Ethical Culture Essentials

Ethisphere Ethical Culture Masterclass #1

PRESENTED BY:

Ethisphere

DATE:

May 11, 2022

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What We'll Discuss

1. **Elements of an ethical culture:** the 'what' and 'why'
2. **Measurement:** ways to assess your ethical culture
3. **Data insights:** practices of leading companies
4. **Ways to make impact:** addressing top challenges and top tips for success
5. **Audience Questions**

Introducing Today's Speakers

Douglas Allen
Vice President,
Data Strategy

Eric Jorgenson
Director, Business Ethics
Leadership Alliance Engagement

Erica Salmon-Byrne,
President

What does it mean to have an ethical culture?

- Elements of an ethical culture
- Measurement
- Data insights
- Ways to make impact
- Audience questions

An Ethical Culture Answers…

Is the compliance program working in practice?

Is there an open and trusting environment for speaking up?

Is there a commitment to ethics and compliance at all levels?

Regulators Expect It

Investors Want It

The Best Are Doing It

Kenneth A. Polite, Jr.,
Assistant Attorney General, Criminal Division, at the U.S. Department of Justice

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"We are also **interested in how a company measures and tests its culture**—at all levels of seniority and throughout its operations—and how it uses the data from that testing to embed and continuously improve its ethical culture.

There is a separate question of whether a company is demonstrating an ethical culture in practice.

Do employees feel empowered to bring issues and questions to the management's attention?

Are managers and compliance officers providing ethical advice to salespeople even though such advice may mean loss of business?"

Regulators Expect It

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The Best Are Doing It

STATE STREET GLOBAL ADVISORS

"…we will be **focusing on corporate culture** as one of the many, growing intangible value drivers that affect a company's ability to execute its long-term strategy"

"…studies show that intangibles such as **corporate culture are driving a greater share of corporate value**, precisely because the challenges of change and innovation are growing more acute."

Regulators Expect It

Investors Want It

The Best Are Doing It

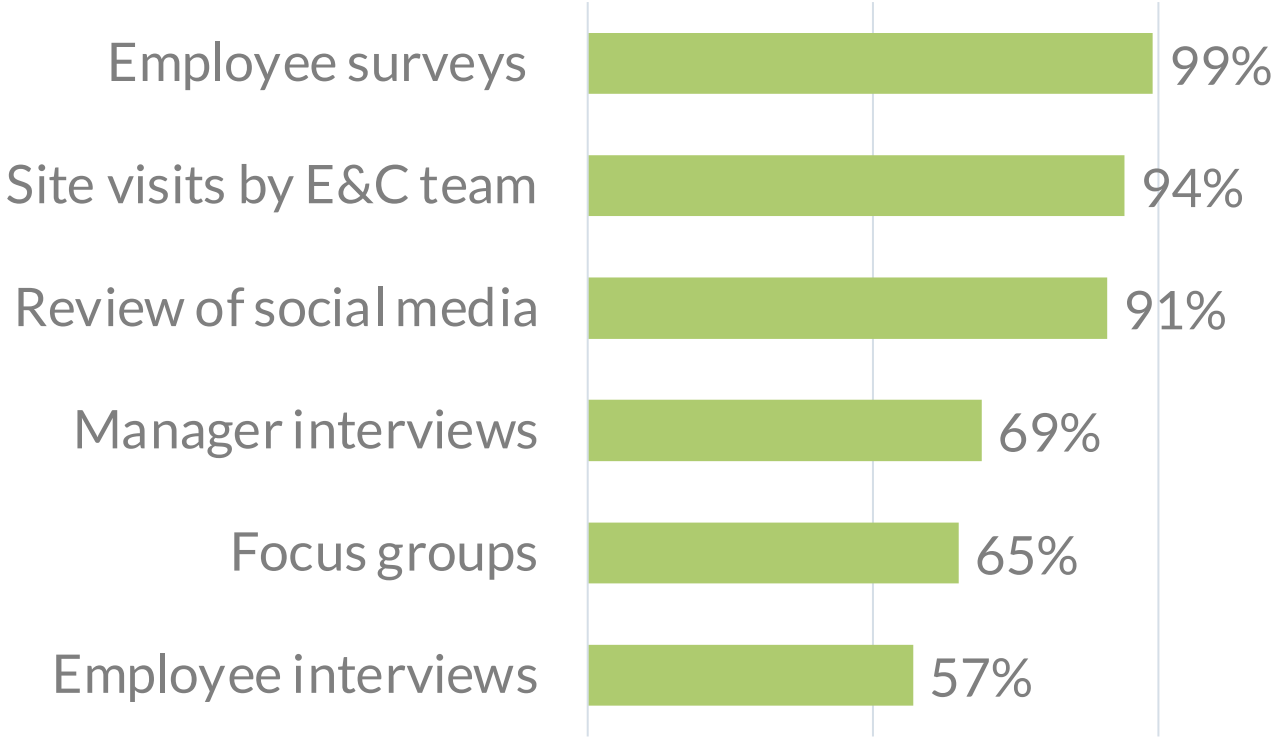
Every recognized company measures their ethical and compliance culture in some way

1. Awareness of the Compliance Program
2. Perceptions of the Compliance Function
3. Observing & Reporting Misconduct
4. Pressure
5. Organizational Justice
6. Tone at the Middle
7. Perceptions of Senior Leadership
8. Perceptions of Peers & the Environment

Practical ways to assess your own ethical culture

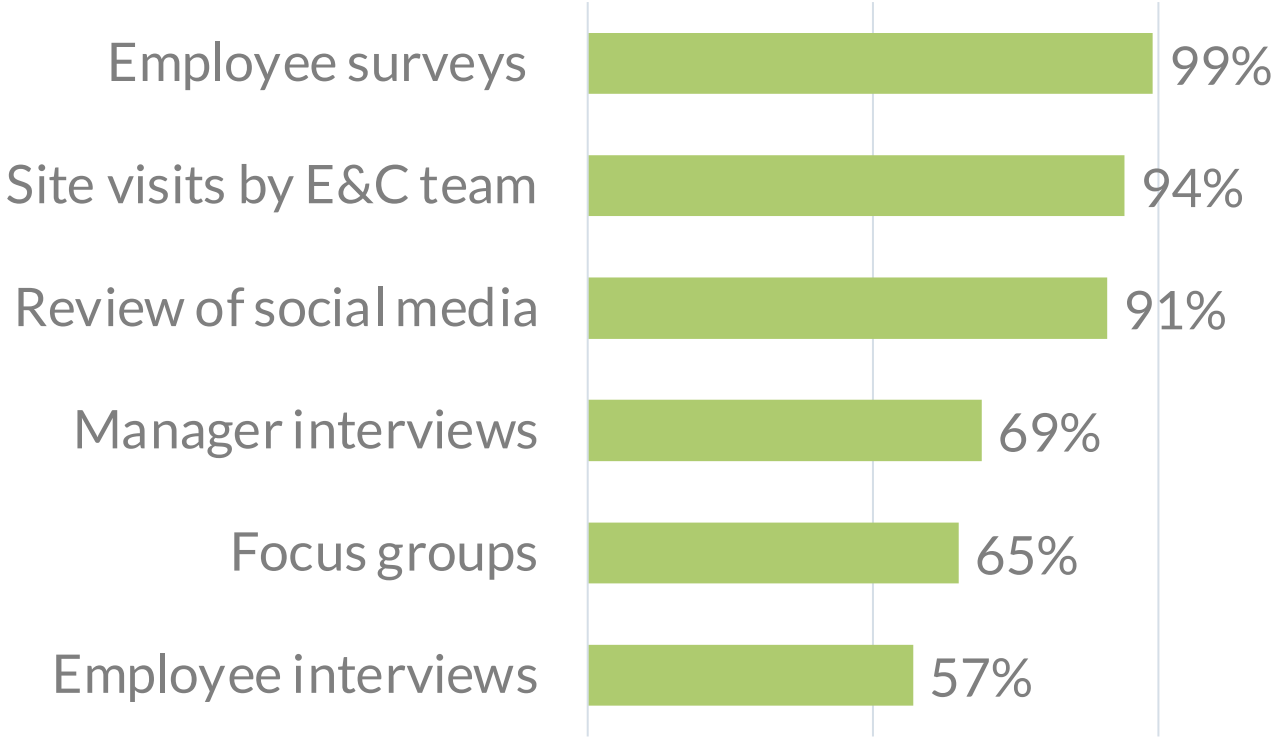
- Elements of an ethical culture
- **Measurement**
- Data insights
- Ways to make impact
- Audience questions

How are you measuring your ethical culture?



Practices from the 2022 World's Most Ethical Companies (n=136)

How are you measuring your ethical culture?



Practices from the 2022 World's Most Ethical Companies (n=136)

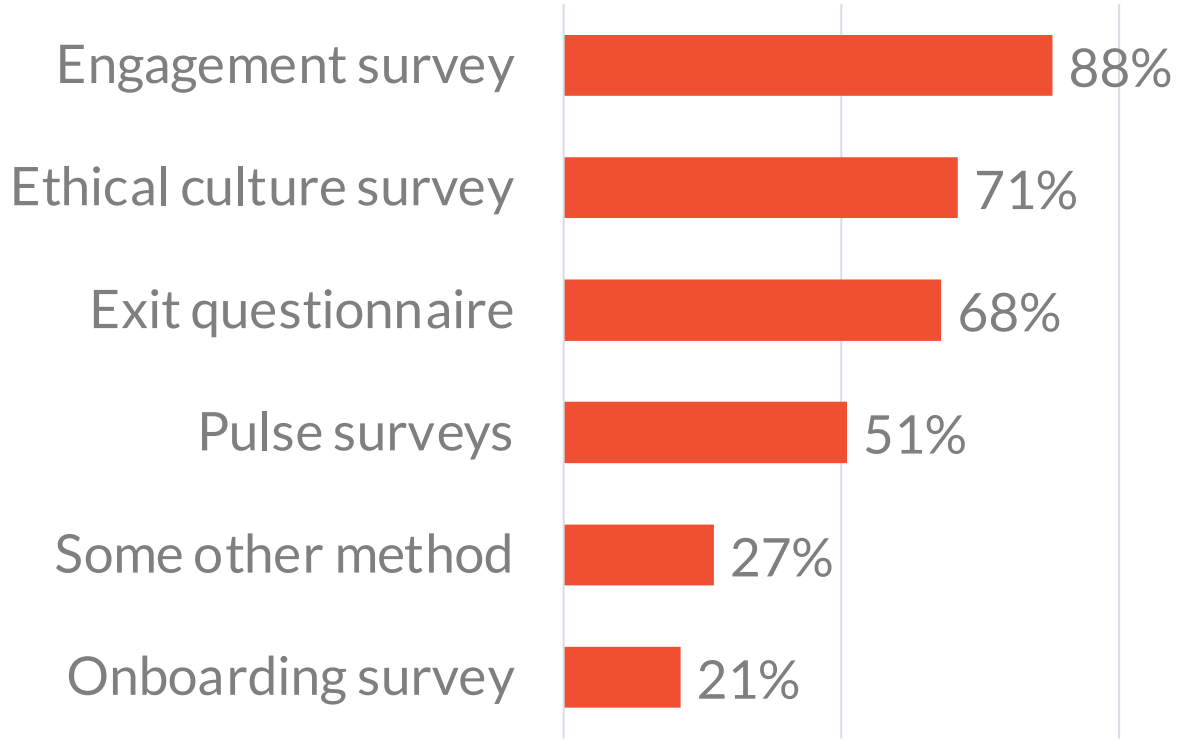
Key Takeaways

Surveys are ubiquitous (and remote employee-friendly)

There is more than one approach to measure ethical culture

Leading companies employ multiple methods to assess their ethical culture

What type(s) of surveys are used?



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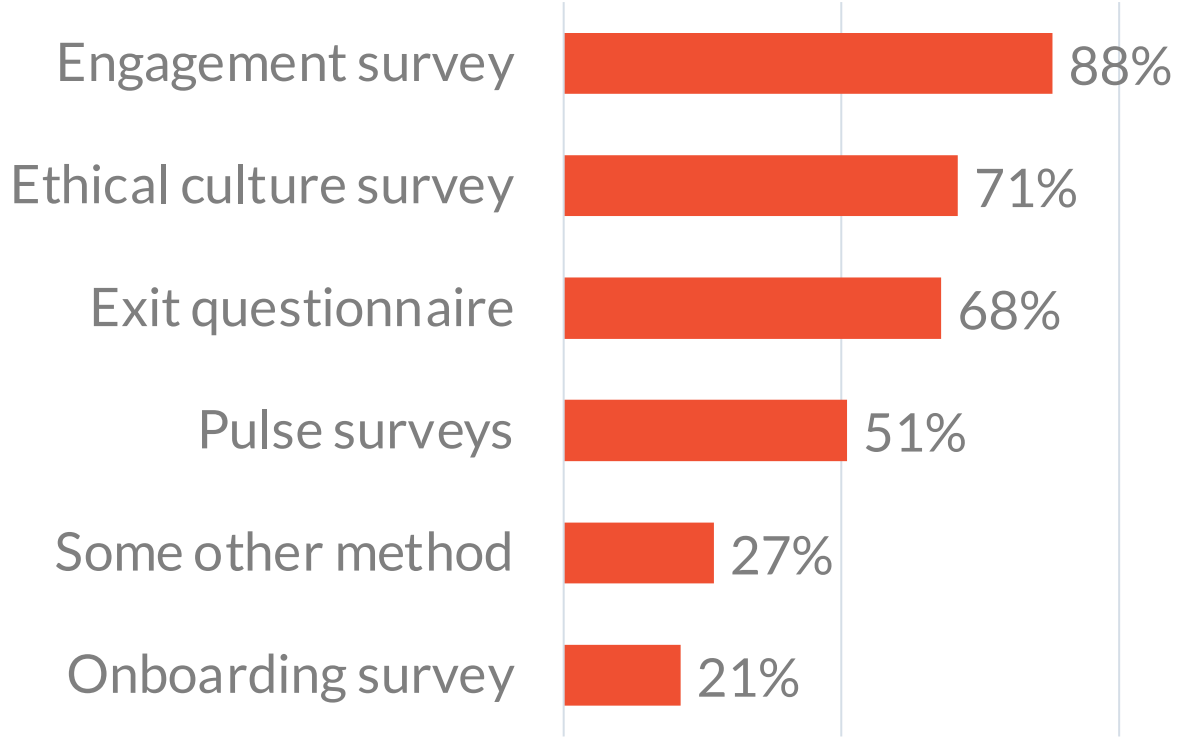
What type(s) of surveys are used?



Practices from the 2022 World's Most Ethical Companies (n=136)

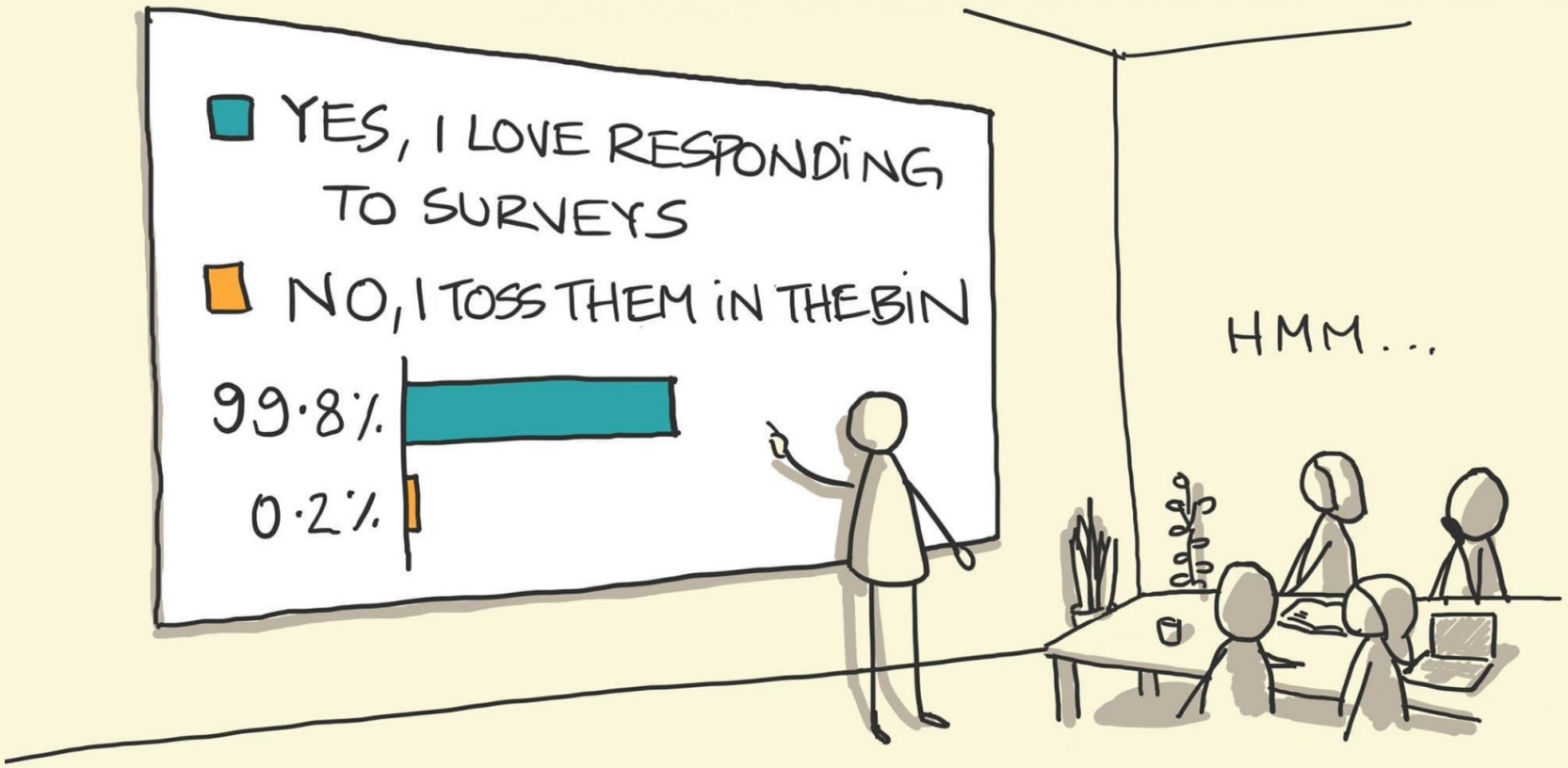
Key Takeaways

Once again, HR-led engagement surveys most used

On the rise: exit questionnaires +15 points year over year (likely turnover driven)

More companies adopting pulse-type surveys

SAMPLING BIAS



" WE RECEIVED 500 RESPONSES AND FOUND THAT PEOPLE LOVE RESPONDING TO SURVEYS "

sketchplanations

How you segment employees can limit – or enhance – your analysis

Start with the end in mind

Try for consistency in data structures across sources

Existing taxonomies likely already exist – no need to reinvent the wheel!

Use the survey to generate what you don't already have

Using other survey efforts as a guide for reception

How has the company responded to other survey collection efforts in the past?

Have opinions been ignored?

What goodwill (or headwinds) are you up against?

A comprehensive communications strategy is fundamental

Sending surveys using only email no longer suffice

Persuasion by senior, local, regional leaders, champion programs

Consider incentives (but be careful)

Have considerations in place for pre-, mid-, and post-survey

Tips for Developing Your Own Effort to Measure

Key takeaway. There is no universally right answer on how many employees to survey.

Consideration #1: Beware of Survey Fatigue

Employees were *heavily* surveyed in COVID era

Other efforts recently undertaken?

Can you 'piggyback' off existing efforts?

Consideration #2: Assess Appetite for Change

Are leaders prepared and equipped to handle results?

Limited support may mean limited scope

Build your case with a pilot program

Consideration #3: Your Environment is Unique

How challenging is it to get ahold of employees?

Are you conflicting with other, company-wide efforts?

The opportunity cost of surveys

Strategies for Gathering *Enough* Data

Key takeaway. Make it as easy as possible to take your survey.

Use survey skip logic	Reduce question length	Clearly define terms	Ask one question at a time
Present only relevant questions and topics to relevant audiences	Reduce mental load by using no more than 90 characters	For example, “senior leader” can mean a variety of roles	Check all “or” and “and” statements

An example. Ask one question at a time.

"My company's disciplinary guidelines have been clearly communicated to me and/or I am aware of the consequences of misconduct."

"Somewhat disagree"

Are guidelines not clear or is there a lack of awareness of consequences?

Not actionable!

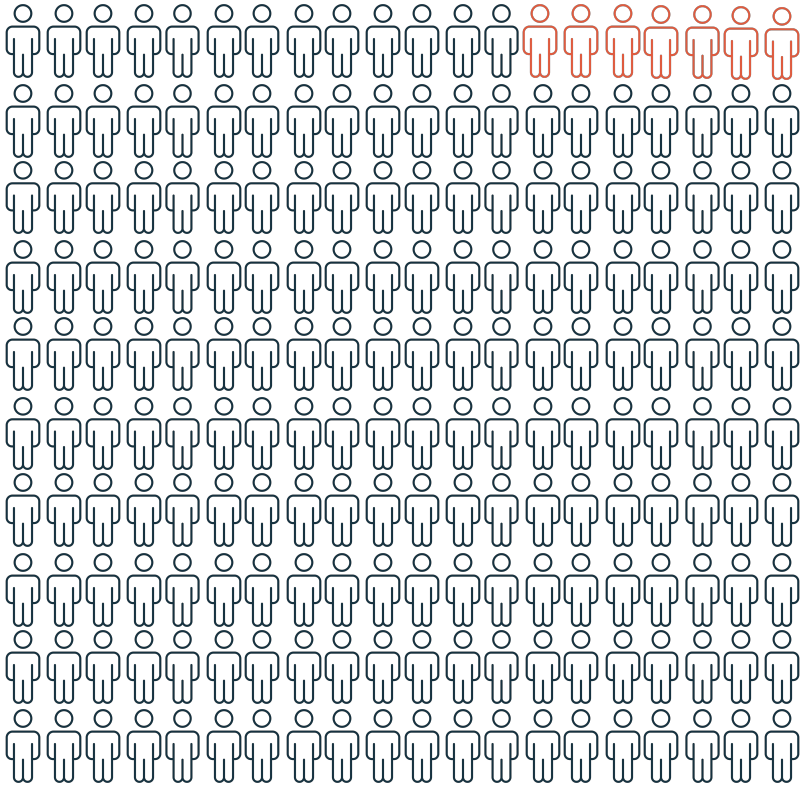
Trends and practices from Ethisphere's own data

- Elements of an ethical culture
- Measurement
- **Data insights**
- Ways to make impact
- Audience questions

Insight #1

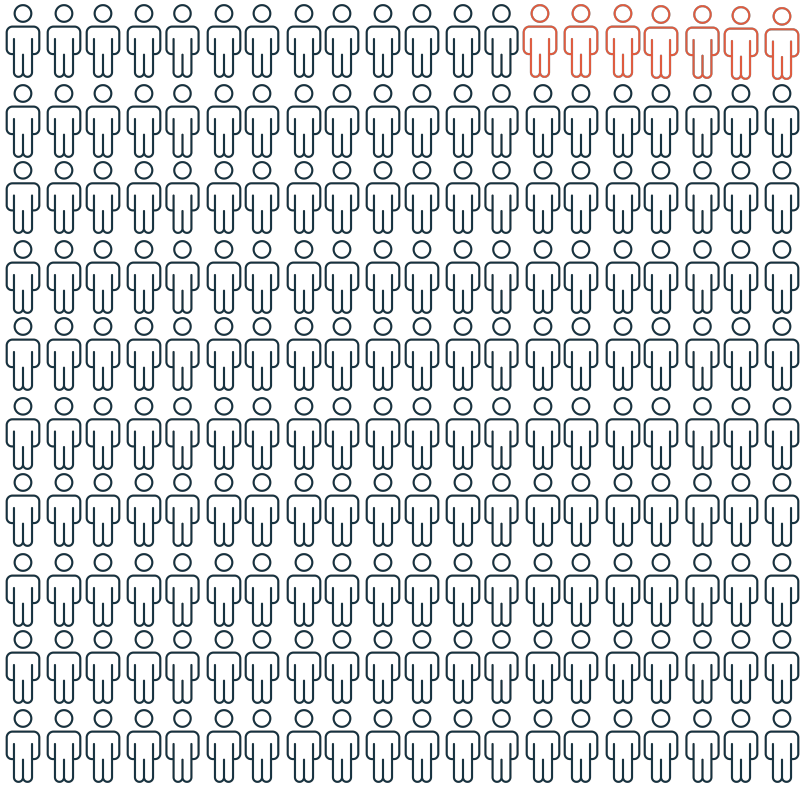
Why Don’t Employees Speak Up?

Did you observe misconduct?



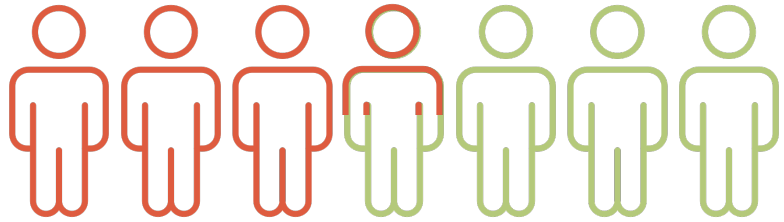
~7% say “Yes”

Did you observe misconduct?



~7% say “Yes”

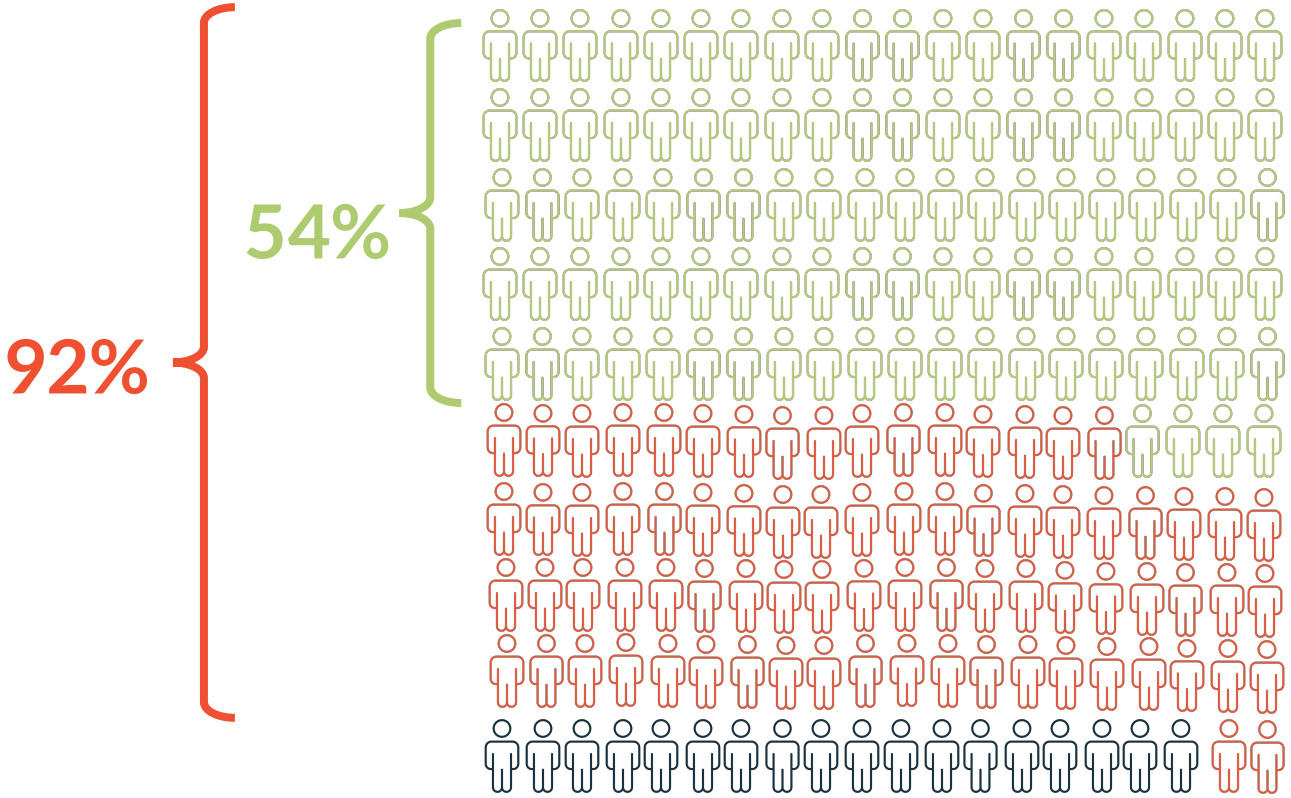
Did you report what you saw?



54% say they reported it

54%

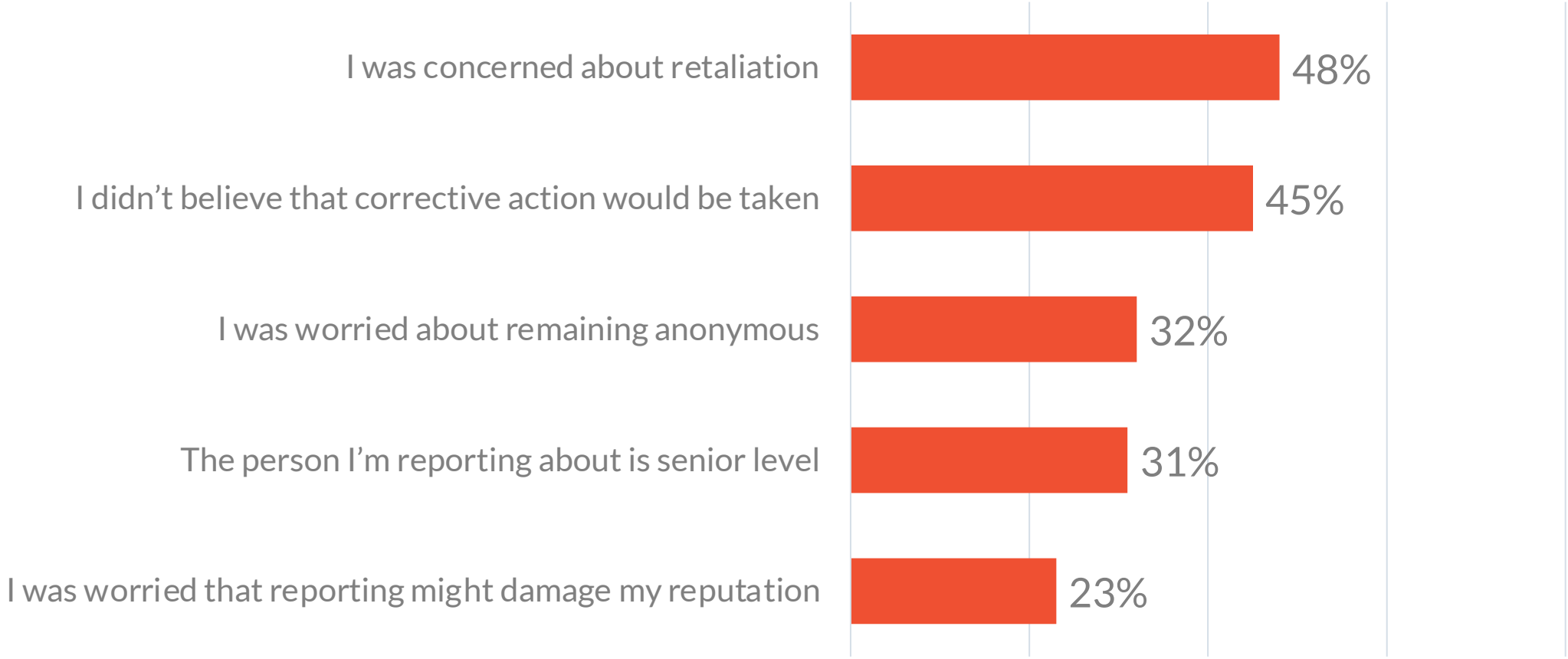
How many *are reporting* what they see



How many *are reporting* what they see

Those who say they are *willing* to report!

Why Don’t Employees Speak Up?



Those unaware of the company's non-retaliation policy

18%

Don't agree that the non-retaliation policy is enforced

23%

Don't agree that their manager complies with the policy

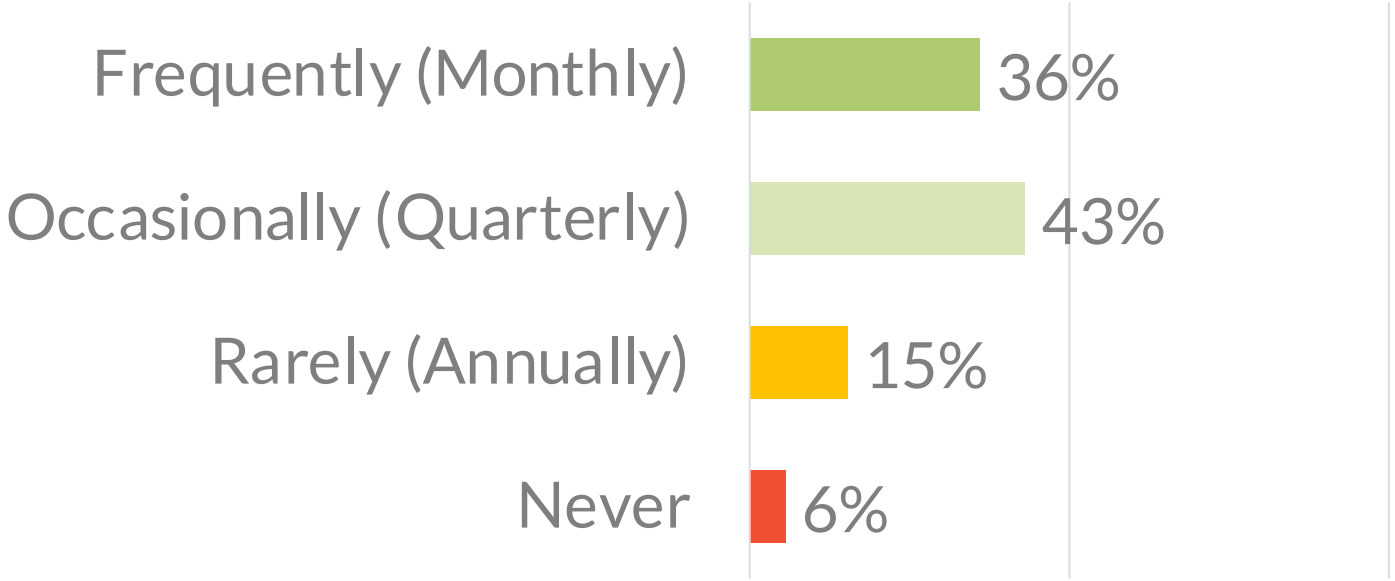
14%

Insight #2

Managers play an outsized role in setting culture

Managers Play an Outsized Role in Setting the Culture

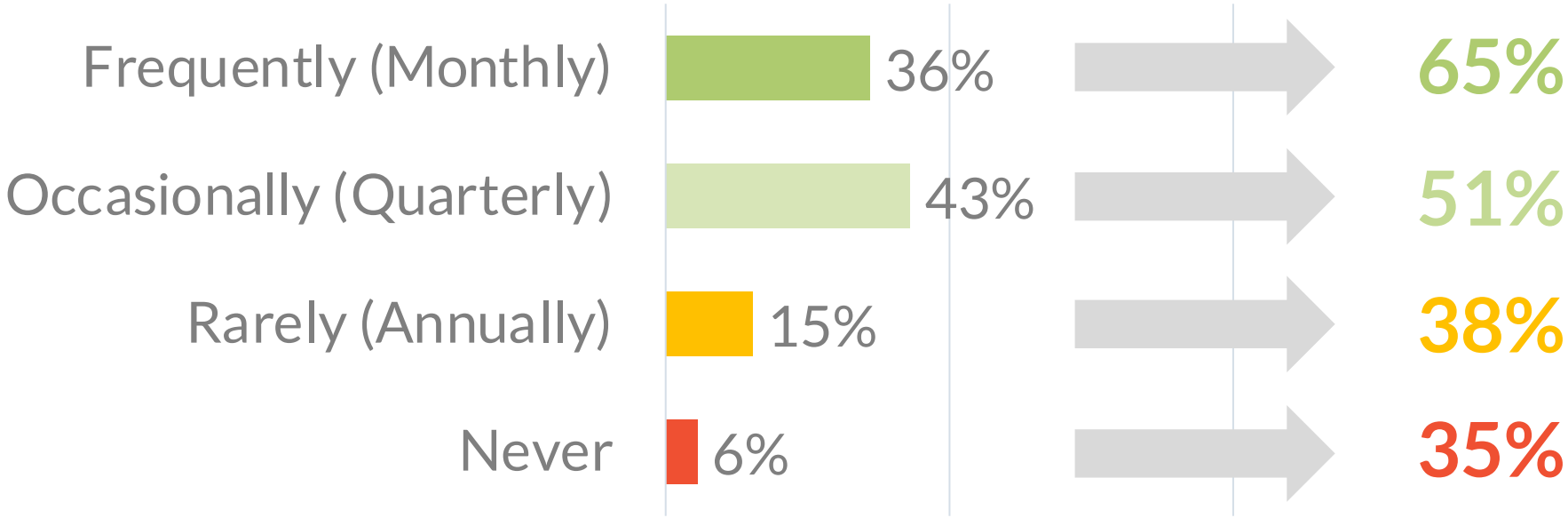
"My manager discusses ethics or compliance related issues/topics."



Managers Play an Outsized Role in Willingness to Report

"My manager discusses ethics or compliance related issues/topics."

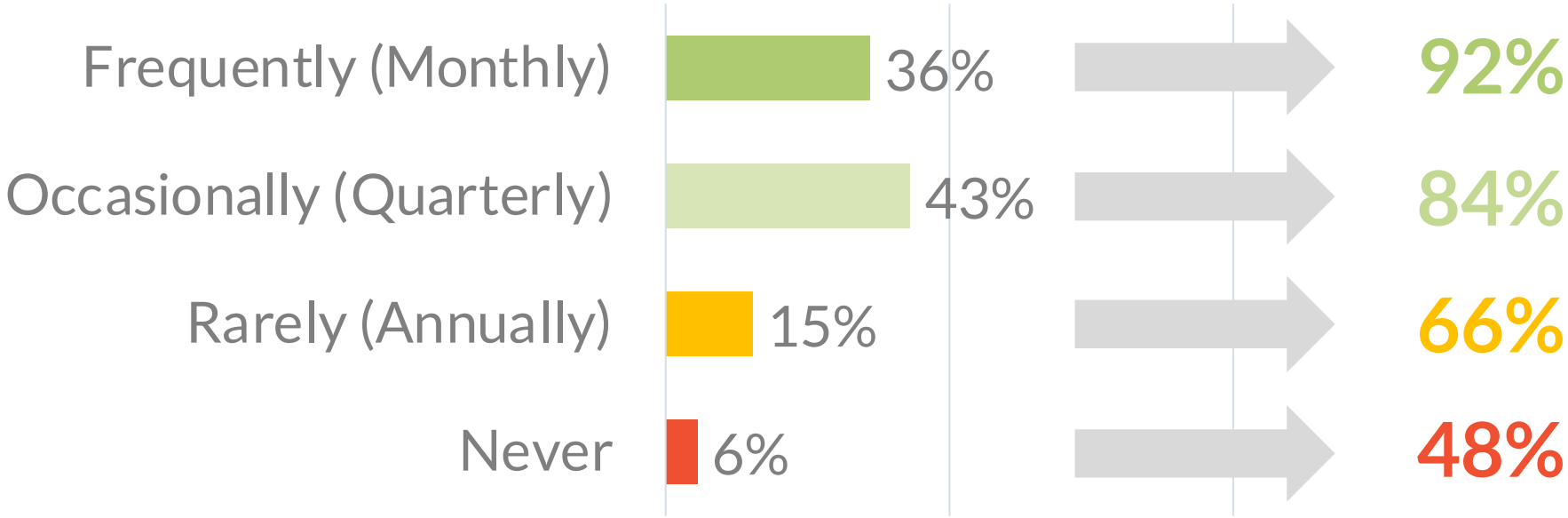
I reported the misconduct that I believe I observed.



Managers Play an Outsized Role in Faith in Reporting Process

"My manager discusses ethics or compliance related issues/topics."

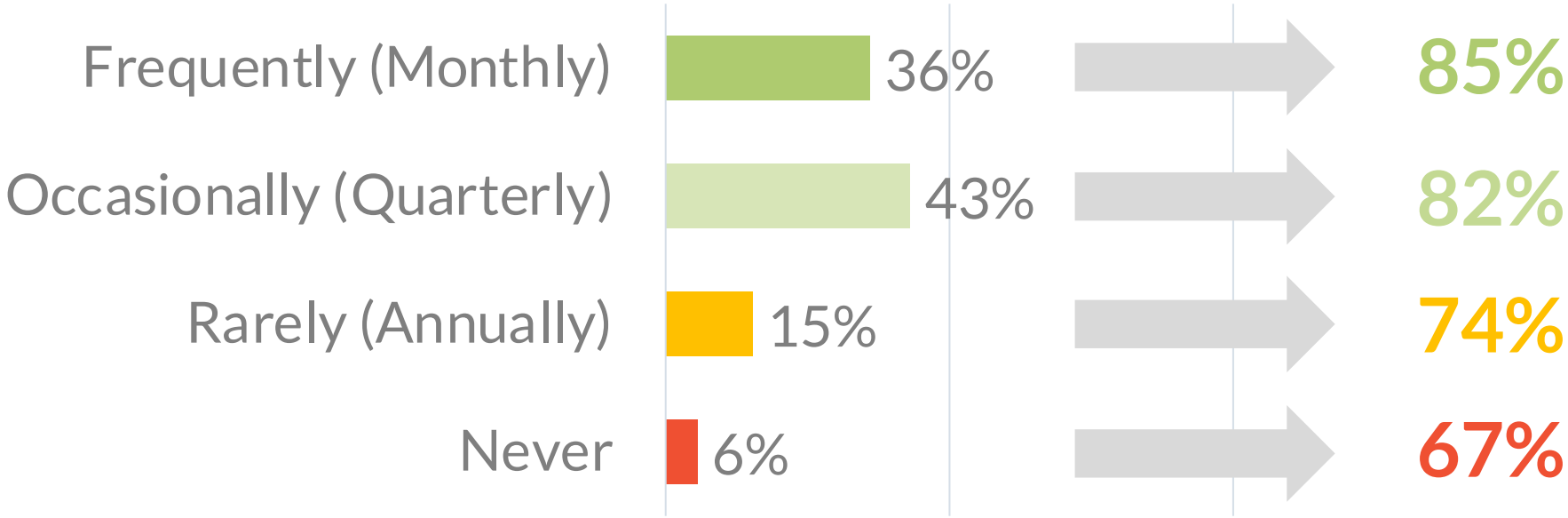
If I raised a concern, I believe the Company will fully investigate it.



Managers Play an Outsized Role in Experiencing Pressure

"My manager discusses ethics or compliance related issues/topics."

I *never* experience pressure to compromise the Code or the law to achieve business objectives.



Insight #3

Demonstrate leadership's commitment to integrity through actions, not words

Separate Interpretations of How Leadership is Perceived

I believe the senior leadership team *promotes* the importance of integrity

87%

agree or
strongly agree

I believe the senior leadership team consistently *acts* ethically

77%

agree or
strongly agree

19% either don't know or neither agree nor disagree

34%

Those experiencing pressure from senior leadership to compromise standards to achieve goals

43%

Indicate that they would willing to report misconduct because, in part, senior leadership will support them

The Impact of Leadership-by-Example

	Those experiencing pressure from senior leadership to compromise standards to achieve goals	Willing to report misconduct because, in part, senior leadership will support them
Those that believe the senior leadership team consistently *acts* ethically	33%	49%
Those that believe the senior leadership team does not consistently *act* ethically	63%	15%

Common challenges and opportunities when developing your culture

Elements of an ethical culture

Measurement

Data insights

Ways to make impact

Audience questions

Key Challenges to a Robust Ethical Culture

Regional Differences

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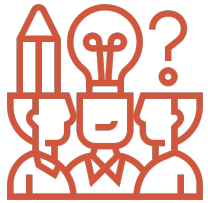
Addressing Diverse Workplace Environments

Key Challenges to a Robust Ethical Culture

Regional Differences

Addressing Diverse Workplace Environments

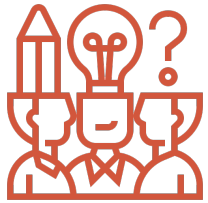


Roles & Expectations

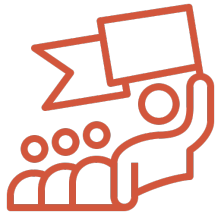
Key Challenges to a Robust Ethical Culture

Regional Differences

Addressing Diverse Workplace Environments



Roles & Expectations

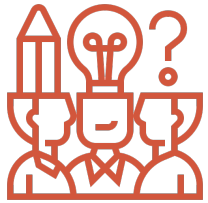


Leadership at all Levels

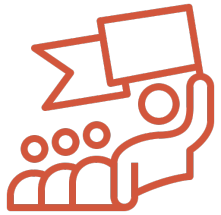
Key Challenges to a Robust Ethical Culture

Regional Differences

Addressing Diverse Workplace Environments



Roles & Expectations



Leadership at all Levels

Resources

Submit your questions using the chat feature

- Elements of an ethical culture
- Measurement
- Data insights
- Ways to make impact
- **Audience questions**

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GOOD. SMART. BUSINESS. PROFIT.®

BUSINESS ETHICS LEADERSHIP ALLIANCE™
An Ethisphere Community

Thank you!

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SLIDE REPOSITORY

An Ethical Culture Answers…

Is the compliance program working in practice?

Are policies and procedures easily accessible?

Are policies and procedures understandable?

Are resources viewed as effective?

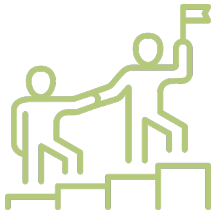
Are the modes available to report widely known?

Is there an open and trusting environment for speaking up?

Are systems and programs designed to encourage employees to speak up without fear of retaliation?

What is prohibiting those who see something from saying something?

Where or whom to employees view as the most trustworthy resources available for submitting questions and reports?



Is there a commitment to ethics and compliance at all levels?

Are managers viewed as trusted resources for employees for questions?

Do employees take personal ownership for establishing their immediate environment as one where integrity is valued?

Are senior leaders demonstrating the company's commitment to integrity in both words and deeds?

TALK TO THIS POINT AND DELETE THE SLIDE – AFTER SURVEY SKETCH SLIDE

Engagement Surveys Limitations

The reality: compliance teams given question 'budget'

Focus on…

1. Did you see something,
2. Did you say something about what you saw?
3. Who did you tell it to?
4. What was your experience in doing so?

Leverage as a complimentary source of culture data

Leverage manager-related questions to supplement findings – consider correlations/crossing opportunities

Do I have the information I need to fulfil my role? Levels of comfort w/ mgr?

Behavior-driven questions are ideal (Do you know where to find the code?)

(Eric's prior experience)

Priority question set (see word doc)

Measuring ethical Culture in the Context of Program Effectiveness

1. whether and how the company responds to prior misconduct

"Companies that have effectively deployed capabilities to conduct independent monitoring and testing of all elements of their compliance program, not just their financial controls—for example, testing effectiveness of training, communications, and compliance culture—and made improvements to the compliance program as a result, set themselves apart"

We Expect to See a Program That is…

Well-Designed	policies and procedures are easily accessible and understandable to the company's employees and business partners
	has established a process for reporting violations of law or company policy that encourages employees to speak up without fear of retaliation,
	and that those reports are taken seriously, appropriately documented, investigated, and—if substantiated—remediated.
Adequately resourced and empowered to function effectively	Is compliance promoted as a resource?
	A company's commitment to promoting compliance and ethical values at all levels—from the chief executive on down to middle and lower-level managers—is critical.
Works in Practice	We are also interested in how a company measures and tests its culture—at all levels of seniority and throughout its operations—and how it uses the data from that testing to embed and continuously improve its ethical culture.

There is a separate question of whether a company is demonstrating an ethical culture in practice.
Do employees feel empowered to bring issues and questions to the management's attention?
Are managers and compliance officers providing ethical advice to salespeople even though such advice may mean loss of business?

Just as we use data analytics to detect and combat criminal schemes, we urge corporations to consider what data analytic tools they can use to monitor compliance with laws and policies within their operations and to ferret out wrongdoing when it occurs.