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Corporate culture:
The second ingredient in a world-class ethics and compliance program

A culture of ethics and compliance is at the core of a strong risk management program
In a business environment where reputational threats lurk around every corner, a strong culture of ethics and compliance is the foundation of a robust risk management program. The lessons learned related to scandals and organizational crises that trace back to the early 2000s make one thing clear: without an ethical and compliant culture, organizations will always be at risk.

As a fundamental component of an effective ethics and compliance program, culture is now referenced by the U.S. Federal Sentencing Guidelines, which include expectations for organizations to promote an "organizational culture that encourages ethical conduct" and "compliance with the law." Furthermore, the Organisation for Economic Co-operation and Development's (OECD's) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions refers to the importance of a strong culture of organizational ethics. More and more, culture is moving from a lofty, "squishy" concept to something that should be defined, measured, and improved (see figure 1).

Figure 1: Culture is the foundation
The Deloitte Ethics and Compliance Framework recognizes that an ethical culture is the core element of an organization's ethics and compliance program. If the culture of the organization does not support principled performance, then all of the people, processes, and technologies that are put in place to mitigate ethics and compliance risks cannot be effective.

Culture has always been important to how organizations operate. So why is it getting so much attention lately? One reason is that regulators have come to the realization that without a culture of integrity, organizations are likely to view their ethics and compliance programs as a set of check-the-box activities, or even worse, as a roadblock to achieving their business objectives. In fact, organizations responsible for some of the most egregious acts of malfeasance have had quite impressive, formalized ethics and compliance guidelines. The problem was that either leadership or a group of influential insiders operated outside of those guidelines.

What is "culture"?

Culture is one of the biggest determinants of how employees behave. Strong cultures have two common elements: there is a high level of agreement about what is valued, and a high level of intensity with regard to those values. Of course, not all cultures encourage good or ethical behaviors. When it comes to developing world-class ethics and compliance programs, the starting point is a positive culture of integrity.

Given the regulatory focus on fostering an ethical culture, many organizations are conducting assessments leveraging internal and/or external resources to review their overall programs to ensure both ethics and compliance are addressed.

The balance of this article will provide practical guidance for leaders to consider in creating a culture of integrity.

Grounding a culture in integrity

A culture of integrity is generally characterized by:

- **Organizational values:** A set of clear values that, among other things, emphasizes the organization's commitment to legal and regulatory compliance, integrity, and business ethics.
- **Tone at the top[1]:** Executive leadership and senior managers across the organization encourage employees and business partners to behave legally and ethically, and in accordance with compliance and policy requirements.

- **Consistency of messaging:** Operational directives and business imperatives align with the messages from leadership related to ethics and compliance.
- **Middle managers who carry the banner:** Front-line and mid-level supervisors turn principles into practice. They often use the power of stories and symbols to promote ethical behaviors.
- **Comfort speaking up:** Employees across the organization are comfortable coming forward with legal, compliance, and ethics questions and concerns without fear of retaliation.
- **Accountability:** Senior leaders hold themselves and those reporting to them accountable for complying with the law and organizational policy, as well as adhering to shared values or organizational values.
- **The hire-to-retire life cycle:** The organization recruits and screens employees based on character, as well as competence. The on-boarding process steeps new employees in organizational values, and mentoring also reflects those values. Employees are well-treated when they leave or retire, creating colleagues for life.
- **Incentives and rewards:** The organization rewards and promotes people based, in part, on their adherence to ethical values. It is not only clear that good behavior is rewarded, but that bad behavior (such as achieving results regardless of method) can have negative consequences.
- **Procedural justice:** Internal matters are adjudicated equitably at all levels of the organization. Employees may not always agree with decisions, but they will accept them if they believe a process has been fairly administered.

Organizations with strong positive cultures create trusting relationships with stakeholders. In our experience, those relationships become reciprocal; that is, stakeholders trust the organization and the brand. This creates employee, customer, and supplier loyalty. A strong culture helps to build positive relationships with regulators and it helps attract long-term investors. Ultimately, a culture of integrity is reflected in superior, long-term performance.

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[1] For more information on tone at the top, see the first article in our series: www.deloitte.com/us/toneatthetop

Facing up to the challenges

More and more organizations are choosing to create additional structure around their ethics program. This can include the appointment of a Chief Ethics Officer (or expanding the Chief Compliance Officer's role to include specific responsibility for the ethics program), enhancing the code of conduct and related controls and procedures, and improving accountability for ethical behavior through training and performance assessments. These actions are a great start toward the creation of a strong culture and will benefit the broader efforts around risk management and compliance.

Establishing a strong culture of integrity is not a discrete project with a beginning and an end, nor is it always smooth sailing. Despite best efforts, many organizations may run up against a number of obstacles.

Defining the culture

Most leaders believe they understand and can define their organization's culture. However, often there is a gap between management's perception of the culture and how the rest of the organization views it. It is a mistake for leaders to assume they always have their finger on the pulse of the organization's culture. To get a more accurate picture, organizations can set up listening posts, such as cultural assessments using employee surveys and outside observers. It is especially helpful to offer avenues, such as focus groups, run by third parties, for employees to provide open-ended responses that truly reflect their perceptions of the organization.

Instilling culture and values throughout the organization

While executive leadership may work hard to establish a culture of integrity at headquarters, something often gets lost in translation as one moves farther away from the central office. This is why attention to culture needs to be active and continuous, especially in large organizations with distant outposts. Values—with ethics and integrity at their core—must be clearly and consistently communicated. Messaging needs to be explicit and repeated, so that it becomes embedded in how work gets done.

Communicating culture can be especially challenging when crossing borders. It is important that everyone understands the expected behaviors of the organization and the principles against which decisions will be made. Values need to be articulated in a manner that transcends nationality— for example, the concepts of honesty and trustworthiness are universally acknowledged. Nevertheless, it is important to recognize that cultural differences will influence how messages are heard and interpreted, and adjustments may need to be made in training, employee onboarding, and performance reviews.

Extending cultural values to mergers and acquisitions (M&A)

Cultural fit is one of the biggest stumbling blocks in integrating a merged or acquired organization; in fact, it is one reason such transactions fail, despite the potential business benefits. This is why executives may want to conduct a cultural "audit" as part of the due diligence process. If the target company's values diverge significantly from those of the buyer, this could be a red flag. A well-developed integration plan will ensure both entities understand and reinforce desired values. From day one, management needs to let new employees know that they are welcome. At the same time, leaders need to communicate how the organization expects them to behave and how they can expect to be treated in return.

Handling the naysayers

Nothing will damage culture more than the malcontents. When people get in the way of supporting the culture, they can cause roadblocks and undermine the efforts of the organization. They must be identified, counseled, and offered the opportunity to conform to expected behavior, or they should be separated from the organization. Training programs focusing on ethics and compliance are one way to communicate values to individuals who may need additional reinforcement. As a next step, performance reviews should be structured to include an evaluation of an individual's results and should reflect how those results were achieved. Some organizations even make adhering to values part of the goal-planning process by setting objectives that are tied to specific cultural elements.

Battling values fatigue

While ongoing communication is essential, organizations should avoid delivering exactly the same message again and again. This is because messages can get stale, causing employees to ignore the underlying values and principles. Communicating values is much like a marketing campaign—it needs to capture people's attention and use different content, formats, and communication channels to remain fresh. One way to achieve this level of interest is through the power of stories. Stories cannot only make values concrete, they connect people to those values in ways other forms of communication cannot.

Addressing leadership flux

When organizations experience rapid turnover of CEOs and other senior leaders, maintaining a consistent identity and set of values can sometimes be a challenge. Clearly, selecting the right individuals to lead the organization is critical. If everyone in the organization lives its values, then promoting from within is one way to ensure those values remain intact. But that is not always either practical or possible. The board is usually involved in external hiring of senior leaders, especially CEOs. They need to pay particular attention to cultural fit and consider candidates who are not only competent, but who have the chemistry, character, and moral capability to inspire and win the hearts and minds of all stakeholders. Regardless of the CEO selection, it is important that culture not be dependent on a single person or group. A robust ethics and compliance program—appropriately designed, positioned, and resourced—will survive executive changes at the top of the organization.

Appealing to a cross-generational workforce

Revolving leadership is not the only source of change that can undermine culture. Employee turnover can threaten it as well. Organizations today need to appeal to the most multi-generational workforce in history.[2] For both financial and other reasons, baby boomers are not retiring the minute they hit age 65. Many are choosing to remain employed, sometimes postponing promotional opportunities for younger, Generation X workers. At the same time, Millennials entering the workforce are often

Reinforcing culture and values

Create listening posts: Conduct cultural assessments that get at the core of how people behave and what they think.

Maintain a healthy mood in the middle: Much hinges on middle management's ability to translate tone at the top into the policies and practices that drive everyday behavior.

Keep it interesting: Find new and innovative ways to communicate cultural values and reward values-based behavior. Encourage storytelling to bring values to life.

Play fair: Reward the right behaviors and penalize the wrong ones. Don't play favorites.

Shout it from the rooftops: Leaders tend to undercommunicate values and expectations. In this case, more is better.

driven by a sense of purpose and crave a more collaborative culture. They are more likely to pursue portfolio careers in which they change jobs frequently to seek organizations that fit with their values. To create cultures with staying power, organizations must therefore foster an environment that balances a "something for everyone" appeal, with a set of consistent values that all generations will be able to embrace.

Conclusion

An organization is a community of people with common interests and shared values, banded together to achieve a common goal. When people work together toward these shared goals, success follows. When organizations are torn apart by distractions that are not aligned at the core, failure follows. Building a culture of integrity not only fortifies the organization against risk, but also builds both employee engagement and strong loyalties with all stakeholders. In the long run, a positive culture of integrity is the foundation for an effective ethics and compliance program, which, when properly embedded into an organization, can create a competitive advantage and serve as a valuable organizational asset.

[2] Global Human Capital Trends 2014: Engaging the 21st-century workforce, Deloitte.
http://dupress.com/wp-content/uploads/2014/04/GlobalHumanCapitalTrends_2014.pdf

Contacts

Please contact one of our Enterprise Compliance Services leaders for more information.

Nicole Sandford
Partner | Deloitte Advisory
National Practice Leader,
Enterprise Compliance Services
Deloitte & Touche LLP
+1 203 708 4845
nsandford@deloitte.com
Stamford, CT

Keith Darcy
Independent Senior Advisor to
Deloitte & Touche LLP
+1 203 905 2856
kdarcy@deloitte.com
Stamford, CT

Maureen Mohlenkamp
Principal | Deloitte Advisory
Deloitte & Touche LLP
+1 212 436 2199
mmohlenkamp@deloitte.com
Stamford, CT

Brian Clark
Partner | Deloitte Advisory
Deloitte & Touche LLP
+1 816 802 7751
bclark@deloitte.com
Kansas City, MO

Laurie Eissler
Director | Deloitte Advisory
Deloitte & Touche LLP
+1 313 396 3321
leissler@deloitte.com
Detroit, MI

Nolan Haskovec
Senior Manager | Deloitte Advisory
Deloitte & Touche LLP
+1 212 436 2973
nhaskovec@deloitte.com
New York, NY

Kevin Lane
Principal | Deloitte Advisory
Deloitte & Touche LLP
+1 214 840 1577
kelane@deloitte.com
Dallas, TX

Thomas Nicolosi
Principal | Deloitte Advisory
Deloitte & Touche LLP
+1 215 405 5564
tnicolosi@deloitte.com
Philadelphia, PA

Holly Tucker
Partner | Deloitte Advisory
Deloitte Financial Advisory Services LLP
+1 214 840 7432
htucker@deloitte.com
Dallas, TX

Additionally, feel free to reach out to our team of former compliance officers who are located across the country and experienced in a wide variety of industries.

Martin Biegelman
Director | Deloitte Advisory
Deloitte Financial Advisory Services LLP
+1 602 631 4621
mbiegelman@deloitte.com
Phoenix, AZ
Industry: Technology

Rob Biskup
Director | Deloitte Advisory
Deloitte Financial Advisory Services LLP
+1 313 396 3310
rbiskup@deloitte.com
Detroit, MI
Industry: Consumer & Industrial Products

Timothy Cercelle
Director | Deloitte Advisory
Deloitte & Touche LLP
+1 216 589 5415
tcercelle@deloitte.com
Cleveland, OH
Industry: Insurance

Michael Fay
Principal | Deloitte Advisory
Deloitte & Touche LLP
+1 617 437 3697
mifay@deloitte.com
Boston, MA
Industry: Investment Management

Howard Friedman
Director | Deloitte Advisory
Deloitte & Touche LLP
+1 713 982 3065
hfriedman@deloitte.com
Houston, TX
Industry: Energy & Resources

George Hanley
Director | Deloitte Advisory
Deloitte & Touche LLP
+1 973 602 4928
ghanley@deloitte.com
Parsippany, NJ
Industry: Insurance

Peter Reynolds
Director | Deloitte Advisory
Deloitte & Touche LLP
+1 973 602 4111
pereynolds@deloitte.com
Parsippany, NJ
Industry: Investment Management

Thomas Rollauer
Director | Deloitte Advisory
Executive Director, Deloitte Center for Regulatory Strategies
Deloitte & Touche LLP
+1 212 436 4802
trollauer@deloitte.com
New York, NY
Industry: Financial Services/Banking & Securities