlowski indicted for tax evasion. Improper use of company funds and related-party transactions, as well as improper merger accounting practices.
  • Financial Institution Crisis in 2008.

What’s Missing?

• Three decades ago, 95% of a corporation’s value was tangible assets
• Today, 75% of an average corporation’s value is intangible
• In a recent survey, three-fifths of CEO’s believe corporate brand and reputation represented more than 40% of their market capitalization
• Brand and Reputation rely on Character and Delivering on Promise
Culture - Striking the Right Balance

Policies, Procedures and Systems are in themselves, not enough to drive Ethics and Compliance… yet

A Culture devoid of Policies, Procedures and Measurement is equally ineffective.

“I look for three things in hiring people. The first is personal integrity, the second is intelligence, and the third is a high energy level. But, if you don't have the first, the other two will kill you.”

Warren Buffett, CEO Berkshire Hathaway
Culture - Striking the Right Balance

Leadership driving Culture of Integrity, Trust and Performance

Strategy, Goals and Metrics

Policies, Procedures, Systems

Culture – It is Strategy

• Culture is not merely the enabler of a strategy, it is STRATEGY in and of itself

• Business leaders can be intentional and deliberate about evolving and strengthening it

National Governance, Culture and Leadership Assessment conducted by LRN - 2011
Leadership and Character

“Organizations are no longer built on force, but on trust.” Peter Drucker

• To Build a Solid Culture – TRUST is Essential
• Trust comes from Living the Values AND Delivering the Results
• Trust – Self, Relationship, Organizational, Market and Society
• Credibility – Integrity, Intent, Capabilities and Results
• Character and Leadership at all levels

Culture of Character and Performance

“Mistrust doubles the cost of doing business.”
Professor John Whitney, Columbia Business School

Employees perceptions of company ethics impacts their engagement.
– Positive perception promotes engagement
– Misconduct or behavior inconsistent with articulated values erodes it
– Encourage and support the reporting of misconduct

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2009 National Business Ethics Survey
How to Build a Culture of Character and Results

Hire Leaders with demonstrated Character - capable of inspiring trust and confidence in others.
- Authentic
- Honest
- Congruent Behavior
- Respect for Others
- Accountable
- Constantly assessing talent

How to Build a Culture of Character and Results

- Set Clear Expectations
- Train – with focus on Integrity, Mission and Values
- Coach – the importance of role play
- Mentor – reinforcing behavior
- Accountability
How to Build a Culture of Character and Results

- Engage your workforce
- Communicate
  - Over Communicate
  - Importance of Stories
- Model the behavior you want to see
- Assess talent and move to proper roles

Leadership requires the courage to act.
Culture - Striking the Right Balance

• Make doing the right thing convenient and simple
• Make doing the right thing a matter of personal choice because they will ask:
  – What do we stand for?
  – What is our Mission and Values?
  – Does my behavior serve our Mission and Values?
  – Am I Empowered and Supported in making the right decisions?

Benefits

The Primary benefits that come from having the right Culture:
1. It becomes Self-Governing
2. Less Employee Misconduct
3. Greater Innovation
4. Greater Employee Loyalty
5. Greater Customer Satisfaction

All the above work synergistically to deliver
superior financial performance

_National Governance, Culture and Leadership Assessment conducted by LRN - 2011_
Conclusion

• Metrics, Policies and Procedures are necessary and help monitor your Culture and Compliance
• Alone they will not drive a sustainable Culture of Character, Compliance and Performance
• Culture is developed by Leadership and Character that can inspire and cultivate Trust
• Keys to developing the Right Culture and the Right Balance
  – Hire the Right Leaders
  – Align on Mission and Value
  – Establish Clear Expectations
  – Train, Coach and Mentor around mission and values
  – Engage
  – Communicate
  – Model the Behavior

What if?

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Conclusion

Start Now

“The best time to plant a tree is twenty years ago. The second best time is today.”
Chinese proverb