INSIGHTS FROM OUR CULTURE QUOTIENT DATA SET: VOLUME ONE

Elements of Ethical Culture, Observing and Reporting Misconduct, and Perceptions of Senior Leaders

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ETHICAL CULTURE MATTERS MORE THAN EVER

The world is tuning in to the benefits of an ethical culture. Investors such as State Street, Vanguard, and others are writing to CEOs about the importance of culture. Regulators around the globe are increasingly calling on organizations to examine their culture.

The Department of Justice's updated "Evaluation of Corporate Compliance Programs" guidance document makes it clear that measuring culture is key to a successful compliance and ethics program. The DOJ poses questions about culture surveys that show prosecutors' priorities:

▶ How—and how often—does the company measure its culture of compliance?

▶ Does the company seek input from all levels of employees to determine whether they perceive senior and middle management's commitment to compliance?

▶ What steps has the company taken in response to its measurement of the compliance culture?

Clearly, the DOJ expects organizations to use surveys to measure and track culture. In light of recent legal action against companies that don't measure up to the DOJ's standards, it's worth taking this guidance to heart.

The advantages of a strong ethical culture are manifold—studies have repeatedly shown 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, and when you do need to hire, it's easier to attract high-quality employees.

Customers and investors increasingly seek companies that they believe behave ethically; there are currently approximately 13 trillion

dollars under management in Environmental, Social and Corporate Governance (ESG) funds, all of them looking for trustworthy companies to invest in.

Ethical culture can also be self-perpetuating, with effects far beyond employees' individual conduct and perceptions. Employees at organizations with strong cultures feel less pressure to compromise company standards to achieve business goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it, allowing an organization to address issues early, saving 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.

However, even companies with policies in place may be at risk—many organizations have formal systems that say one thing, yet have cultures that promote another. When those kinds 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.

But what is culture? We all have a vague sense of what it is and what it looks like at our organizations, but it can be hard to define. Merriam Webster's 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? The factors that comprise culture can have a fundamental, long-lasting effect on a company's success. But how can an organization best get a handle on its culture? By measuring it.

WHY MEASURE?

Measurement works for several reasons. First, it focuses attention on what is being measured. When you provide employees with metrics that tell them whether they are succeeding, they will try to move those metrics.

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

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 about ethics and compliance issues does not provide a complete picture. A good engagement survey is no substitute for a culture survey, because how someone feels about their benefits, their work environment, and their colleagues is not a proxy for how likely they are to tell you when something's gone wrong in the company. And at the end of the day, that's your key metric— how likely are your employees to notice misconduct, and to tell you about it? That's simply not something an engagement survey can measure.

For one thing, the answers can be biased depending on where in the engagement survey these questions are placed. Place them near compensation and benefits, or near questions about the executive leadership team, and chances are strong the responses will be influenced by how an employee feels about those topics.

Instead, we recommend running a standalone culture survey. Not only does this yield better results, it also communicates to employees that the company takes culture seriously enough to conduct a survey specifically about it.

Top Three Reasons for a Standalone Ethical Culture Assessment

1 Measurement sends a message about expectations and importance of integrity

2 Provides a metric for tracking progress

3 Identifies hot spots for resource allocation

Ethisphere's Culture Quotient (CQ) Data Set

Ethisphere works with companies of all sizes to measure their employees' perceptions of the ethical culture at their organizations. Our data set has grown to encompass the responses of over a half million employees around the globe, in 30 languages, representing the views of nearly four million employees. From this category-leading compilation of current employee responses, we have pulled insights we will be sharing over the course of three reports.

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IN ETHISPHERE'S CULTURE QUOTIENT SURVEY, WE FOCUS ON EIGHT PILLARS OF CULTURE.

| PILLAR 1: AWARENESS OF PROGRAM & RESOURCES | PILLAR 2: PERCEPTIONS OF THE FUNCTION | PILLAR 3: OBSERVING & REPORTING MISCONDUCT | PILLAR 4: PRESSURE | PILLAR 5: ORGANIZATIONAL JUSTICE | PILLAR 6: MANAGER PERCEPTIONS | PILLAR 7: PERCEPTIONS OF LEADERSHIP | PILLAR 8: PERCEPTIONS OF PEERS & ENVIRONMENT |

AWARENESS OF PROGRAM AND RESOURCES

This pillar measures employees' reported level of familiarity with the assets and efforts of the compliance and ethics function. We track awareness of many different areas 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? Some of the issues that companies ask employees to grapple with—gifts and entertainment, hiring friends and family, insider trading—don't have globally intuitive solutions, so a key component of culture is whether people know where to find answers and will use those resources.

PERCEPTIONS OF THE FUNCTION

In this area, we measure 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 the assets you've created and deployed make it to employees in a meaningful way, or are they languishing somewhere on the intranet with no viewers?

OBSERVING AND REPORTING MISCONDUCT

Employees' level of comfort in reporting perceived misconduct, the reasons for doing so, potential reporting barriers, and the preferred method for reporting are all addressed in this pillar.

This pillar is critical, particularly the questions about reporting resources. Without a good understanding of the channels being utilized by employees, how does an organization know whether issues are surfacing? Don't assume that only getting 30 calls a year to your hotline means all is well—62 percent of employees who made a report say they took their concern to their manager. Does your case management system allow for easy intake of those issues? If not, you likely don't have a clear picture of what is really happening inside your organization.

This category also measures employee fear of retaliation, which is usually the number-one reason for not raising a concern ("I didn't think the company would do anything about it" is a close second).

PRESSURE

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

This pillar can demonstrate an alignment gap between stated values and company goals—employees may be told to follow the company's values and act with integrity, but if they also feel pressure to "make the numbers work" by any means necessary, they'll have a hard choice to make. Measuring pressure 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.

PILLAR 1: AWARENESS OF PROGRAM & RESOURCES	PILLAR 2: PERCEPTIONS OF THE FUNCTION	PILLAR 3: OBSERVING & REPORTING MISCONDUCT	PILLAR 4: PRESSURE	PILLAR 5: ORGANIZATIONAL JUSTICE	PILLAR 6: MANAGEMENT PERCEPTIONS	PILLAR 7: PERCEPTIONS OF LEADERSHIP	PILLAR 8: PERCEPTIONS OF PEERS & ENVIRONMENT

ORGANIZATIONAL JUSTICE

This section of the Culture Quotient 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. Do you have an organization where, to paraphrase *Animal Farm*, all employees are equal, but some employees are more equal than others? Just as important, do your employees believe that this is how your organization operates? For example, do they believe there is one ethical standard for the average employee and a different one for high performers? This perception of inequality can be just as damaging as actual inequality.

MANAGER PERCEPTIONS

This pillar gauges employees' perceptions of their supervisor's conduct, the effectiveness of managers' communication around ethics and compliance, and employees' comfort in approaching their managers with concerns. Understandably, employees look to their manager's behavior to see what matters most in terms of ethical leadership. How are your managers making employees comfortable with "near misses" or outright failures? What message about ethics and integrity are they passing along to their employees?

A majority of employees report issues and concerns to their managers, so it is vital that managers are creating a culture that encourages speaking up—even if that means acknowledging something that didn't go well.

When employees feel comfortable going to their managers with work-related issues,

> " 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.
>
> *Gretchen Gayett* [1] "

they will be more willing to speak to their managers about ethical issues, as well. Have your managers actually created this open-door environment? A well-constructed culture survey is the best way to find out. For many companies, their culture surveys have shown them that employees go to their managers for answers, and managers need to be prepared to answer their questions. As a result, these companies are increasingly rolling out manager guidance along with their policies.

PERCEPTIONS OF LEADERSHIP

This category evaluates employees' perceptions of the conduct, values, and communications of senior leaders—also known as "tone at the top." Do employees see a gap between what is in the code of conduct—or what their manager is telling them—and the conduct of the CEO? If so, this could lead to a lack of faith in senior leaders or the impression that they aren't practicing what they preach.

PERCEPTIONS OF PEERS AND ENVIRONMENT

This measures how employees perceive the ethical priorities of their coworkers and the values of their organization, as well as their willingness to share opinions. Peers, like managers and senior leadership, are an important source of information for their fellow employees about how a company does business. Their conduct must be consistent with other ethical messaging, in order to truly create a culture that values and promotes integrity.

[1] https://hbr.org/2014/05/when-we-learn-from-failure-and-when-we-dont

WHAT OUR DATA TELLS US ABOUT REPORTING: DO EMPLOYEES RAISE CONCERNS, AND TO WHOM?

For this volume of our series, we will focus on a few key trends around reporting: why employees speak up (or don't), whom they make their report to, and how they feel about the reporting process.

The good news for compliance professionals is that the vast majority of respondents in our data set—93 percent, or 451,985 people—say that, hypothetically, they would be willing to raise a concern if they saw something.

Almost 80 percent of our data set indicated that they have not seen anything to report. Which raises the question, did 93 percent of respondents who did see something report their concern? The answer, unfortunately, is no. Only 54 percent of CQ respondents who observed potential misconduct say they reported it.

> The 39-point gap here clearly indicates that there is more work to be done not only to encourage reporting, but also to assuage fears of retaliation.

Of the 17,433 individuals that indicated they reported observed misconduct, 60 percent did so to their direct supervisor; just 22 percent indicated they used the compliance helpline to report a concern. The obvious exposure point for organizations is ensuring managers are fully prepared to handle open-door reports. Perhaps most importantly, managers should be aware of how to avoid creating an environment where a reporting individual feels they have experienced retaliation. Managers who receive a report are often susceptible to allowing non-legal forms of retaliation, simply because they don't understand that the reporter perceives it as retaliation—for example, a high-profile project assignment going to a colleague or not being invited to a lunch outing.

THE DATA TELLS US

- 93% of respondents stated that if they observed unethical behavior, they would report it.

- Yet when employees actually observed unethical misconduct, only 54% reported it.

- 60% of those who raised concerns about unethical behavior reported it to their direct supervisor. Only 22% used the corporate helpline.
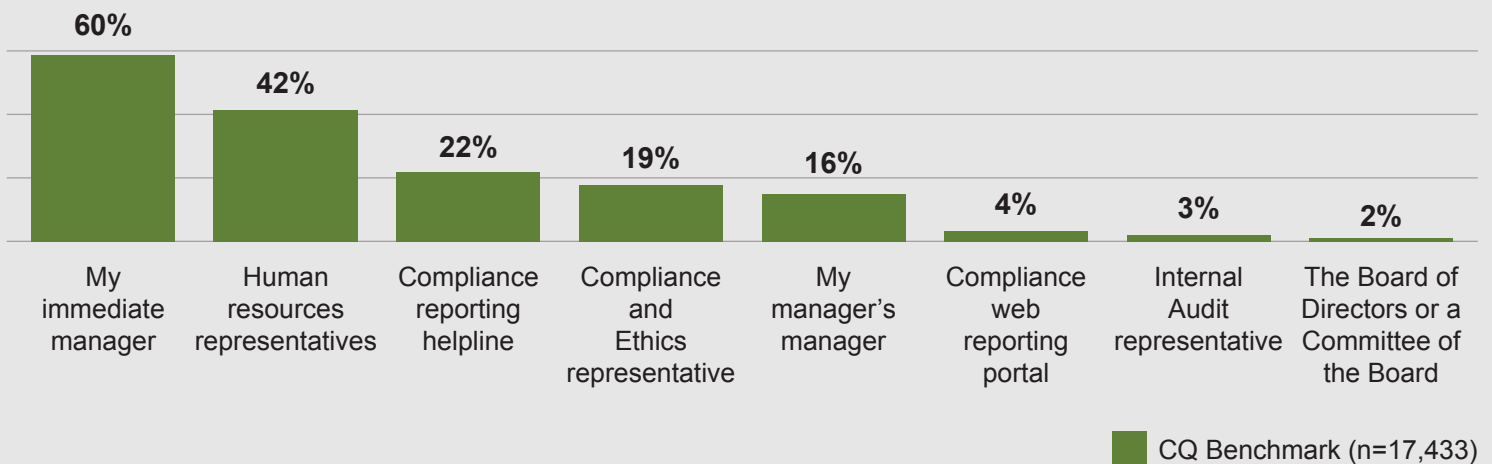
Turning Data into Direction: Questions to Consider

- Do you train your managers on their specific responsibilities related to ethics and the "soft skills" associated with empathetically handling employee concerns?

- Do you make sure your managers know the process for recording concerns or questions they receive?

- Do you equip your managers with example communications to help ensure they consistently get the message of integrity out as easily as possible?

Observing and Reporting Misconduct:
People Prefer Humans Over Technology

"How did you report the suspected misconduct or unethical behavior? (Please select all that apply)"

Category	Value
My immediate manager	60%
Human resources representatives	42%
Compliance reporting helpline	22%
Compliance and Ethics representative	19%
My manager's manager	16%
Compliance web reporting portal	4%
Internal Audit representative	3%
The Board of Directors or a Committee of the Board	2%

■ CQ Benchmark (n=17,433)

ISSUES WITH THE REPORTING PROCESS

Top five reasons why employees report being dissatisfied with how the reporting process is handled:

1. Outcome of the investigation was not clear
2. Outcome of the investigation did not seem fair
3. How the reporting process was handled by my manager
4. The lack of information received throughout the process
5. The lack of notification that the investigation was complete

Turning Data into Direction: Questions to Consider

▶ How are you currently following up with known reporters to let them know an investigation is done?

▶ How are you preparing managers to effectively support employees who raise a concern?

▶ How are you calibrating discipline across functions to make sure similar situations are treated consistently?

ADDRESSING FEAR OF RETALIATION

For employees who indicated they would not be willing to report, fear of retaliation and a lack of faith that corrective action would be taken are first and second in the list of reasons why—they are practically tied. This is one of the areas where demographic analysis is most interesting. For most organizations, there are pockets within the company where those fears tend to be stronger. This is not surprising, considering that only 81 percent of CQ respondents agree that their organization has a policy that prohibits retaliation against someone who makes a report. Likewise, just 77 percent agree disciplinary actions are taken when individuals engage in unethical behavior or misconduct at their company.

Also noteworthy is the fact that CQ respondents are more likely to strongly agree or agree that their manager supports the organization's non-retaliation policy than that the organization itself supports the policy (86 percent vs 80 percent, respectively[2]).Collectively, the data suggests that organizations have an opportunity to enhance the level of transparency around reporting, the investigation process, and disciplinary actions.

TIP: When measuring culture, demographic data can become a valuable guide for allocating resources.

WHAT THE DATA TELLS US

If employees have "favorable" sentiments about their leadership team acting ethically…

- ▶ **84%** are likely to be aware that the Company prohibits retaliation for reporting ethical misconduct.

- ▶ **85%** believe that disciplinary actions will be taken when individuals engage in unethical behavior.

If employees have "unfavorable" sentiments about their leadership team acting ethically…

- ▶ **75%** are likely to be aware that the Company prohibits retaliation for reporting ethical misconduct.

- ▶ **38%** believe that disciplinary actions will be taken when individuals engage in unethical behavior.

KEY INSIGHTS

If employees don't think that their leadership team "walks the walk," they are less likely to be aware of the non-retaliation policy and significantly less likely to believe the company actually does something when an individual engages in misconduct.

Taking a measured approach to informing all employees about what to expect and how they will be protected if they report unethical behavior can have a dramatic impact on overall employee perceptions. It is a signal to employees that the organization truly wants to conduct its business operations the right way. Specific points of information to consider conveying to all employees include:

- ▶ Average time period between claim intake and substantiation

- ▶ What level of communication to expect from the investigations team when employees make a report and during the investigation process

- ▶ What systems are in place to prevent retaliation against someone who reports (or witnesses) an ethical issue

- ▶ The entire spectrum of potential disciplinary outcomes for individuals that engage in misconduct

[2] n= 332,897 and 311,451, respectively

PERCEPTIONS OF SENIOR LEADERS

Tone at the top has, in many ways, become a trope—a term we use so often that it has lost its meaning. But our data shows us the tremendous impact that perceptions of senior leaders have on the average employee. Eighty-six percent of our data set say that senior leaders promote the importance of ethical behavior throughout the company, yet just 77 have faith that senior leaders act ethically at all times, with 19 percent indicating they don't know one way or the other. That's part of the reason why we always recommend that leaders leverage stories whenever possible, sharing with their direct reports how they reached a decision, how they may have struggled with it, and what frameworks helped them resolve that challenge. If the leader does not have a personal story to share, they can adopt a peer's story of a challenging situation and discuss the best way to handle it.

> " [Storytelling] forges connections among people, and between people and ideas. Stories convey the culture, history, and values that unite people . . . They build familiarity and trust, and allow the listener to enter the story where they are, making them more open to learning. Good stories can contain multiple meanings so they're surprisingly economical in conveying complex ideas in graspable ways.
>
> *Vanessa Boris*
> *Harvard Business Review[3]* "

For all of these reasons, managers and senior leaders need to take advantage of the value of storytelling.

The data also demonstrates the striking impact that neutral or unfavorable perceptions of senior leaders "walking the walk" can have on employees. Employees who do not have faith in senior leadership are 44 percent less likely to have reported a concern, 54 percent less likely to have faith the company enforces its non-retaliation policy, and a stunning 65 percent less likely to believe the rules are the same for everyone.

WHAT THE DATA TELLS US

If employees have "favorable" sentiments about their leadership team acting ethically…

▶ **67%** reported unethical behavior when observed.

▶ **88%** believe that the Company enforces its non-retaliation policy when ethical misconduct is reported.

▶ **92%** believe that their supervisor would comply with the non-retaliation policy.

If employees have "unfavorable" sentiments about their leadership team acting ethically…

▶ **37%** are likely to report unethical behavior that had been observed.

▶ **40%** believe that the Company enforces its non-retaliation policy when ethical misconduct is reported.

▶ **61%** believe that their supervisor would comply with the non-retaliation policy.

KEY INSIGHTS

Respondents who believed their senior leaders "walked the walk" when it comes to ethics reported misconduct 66 percent of the time, compared to just 37 percent of those who don't believe in leadership's commitment to acting ethically.

[3] https://www.harvardbusiness.org/what-makes-storytelling-so-effective-for-learning/

A WORD ABOUT DEMOGRAPHICS

The data gathered through a dedicated 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. Is it a particular region? Function? Business unit? A certain manager's direct reports? This is part of the reason we built a tool to help companies slice their data granularly. Any one of these profile pieces can help to target your training and audit resources more effectively, taking your program farther.

A robust, ethical culture is integral to the ongoing success of companies today. Employees want to work for companies with integrity, investors and other stakeholders also recognize and reward companies with purpose, and our data shows that this approach also offers an "ethics premium" relating to long-term financial performance.

ADDITIONAL RESOURCES

Interested in learning more about how leading companies assess and improve ethical culture? Check out the following resources and more at Ethisphere.com/ethical-culture.

WEBINAR

Ethical Culture: The Why, the What and the How of Measuring and Supporting Your Organization

Watch Now

SPOTLIGHT

Sony: Insights and Outcomes from Benchmarking Ethical Culture

Read Now

INSIGHTS

Ethisphere's Eight Pillars of an Ethical Culture

Read Now

INSIGHTS

The Business Case for a Standalone Ethical Culture Survey

View Now

INSIGHTS

Infographic: Measuring Ethical Culture & What Our Data Tell Us

View Now

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THE ETHISPHERE
ETHICAL CULTURE ASSESSMENT

## EASY TO IMPLEMENT

▶ Guidance by expert analysts to help design the survey to meet your requirements

▶ A full data base of questions and templates to use as a foundation

▶ Ethisphere manages the survey and engagement with your employees
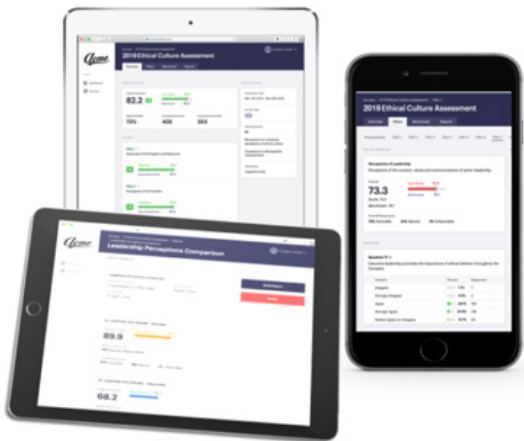
DATA AND REPORTING THAT MAKES A DIFFERENCE

▶ Insights into the ethical culture sentiment between divisions, locations, generations, and genders

▶ Benchmarking against a dataset of peer companies or the full Ethisphere data set

▶ Cloud-based reporting application enables unlimited data analysis and report creation
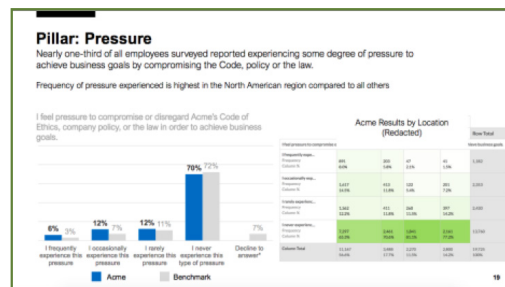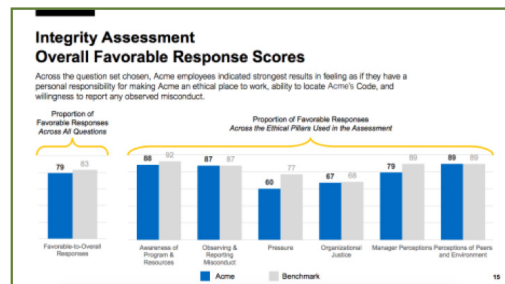
OPTIONS TO SUIT YOUR REQUIREMENTS

☑ **Ethical Culture Assessment:** One-time ethical culture survey to conduct a baseline, during times of transition or to address a specific business purpose

☑ **Ethical Culture Monitoring:** Includes the survey, ongoing access to the Culture Quotient (CQ) data set and reporting engine, multiple pulse surveys, continual spot checks to address organizational priorities, a dedicated data analyst/project manager to identify and align BELA resources and data to meet culture development strategies

ABOUT ETHISPHERE

Ethisphere is the global leader in defining and codifying the standards of ethical business practices that fuel corporate character, marketplace trust, and business success. Ethisphere has deep expertise in advancing business performance through data-driven assessments, benchmarking, and guidance.

Our Ethics Quotient data set enables the ability to benchmark against the ethics and compliance practices of leading companies across sectors and industries. We also work with the world's largest companies to assess and enhance ethical culture capital with the insights from our culture assessment data set, which represents the views of millions of employees worldwide and is grounded in our Eight Pillars of Ethical Culture.

Ethisphere honors superior achievement through its World's Most Ethical Companies recognition program and by showcasing best practices in Ethisphere Magazine and at global events. We also facilitate the Business Ethics Leadership Alliance (BELA), a global community committed to solving the big challenges of business integrity together.

More information about Ethisphere can be found at https://ethisphere.com.