



Measuring a Culture of Compliance - Case Studies in Determining Integrity Risk Factors

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Working Values

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Who We Are

CEBC

Mission

To assist business leaders in creating ethical and profitable business cultures at the enterprise, community and global levels

Background

- 28 year old nonprofit organization
- Began partnering in 1988 with University of St. Thomas
- Member of the Advisory Group to the US Sentencing Commission
- Advise Boards and Executive Leaders on “Tone at the Top”

Working Values

Corporate Profile

- Founded by David Gebler in 1992
- Pioneer in ethics awareness training
- Wholly-owned subsidiary of SmartPros Ltd.
 - ✓ Publicly traded on AMEX since November 2004
 - ✓ Headquarters in Hawthorne, NY
 - ✓ 87 Employees
 - ✓ Currently servicing over 30% of the Global 500 Companies
 - ✓ Acquired Skye Multimedia



Agenda

- Role of cultural assessments in identifying a company's internal and external integrity risks
- How to determine the effectiveness of existing ethics and compliance programs and creating models of desired ethical cultures and values
- How to create a unique action plan based on identified integrity risks



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Environmental Landscape

■ Ethics & the CEO

- ✓ 95% of employees ... CEO's ethics plays role
- ✓ 28% of employees feel own CEO displays integrity

■ Observed misconduct

- ✓ 26% report misconduct in the workplace

■ Failure to report

- ✓ 55% knew but failed to report ethical violation



■ Thompson Memo January 20, 2003

...management is responsible for a corporate culture in which criminal conduct is either discouraged or tacitly encouraged.”

■ Disconnect

Ethical issues can be discussed w/o negative consequences:

- ✓ 75% Senior Mgmt vs. 41% Front-line

Federal Sentencing Guidelines

- What's the best way to measure real effectiveness under the Guidelines?
 - ✓ “the organization shall periodically **assess the risk of criminal conduct**” –§8B2.1(c)
 - ✓ “the organization shall take reasonable steps to **evaluate periodically the effectiveness** of the organization's compliance and ethics program”- §8B2.1(b)5(B)

2005 National Business Ethics Survey

Ethical Culture Matters

The actions of leaders and peers significantly influence employees' ethics. For example:

- Where top management displays certain ethics-related actions, employees are 50 percentage points less likely to observe misconduct.
- Ethics-related actions of coworkers can increase employee willingness to report misconduct, by as much as 10 percentage points.
- When employees perceive that others are held accountable for their actions, their overall satisfaction increases by 32 percentage points.



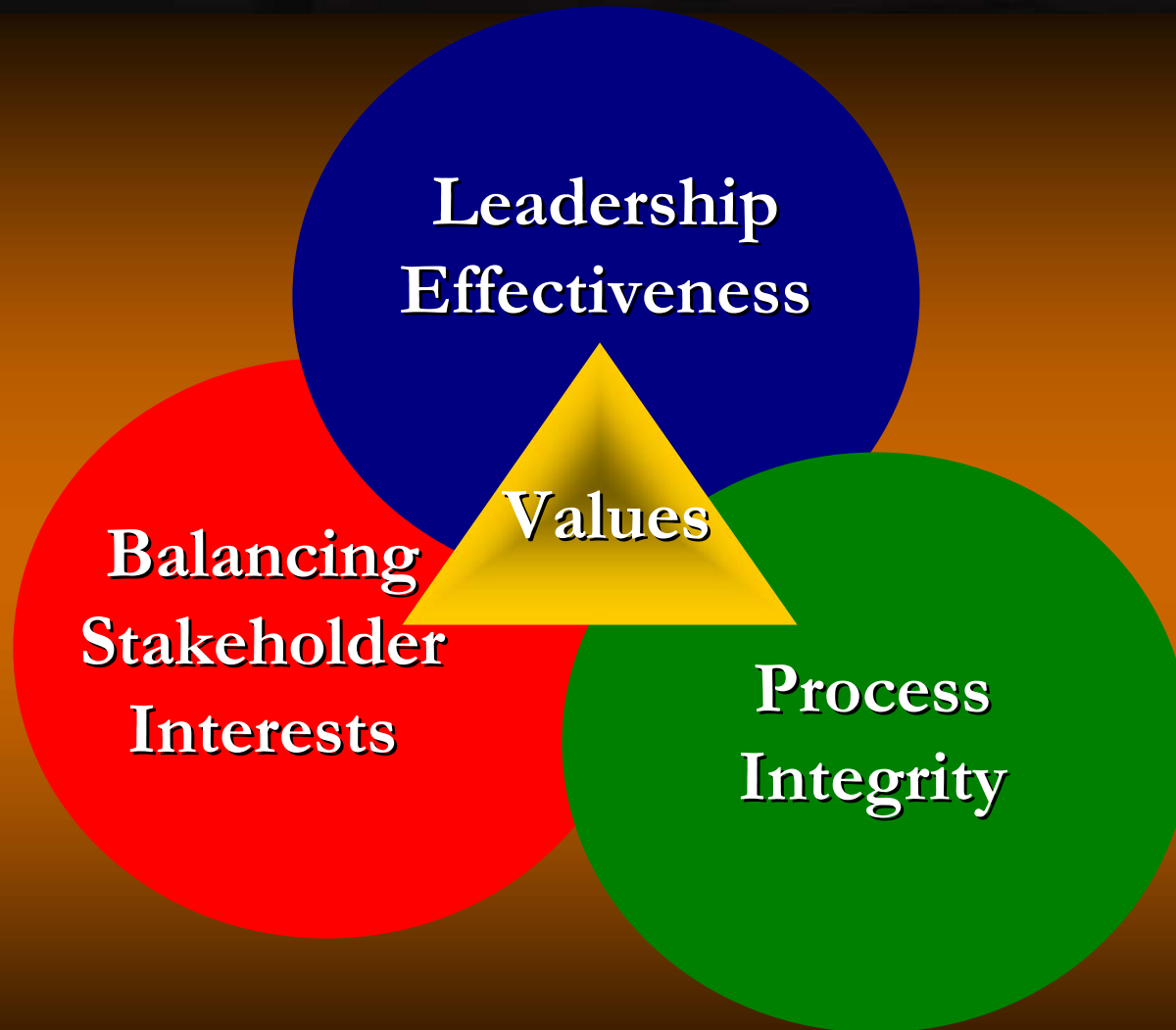
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CEBC Integrity Measurement ProgramTM
&
Leadership Development

Characteristics of an Ethical Culture

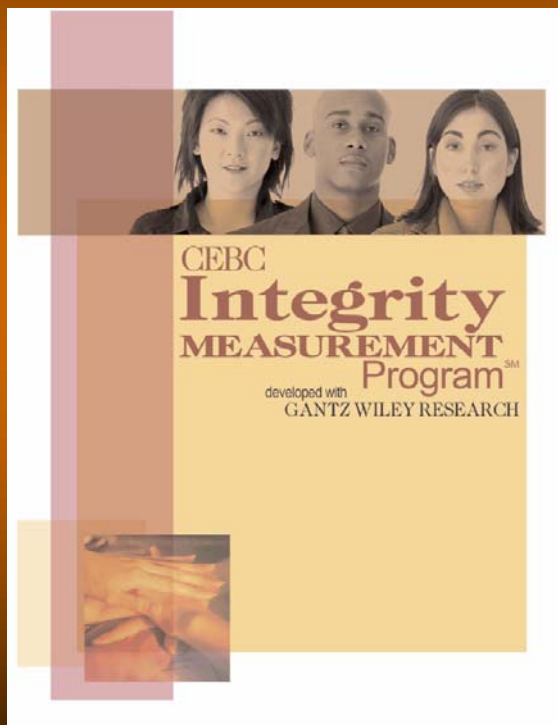


Integrity Themes

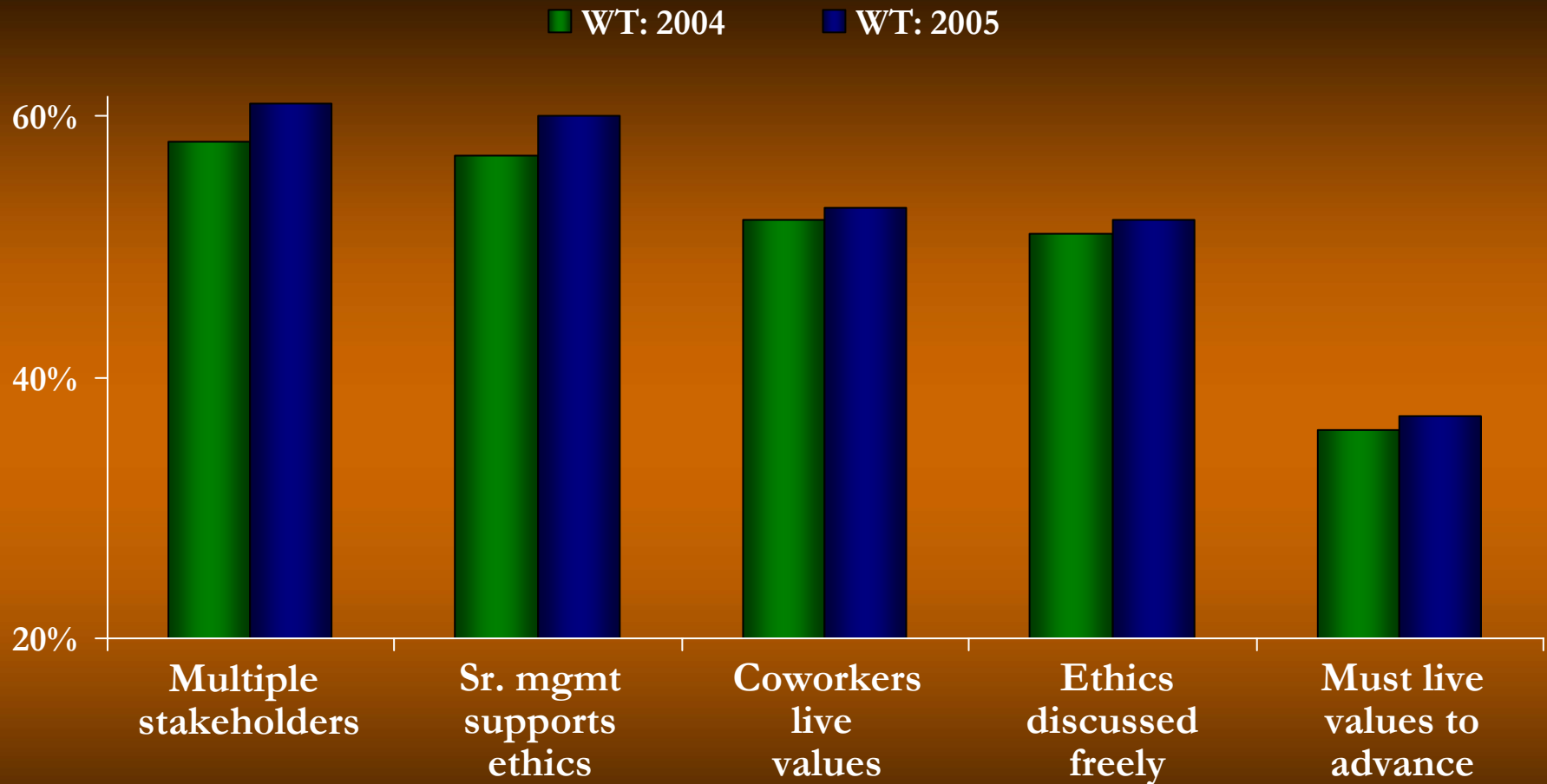
- *CEBC Integrity Themes:*

- ✓ Company serves interest of multiple stakeholders
- ✓ Senior management practices ethical conduct
- ✓ Co-workers behavior consistent with values
- ✓ Able to discuss ethical issues/concerns
- ✓ Must demonstrate company values to get ahead

- Benchmarked against *WorkTrends*TM normative data

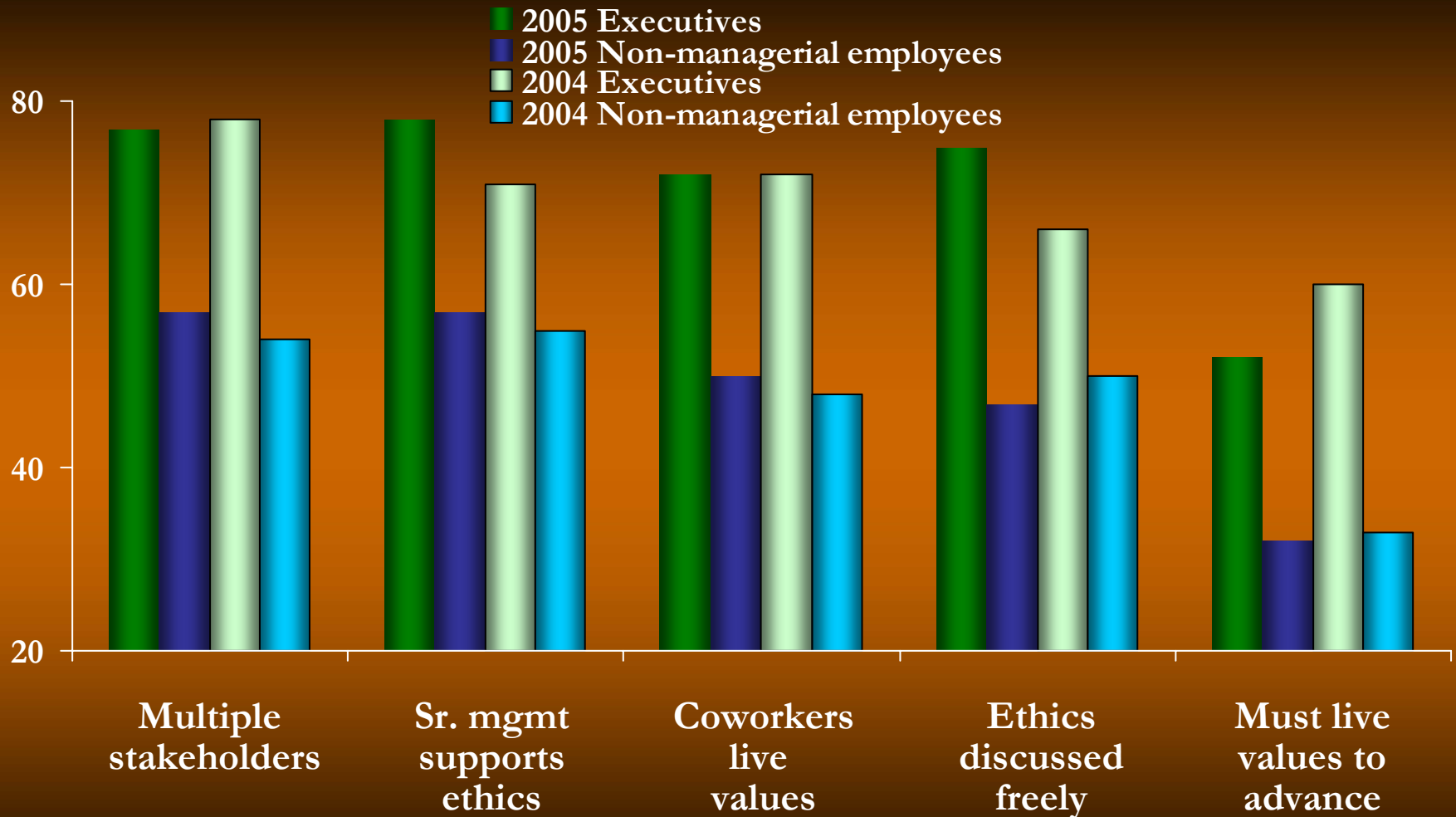


Overall Trends on Integrity/Ethics



Integrity QuickCheck™

Executives vs. Non-managerial

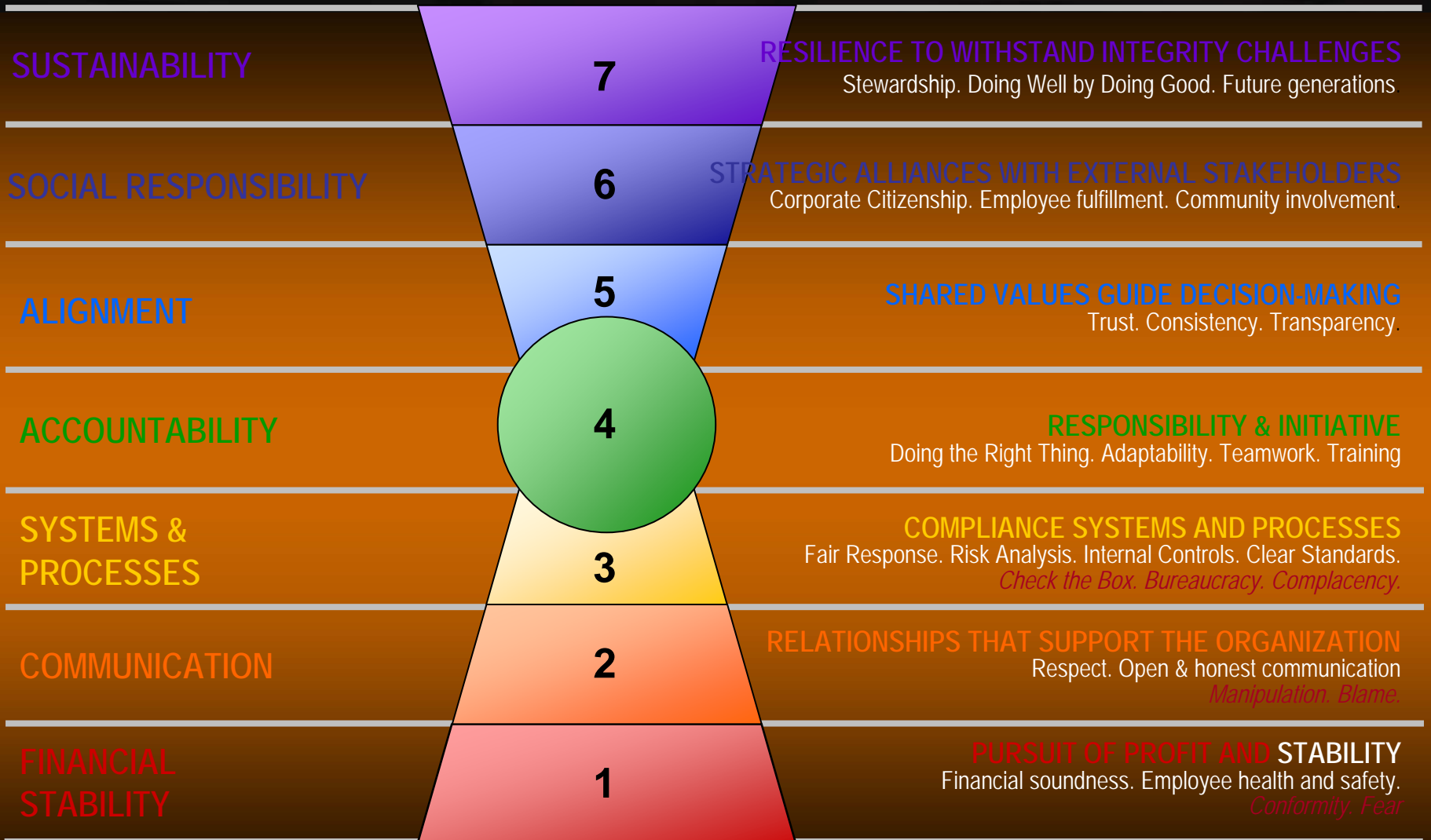




*Working Values
Culture Risk Assessment*

Seven Levels of an Ethical Organization

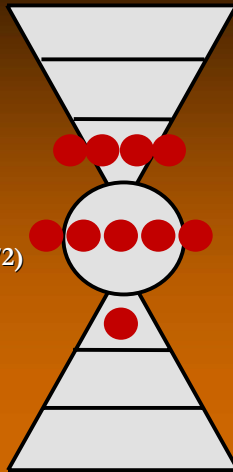
Positive Focus / *Excessive Focus*



XYZ Corp. (5391 Employee responses)

Personal Values

1. honesty (2068)
2. integrity (1766)
3. accountability (1714)
4. commitment (1665)
5. responsibility (1492)
6. reliability (1426)
7. balance (home/work) (1372)
8. positive attitude (1315)
9. continuous learning (1310)
10. adaptability (1292)

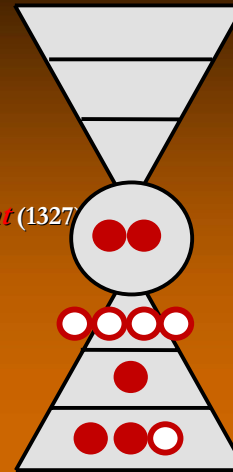


PL = 10-0
 IRS (P) = 8-2-0
 IRS (L) = 0-0-0

1 Match

Current Culture Values

1. cost reduction (2465)
2. bureaucracy (2457) (L)
3. uncertainty (1491) (L)
4. inconsistency (1436) (L)
5. customers first (1346)
6. continuous improvement (1327)
7. firefighting (1295) (L)
8. profit (1216)
9. long hours (1167) (L)
10. accountability (1149)

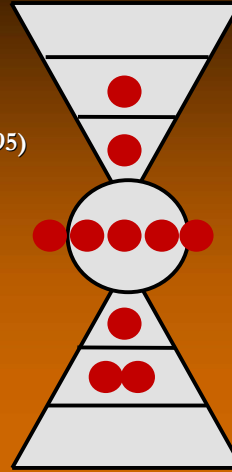


PL = 5-5
 IROS (P) = 0-1-4-0
 IROS (L) = 1-0-4-0

3 Matches

Desired Culture Values

1. accountability (2047)
2. quality and innovation (1854)
3. customers first (1747)
4. continuous improvement (1695)
5. best practices (1631)
6. integrity (1509)
7. innovation (1491)
8. employee recognition (1418)
9. customer partnerships (1306)
10. teamwork with focus (1268)



PL = 10-0
 IROS (P) = 2-3-5-0
 IROS (L) = 0-0-0-0

2 Matches

Underline = PV & CC match
Red = PV, CC & DC match
Red = CC & DC match
Blue = PV & DC match

LEGEND

P = Positive
 L = Potentially Limiting
 (hollow dots) O = Organizational
 I = Individual
 R = Relationship
 S = Societal



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Building & Sustaining the Ethical Culture

- **Closing the Leadership Gap**
 - ✓ **Focus Groups of Top, Middle and Front-line Employees**
 - ✓ **Identified Areas of consistent & inconsistent behavior**



CEBC

Leadership Development

- **Developing a Common Language Around Ethical Decision-making**
- **Teaching How to Move Beyond Compliance to Higher Standards of Behavior**
- **Creating & Sustaining an Environment of Managerial Courage ... “people speak up.”**



CEBC

Leadership Development

- **Refining the Systems that Reinforce Desired Behaviors:**
 - ✓ **Compensation**
 - ✓ **Hiring**
 - ✓ **Rewards**
 - ✓ **Promotion**
 - ✓ **Communication**
 - ✓ **Etc.**



Working Values

Summary of Integrity Risks

The Survey revealed three primary areas of focus for XYZ:

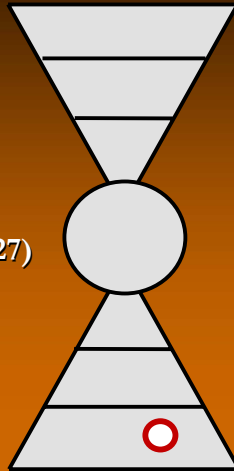
- Uncertainty leading to a crisis attitude of “do what it takes to meet the goal.”
- Bureaucracy and Firefighting leading to risk of actions outside of standards and controls
- Inconsistency leads to lack of independent decision-making creating vulnerabilities of group consensus driven complacency and rationalization

Working Values

Uncertainty

Current Culture Values

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Integrity Risks –

- Short-term focus and Crisis Management Attitude

Basis for Attitude –

- Perception that leadership has not filled vacuum left by prior management team

Solution –

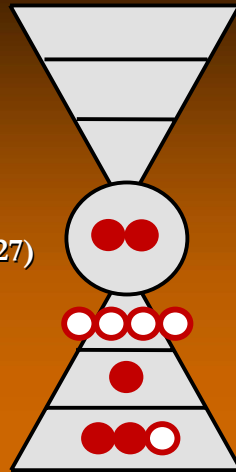
- Active and constant transparent communication starting from Senior Leadership Team
- Training focused on Trust Building

Working Values

Bureaucracy and Firefighting

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Integrity Risks –

- Independent “workarounds” to get things done
- Combination of Innovation and Customer Partnerships creates risk

Basis for Attitude –

- XYZ’s employees are creative and focused on serving customers; bureaucracy seen as getting in the way

Solution –

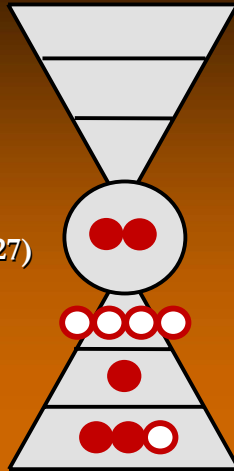
- High profile initiatives around Excellence in business practices and processes
- Tapping creativity of employees to solve challenges

Working Values

Inconsistency

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Integrity Risks –

- Lack of respect for decision-making and decision-makers

Basis for Attitude –

- Drive for consensus inhibits leadership

Solution –

- Active and constant transparent communication
- Trust Building
- Build on strong desire to serve customers

For Further Information

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