

## Assessing Corporate Culture – Part II

By Ed Petry

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The relevance of culture to the success of an organization's compliance and ethics efforts is reasonably self-evident, and, as we pointed out in Part I, *Assessing Corporate Culture (ethikos*, March/April, 2005, Volume 18, Number 5), it is increasingly reflected in legal standards including the revised Sentencing Guidelines. In Part I, we presented several specific steps that compliance and ethics officers can take to begin the process of identifying their organizations' culture including:

- Conduct surveys, focus groups and interviews of employees and third parties to determine what people really think about the organization, what motivates them, what's rewarded and punished, and what are the "unspoken rules" and corporate stories that they believe best illustrate acceptable and unacceptable behavior;
- Distinguish and describe the important subcultures within the organization; and
- Identify what is really being heard by employees – which may be quite different from the message you and senior management are intending to convey.

Following these and others suggestions discussed in Part I, you can begin to identify trends and employee perceptions that, right or wrong, help shape your organization's culture. Through surveys, focus groups and interviews a picture of your existing

corporate culture and subcultures will begin to come into focus. This is a good first step and one that ought to be regularly repeated.

Two additional, low cost means of on-going cultural review are exit interviews and inserting ethics and culture questions into existing employee surveys. If nothing else is done, these two steps, along with the insights gleaned from your day-to-day discussions with managers and employees, should serve as the “canary in the mine shaft” – an alarm system to alert you if trouble is developing.

Ideally you should be continuously monitoring changes in corporate culture and periodically conducting a thorough review but, at the very least, a thorough culture review should be conducted following significant organizational changes including new leadership, mergers and acquisitions, and major reorganizations.

Perhaps the most common method used to assess elements of corporate culture is the “hard data” review which relies on readily available, easy to benchmark findings. Though commonplace and useful to a point, this approach tells only part of the story.

### **The Limits of the Hard Data Approach**

An important question for any compliance and ethics officer to regularly ask is whether or not their organization has a culture where employees are able to report wrongdoing without fear of retribution. One way to answer this question is to compile and benchmark helpline call volume and contact types (allegations vs. request for guidance, or “top ten” contact issues). If the compiled “hard data” compares favorably with peer companies, or if the year-

to-year trends seem positive, it is often concluded that, in this respect at least, the corporate culture is sufficient to support compliance and ethics. The culture box is checked. But is that the whole story?

It is well known that numerous factors have an impact on call volume and contact type including whether or not there has been recent training or other ethics communications, the maturity of the compliance and ethics initiative, if there are corporate-wide labor or personnel problems, press coverage of scandals in your industry, and performance review cycles. Have these and similar factors been considered before drawing conclusions from your data? Were these factors considered when compiling the data against which you are benchmarking? Do you know all of the factors and employee perceptions that might have an impact on your call data and that also should be taken into consideration?

### **Setting a Context for Assessment**

Call data on its own is unlikely to provide sufficient context for analysis. In addition to the numbers, you need to know how the type of issues being raised track against your organization's risk profile. For example, if you are a retailer you should expect to see a high percentage of contacts regarding employee theft. Financial service companies should see more calls regarding conflict of interests. Mature programs should see more questions than allegations, and, as your program gains acceptance, the number of anonymous calls should also be trending downwards.

As the Sentencing Guidelines emphasize, an assessment of your internal reporting system – indeed assessments of any element of your compliance and ethics program – must be

informed through company-specific, ongoing risk assessment. Before you assess any program element, including your helpline, you must have a clear sense of your company's risk areas.

One of the ironies of the more narrow "hard data" approach to culture assessment is that it risks reducing culture to yet another "check the box" element for compliance and ethics programs. This is 180 degrees opposed to the direction that was intended by the revisions to the Guidelines. The culture requirement was added to the Guidelines to encourage organizations to look beyond the seven compliance and ethics program elements and to recognize the importance of integrated, corporation-wide commitments to ensure effective compliance.

For example, the revisions spell out responsibility of all leadership in the area of ethics and compliance, not just those with designated compliance and ethics responsibilities. As should be obvious, while there may be common themes and best practices from company to company, an integrated, corporate-wide commitment by your leadership team in support of a positive corporate culture must take into consideration critical elements that are unique to your organization: your CEO's vision, your corporate history and legacy, the personalities and styles of your senior leadership team, your organization structure, how your employees best communicates, where the power lies within your company, your business model, incentive plans, geographic locations, industry, regulatory history, and on and on.

The Sentencing Guidelines' revisions also aimed at moving organizations beyond the increasingly popular standardized approach to ethics. While there may be value to some in

creating uniform, standard, “best practice” models, the revisions emphasized the importance of company-specific, on-going risk assessment that require continuous fine tuning of all program elements to meet the actual, evolving risks faced by your company. In setting the context for assessing your organization’s culture there is no short cut around company-specific risk assessment. Describing your company’s culture is the first step. Conducting a company-specific risk assessment to determine how your culture aligns with your risks is the second. Only then will you be in a position to determine if your culture enhances ethics and compliance and helps minimize risks or, on the contrary, is a risk factor itself.

Conducting a risk assessment is a necessary step in providing a context for culture assessment but, as significant as it is, it is not sufficient. As we emphasized in Part One, your culture should be a strategic corporate asset and, consequently, your compliance and ethics efforts should also be aligned with your strategic goals.

For example, if your organization is committed to growth and if your CEO has regularly emphasized innovation, capitalizing on opportunities, and making the most of synergies across the company, then your culture should be one that sustains innovation, the open sharing of ideas, opportunism, and optimism. Returning to our analysis of call data, in this example you need to ask, “What does your call data tell you about open communication within your company?” If you receive a significant percentage of calls from employees who are concerned about managers who they believe are closed-mind, contrary to what you might at first think, such calls are in fact very good news. The fact that employees are calling regarding such problems indicates buy-in by them to the CEO’s vision and it demonstrates their active support for the company’s strategic goals. It also provides valuable input toward

an action plan to position compliance and ethics as a key strategic asset to further the goal of open communication and innovation. On the other hand if such calls are few, or if your contact categories don't even capture such calls, then your data is largely useless and irrelevant from a strategic point of view.

### **Corporate Culture “Deep Dive”**

At the close of Part I we suggested one approach to assessing corporate culture: a “deep dive” into your culture utilizing a series of questions and assessment tools that track the elements of the revised Sentencing Guidelines. While such an assessment can be done internally, it may be wise to select a third party that has experience conducting such assessments for other companies. In this way, you will not only gain valuable insights into your own organization, but the experienced third party will also be able to provide analysis and benchmarking that will measure your culture against other comparable companies. The Ethical Leadership Group, for example, includes the following as part of a series of questions in its “deep dives” into corporate culture. The questions roughly track the elements of the revised Sentencing Guidelines:

- Is there consistency and clarity within your organization regarding the limits of acceptable behavior?
  - Do employees feel they have sufficient guidance on ethical behavior? Are standards and policies not only thorough and clearly written but are they also regularly discussed? If such discussions do occur, are they perceived to be a priority and are they positively received, or do employees view them as a necessity intended only to “cover” the company in the event of trouble? Do employees talk among themselves about the limits of acceptable behavior? Is

there a sense of “how things ought to be done here,” or are employees uncertain about where the lines are drawn? Do employees often talk about “the way it used to be” but no longer is? Does this indicate that the company’s stated values are no longer enforced? If yes, what has replaced them?

- Does the Board and management act in accordance with their responsibilities to build and sustain a commitment to ethics and compliance?
  - Do employees hear their supervisors and managers discuss ethics and compliance issues? Are they credible? Are they proficient? Do the leaders feel it is part of their responsibilities as leaders to “talk about ethics” or do they see that as your job? Do managers at all levels set a good example of living up to the company’s stated values and norms? Does leadership recognize the breadth of issues that employees think of as ethics issues (including fairness, respect, equity, and executive compensation) or are they out of sync with employees’ view and persist in believing that “ethics” is limited to a narrow range of issues including conflict of interest and gifts and gratuities, and not much else?
- Is compliance, ethics or even legal requirements – or the people responsible for them at the company – marginalized?
  - Do senior managers support the efforts of the compliance and ethics or do they believe it is an unfortunate necessity? Are jokes or disparaging comments made about compliance and ethics? Is your ethics office provided with sufficient resources and clout? Are you a member of all committees and leadership groups that leaders and employees recognize as the seats of power and authority throughout the organization? Do you have all the access that is required?
- Do performance goals and incentives encourage and put unreasonable pressure on employees to act contrary to ethics and compliance standards?
  - Do employees perceive the level of pressure to meet goals to be unreasonable? Do they often complain that performance reviews, downsizing or reorganization efforts are unfair or handled poorly? What is their perception of Human Resources? Do they believe they receive sufficient support? Do employees feel respected and valued or do they believe management thinks of them as

commodities not people? How is employee morale? Is it uniform throughout the organization or are there locations where it is low? What is causing the low morale? What is being done to address these risk areas? Are there indications that pressure may be pushing employees to bend rules? Do employees all seem to know stories of colleagues who have crossed the line because of pressure?

- Do employees feel they can ask questions or raise concerns?
  - Are employees using internal reporting systems in numbers comparable to other peer organizations? Are employees familiar with how the reporting system works? Is there trust in the system or are they suspicious? When asked, do they demonstrate an understanding of how the system works and what happens when one calls? Do they understand and accept the necessary limits on confidentiality? Do they fear retaliation from supervisors? From peers? Do they have stories to tell about what has happened to friends who have called in? Are the stories positive? Negative? True or untrue? If you use a vendor to handle your helpline do you regularly test the call-in, feedback and documentation services? Have you tried calling your switchboard and asking for the ethics officer? How was your call routed?
- Is bad conduct tolerated – especially at the senior level?
  - Do employees believe that top performers who violate the company’s code of conduct will nevertheless be “promoted or tolerated.” Are employees right? What methods – if any - are used to inform employees of disciplinary actions that have been taken?

Many compliance and ethics officers mistakenly assume that it is impossible to objectively measure their company using these or similar cultural indicators. In fact, this has become a perennial comment heard at best practice conferences: “ethics can’t be measured” and “culture is too vague a concept to be meaningful.” Repeating these claims does not make them true, but the prevalence of this mistaken view does convince some who wrongly

conclude that such an assessment would be impractical and purely subjective. Many are simply unaware that such assessments have been done for years and that extensive databases of comparable, benchmarked results are available.

In sum, there are five key steps in assessing your corporate culture:

- First, begin by carefully uncovering and describing your culture and various subcultures.
- Second, once you have described your existing culture you are then in a position to turn to assessment, but avoid the temptation to rely exclusively on broad, “hard data” benchmarks that, though helpful to a point, are limited in their usefulness.
- Third, integrate your culture assessment with your ongoing risk assessment. Aim at ensuring that your culture supports your compliance and ethics efforts and that those efforts are designed to meet your company’s actual risks.
- Fourth, assess your culture and your compliance and ethics initiatives in terms of your company’s strategic goals. This will ensure relevance for your work; improve buy-in, and clearly position culture, compliance and ethics as a vital business asset.
- Fifth, periodically conduct a “deep dive” into your organizations culture and take full advantage of the available benchmarked information.