



TOPICS COVERED

// *Measurement & Strategy*

The advantages of a strong ethical culture are manifold. Studies repeatedly show that businesses with strong ethical cultures outperform those without; there are a variety of reasons underlying that performance data. Companies with stronger cultures tend to have employees who are more engaged and committed. Turnover tends to be lower and productivity higher. Customers and investors increasingly seek companies whom they believe behave ethically, as the 2015 Aflac Corporate Social Responsibility Survey showed.

Employees at organizations with strong cultures feel less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it, allowing an organization to address issues early, saving the organization time (from the distraction of a substantial issue) and money (in the form of legal fees, fines and penalties). The bottom line: a company is better protected from the risks of misconduct when its culture is ethically strong.

Yet what is culture? As Scott Killingsworth noted in “Modeling the Message: Communicating Compliance through Organizational Values and Culture,” it can be easy to identify but “hard to define in a way that actually helps us change or reinforce a given culture.” One good “soft” definition tells us that culture is the “set of enduring and underlying assumptions and norms that determine how things are actually done in the organization.” In other words, what levers are being pushed or pulled to accomplish the goals of the organization? But how can an organization best get a handle on that? By measuring it.

Why Measure?

Measures work for several reasons. First, they focus attention on what is being measured. Provide employees with metrics that tell them whether they are succeeding, and they will try to move those metrics, especially when those metrics are included in performance evaluations and compensation setting.

Second, they signal the firm’s priorities. What matters to the organization? Most companies do not lack for objectives, but not every objective gets a metric. Metrics (or lack thereof) tell employees—especially

CULTURE MATTERS

“Culture, more than rule books, determines how an organization behaves.” — Warren Buffett*

Written by Erica Salmon Byrne

This is a lesson we have learned, relearned and will likely learn again. Regulators around the globe are increasingly calling on organizations to examine their cultures. From Enron to Volkswagen, the Challenger to WorldCom, there are multiple examples of organizations with formal systems that say one thing and cultures that promote another. When those kind of alignment gaps are allowed to persist, you eventually have a failure of one variety or another: ethics, quality, safety or a combination of all three.

* Memorandum from Warren Buffett to Berkshire Hathaway Managers (July 26, 2010)

newer employees—what the company really cares about. One way or another, they send a signal.

That is more important now than ever for one reason: 2015 was the biggest year ever for mergers and acquisitions (<http://www.wsj.com/articles/2015-becomes-the-biggest-m-a-year-ever-1449187101>), with a little less than \$5 trillion in mergers. Consider that figure from a culture perspective. How do the acquiring organizations know what kind of cultures they've brought into the fold and where to focus their time and attention?

What to Measure

Many organizations regularly survey employees to get a sense of their engagement. While engagement surveys are a good tool, including a handful of questions on ethics and compliance issues does not provide a complete picture.

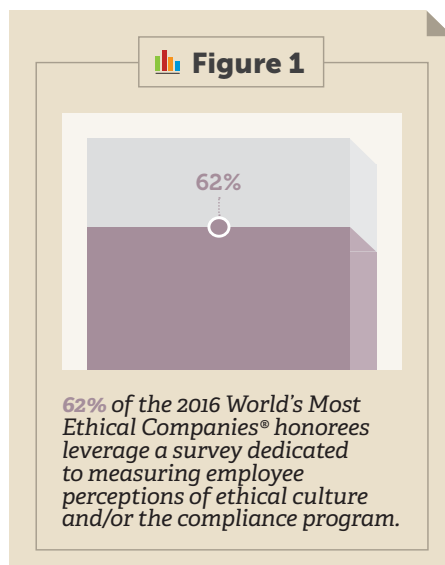
For one thing, the answers can be biased depending on which section of the engagement survey they are placed near; place them near compensation and benefits, or near questions about the executive leadership team, and chances are strong the responses will be influenced one way or the other by how an employee feels about those topics.

A good culture survey focuses on eight “pillars” of culture:

Awareness of Program and Resources:

Measures employees' reported level of familiarity with the assets and efforts of the compliance and ethics function.

Do your employees understand all of the resources available to them? Can they identify multiple avenues to raise a concern? Do they know where to find the code and applicable policies?



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Perceptions of the Function:

Measures how employees perceive the quality and effectiveness of the ethics function's efforts in providing communications, training and support.

In other words, are your efforts reaching the intended audience? Do they see any of the assets you've deployed or are they languishing somewhere on the Share-Point site with no viewers?

Observing and Reporting Misconduct:

Evaluates employees' level of comfort in reporting perceived misconduct, the reasons for doing so, potential reporting barriers and the preferred method for reporting.

This pillar is critical, particularly the last point. Without a good understanding of the channels being utilized by employees, how does an organization know whether issues are surfacing? In other words, don't assume that 30 calls a year on your hotline mean all is well; over 80 percent of employees usually say their manager is their preferred reporting channel. Does your case management system allow for easy intake of those questions? If not, you likely have no idea what is really happening inside your organization.

This category also measures employee fear of retaliation, which is the number one reason traditionally provided for not raising a concern (along with, “I didn't think the company would do anything about it.”)

Pressure:

Measures the extent and source of pressure employees may be experiencing to compromise standards in order to achieve business goals.

This is that “misalignment” mentioned above between stated values and compa-

ny goals. Measuring this metric by business unit and region is the best way to fully understand how your goals are being communicated to the field, and where to focus your audit team to check for early signs of wrongdoing.

Organizational Justice:

Assesses employees' perceptions of whether the company holds wrongdoers accountable and the awareness of disciplinary actions taken.

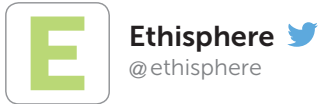
It is critically important to assess what your employees believe happens when people violate ethical standards. Is there one standard for the average employee and a different one for the “golden child”? You can readily measure your ethical culture by asking people questions such as what they believe it takes to get ahead in your company.

Manager Perceptions:

Gauges employees' perceptions of their supervisor's conduct, communication effectiveness and comfort in approaching with concerns.

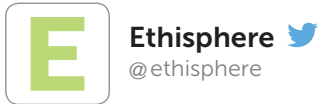
As noted, upwards of 80 percent of employees, on average, say their manager's behavior is what matters most in terms of ethical leadership. How are your managers making employees comfortable with “near misses” or outright failures?

As Gretchen Gayett notes, “creating a culture of psychological safety, where individuals are encouraged to acknowledge and learn from failure, can help employees feel less psychological pressure to avoid internal attribution” (<https://hbr.org/2014/05/when-we-learn-from-failure-and-when-we-dont>). Have your managers actually created an open door environment? A well-constructed culture survey is the best way to find out.



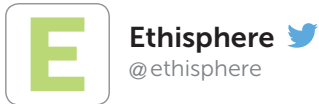
Stay on top of major events throughout the year, such as the 4th annual #LatAmEthics Summit in Sao Paulo, featuring top leaders from across the region

8:48 pm • 1 March 2015



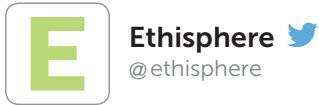
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Perceptions of Leadership:

Also known as "Tone at the Top," this category evaluates employees' perceptions of the conduct, values and communications of senior leaders.

Do employees see a gap between what is in the code of conduct and the conduct of the CFO?

Perceptions of Peers and Environment:

This category measures how employees perceive the ethical priorities of their co-workers, the values of their organization and willingness to share opinions.

The data gathered through a good culture survey is an excellent first step towards understanding your issues and "hot spots." An effective culture assessment affords the opportunity to dive deeper. Organizations can effectively identify specific locations, business units, job levels and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions.

Triangulate this information with your sister control functions in audit, EH&S/quality, finance and HR, and a strong picture of your organization will emerge. Now you're off to fix it! After all, what gets measured gets done.

It's also important to recognize that even the best have room for improvement, so cast your fears aside and welcome the opportunity to thrive!

Author Biography

Erica Salmon Byrne is the Executive Vice President, Governance and Compliance at The Ethisphere Institute and the Executive Director of the Business Ethics Leadership Alliance (BELA).

She's responsible for Ethisphere's data and services business and works with the BELA community to advance the dialogue around ethics and governance. She has been in the governance and compliance space for over a decade, speaks, writes and appears regularly on topics of interest to ethics and compliance professionals, and previously served as the EVP of Compliance and Governance Solutions for NYSE Governance Services, Corpedia. See her full bio in the leadership section at www.ethisphere.com.