

# Rethinking Compliance's Role in Culture

## How Building Strong Climates Advances Corporate Integrity

### Situation

Building a culture of integrity has been a recurring priority and most frequently cited objective by Compliance and Ethics officers for nearly a decade. But the majority have been unable to make any progress in this area, causing boards and shareholders to take greater notice.

### Insight

Most companies take the approach of building culture from the top down. But there is a much more effective tactic: creating local climates that surround employees with positive examples and role models to amplify cultural signals.

### Solution

To improve corporate integrity, focus on the climate that your employees work in, including practices and procedures they follow daily and rewarded behaviors being observed consistently.

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## A Consistent Priority

A strong corporate culture decreases employee-observed misconduct and improves reporting rates, as well as overall business performance. However, most Compliance leaders are often unsure how to sustainably and consistently improve their culture. For nearly a decade, this has been a recurring priority and the most frequently cited objective for Compliance teams, so now is the time to find a solution.

## True Value of a Strong Culture

We found that companies with a strong culture of integrity outperform those of weak cultures, from both financial and non financial standpoints. In fact, employees who work for an organization with a strong culture of integrity were two to three times more likely to over perform on individual and team tasks.

We also proved that employees exposed to a strong culture of integrity are:

- **90% less likely** to observe misconduct,
- **1.5 times more likely** to report observed misconduct,
- **2.1 times more likely** to be engaged with their job and company, and
- **2.4 times more likely** to exhibit higher levels of discretionary effort.

However, our research indicates that despite the time and resources devoted to measuring and improving a culture of integrity, Compliance teams have regrettably made very minimal progress—less than 1% to date. The pressing question is why?

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## An Age-Old Approach

As to be suspected, most companies build their culture from the top down, starting at the top with senior leaders striving to exemplify strong corporate ethics across interactions and communications with their workforce. This trickles down to middle managers who are equipped with talking points that support strong ethics when communicating with their direct reports.

In no way is this a damaging approach, as it has a certain efficacy, but also increasingly limiting in its overall effectiveness.

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## Climate Tells the Story

Interestingly, there is a large gap in employee perceptions of culture. Nearly 50% believed their senior leaders were honest and possessed integrity, and that number is a bit larger when it comes to direct managers. Any Compliance leader would enjoy reporting this, but it got shaky when realizing that only 25% of employees believe their teammates engage in and model the right ethical behaviors. This demonstrates that the people around us have a significant impact on not only how we feel but also what we do.

If companies are looking for their workforce to do the right thing, then this number must climb much higher than 25%.

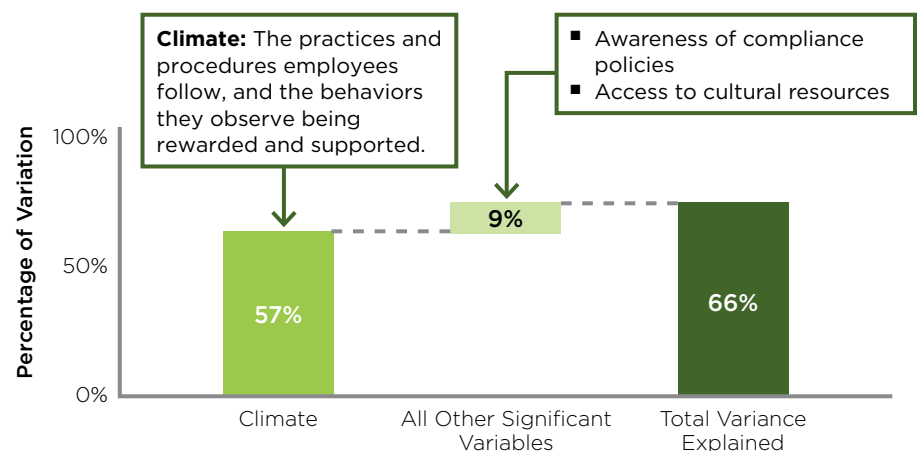
### Never underestimate the power of one's peers

The climate an employee works in—people who surround them—accounts for 57% of culture variations—essentially known as the culprit between strong and weak cultures.

## Variations in Culture

Our research shows that the climate an employee works in—practices and procedures they follow and behaviors they observe daily being rewarded and supported—account for 57% of culture variations. This is essentially the difference between strong and weak cultures.

Impact of Drivers Tested on Employee Perceptions of Culture  
*Demonstrated by the Percentage of Variation in Culture They Explain<sup>a</sup>*



*n* = 5,025.

Source: CEB 2017 Global Culture Assessment.

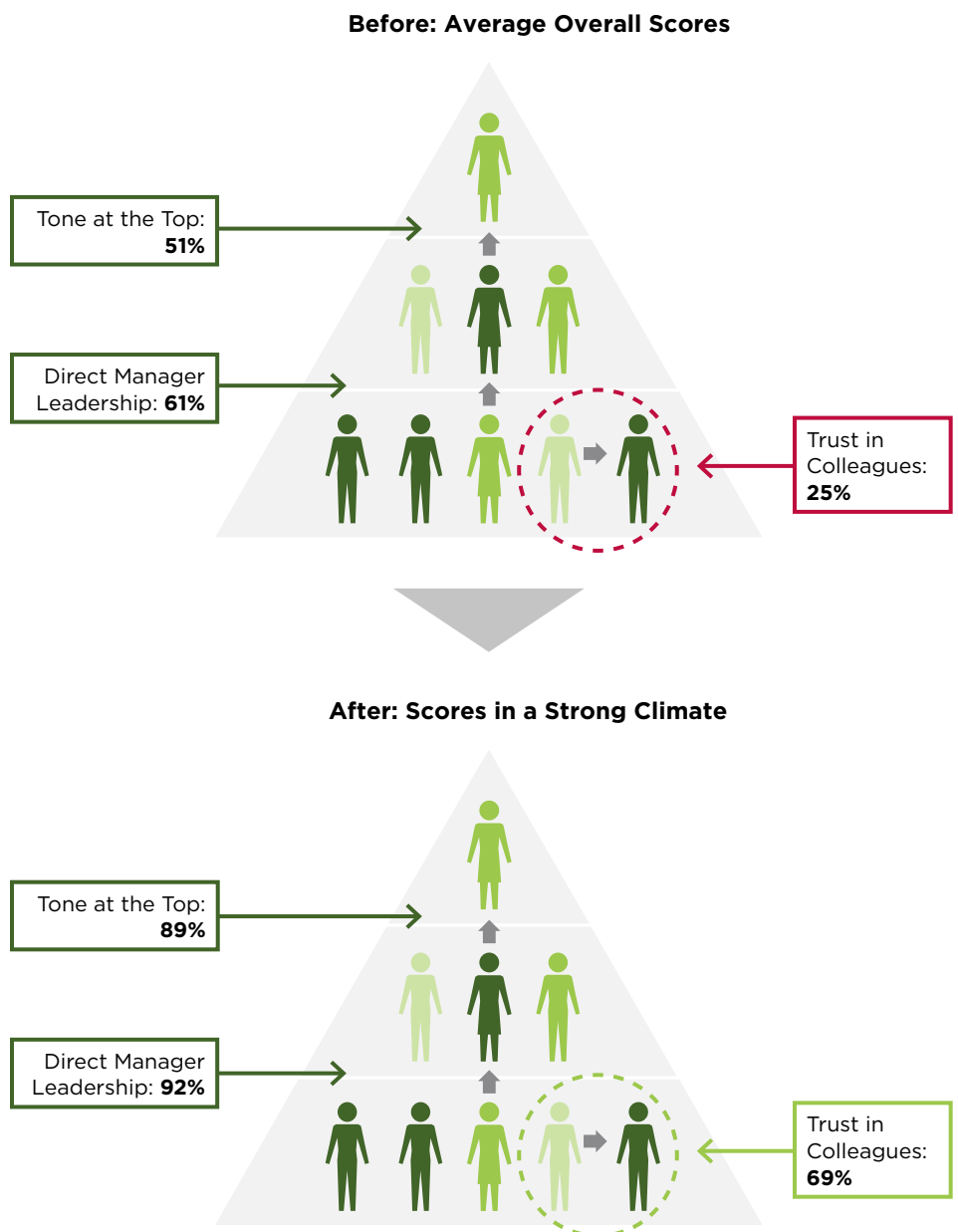
<sup>a</sup> Adjusted  $r^2$  = 0.66.

When employees work in strong climates, cultural perceptions are amplified by the signals employees receive and the behaviors they see around them—with 88% of employees in strong climates having strong perceptions of their company’s culture of integrity.

In these types of situations, tone at the top increased from 51% to 89%, direct manager leadership from 61% to 92%, and best of all, trust in colleagues improved from 25% to 69%—an improvement of 44 percentage points.

The unfortunate news is that 71% of employees work in weak climates, where much of the work done to improve culture is wasted or, at the least, reduced. Fundamentally, this is why culture hasn’t seen strong improvements in nearly a decade.

### How Climate Moves Culture *Before and After Illustration*



n = 5,025.

Source: CEB 2017 Global Culture Assessment.

# How to Get There

To build a strong climate, Compliance must do three things:

1. Help employees understand what good behaviors look like with specific examples that enable them to exhibit these behaviors in their daily workflow.
2. Ensure managers send consistent messages about what ethical behavior looks like, and avoid conveying that any other behaviors are more important.
3. Encourage environments that allow employees to see their colleagues' positive behaviors, given employees typically only see the negative on their own.

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## Take Action

The following is an example of a leading medical company, Medtronic, that is working hard to get this right. Its approach can be applied to any type of organization:

Example of “How Goals” for Medtronic’s Employee Financial Objectives  
*Illustrative*

<p>Normalize Compliance and Ethics expectations on teams by defining “How Goals” that require visible actions from employees.</p>		
	<p><b>Business Objectives (“What Goals”)</b> What business goals an employee must achieve</p>	<p><b>“How Goals”</b> How an employee meets the visible Compliance and Ethics expectation while achieving the “What Goals”</p>
<p><b>Individual Contributor</b></p>	<p>Log all journal transactions in the new Financial IT system by the system cutover date.</p>	<p>Provide updates on project progress at departmental biweekly staff meetings and <b>foster discussion, encouraging candid feedback from others</b> on implementation efforts and issues.</p> <ul style="list-style-type: none"> <li>■ Measured by feedback from peers</li> </ul>
<p><b>People and Program Leader</b></p>	<p>Implement alternative payment models for region to increase X% in Q3.</p>	<p><b>Champion a team to partner with Regulatory and Legal</b> to inventory applicable laws and regulations governing the payment model by Q2.</p> <ul style="list-style-type: none"> <li>■ Measured by quality of interactions and inclusion in team meetings with Regulatory and Legal partners</li> </ul>
<p><b>Vice President and Above</b></p>	<p>Achieve 100% of annual sales targets and revenue.</p>	<p>Every two months, <b>communicate with the team about the importance of ethical decision making and raising concerns.</b></p> <ul style="list-style-type: none"> <li>■ Measured by team feedback, communications and presentations, and employee feedback about willingness to raise concerns (as reported in the cultural survey)</li> </ul>
<p>Ensure business objectives are met in a way that supports company values of ethics and integrity by linking “How Goals” to business objectives.</p>		

Source: Medtronic, PLC.; CEB analysis.

## Conclusion

Although improving a culture of integrity has been high on Compliance teams' radars for nearly a decade, little progress has been made. Typically, companies take a top-down approach, thinking that senior leadership's and middle management's trickle-down effect of ethical behavior will permeate through the entire organization, ultimately to the front lines.

Our research has proven that to see true results, Compliance and Ethics officers must take a closer look at climate—practices their employees are exposed to and peer behaviors they're surrounded by daily.

A strong climate yields significant cultural improvements to the business. It was alarming to learn that 71% of employees currently work in what is defined as a weak climate, but reassuring to know that companies are working hard to implement this new approach tied to climate. Advancement is on the horizon.

Contact us to learn more about this research and how we can help you improve your organization's culture through its climate.



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