GAN INTEGRITY

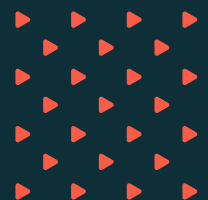# Ethics empowered:

How to shift mindsets, improve compliance, and harness the power of an ethically driven workforce

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Introduction

Compliance officers and corporate leaders talk constantly about the importance of ethics to organizational success, and for good reason: because an ethically minded workforce is the key to success in our modern business landscape.

That is, the more traditional idea of treating corporate compliance as a check-the-box exercise — going through the motions of audits and reports done simply because regulations say you must — is no longer fit for purpose. Global corporations now face too many regulations, and too much scrutiny from too many stakeholders, for that approach to succeed. A company can spend countless sums on compliance efforts (many companies do) only to suffer more ethics and compliance scandals anyway.

There is a better approach. Empower the ethics of your workforce.

A focus on ethics cuts through the "compliance clutter" to help employees understand and do the right thing. The need for compliance programs will never recede, of course; but when a company fosters a strong ethical climate, the compliance obligations it faces become much easier to manage.

Still, empowered ethics is easier said than done. Compliance officers need a keen understanding of how to make it work, the business benefits it can deliver, and how to lead executives beyond their comfort zone to make that shift in mindset. This paper explores how to get that done.

How does a company make such a shift?

Harnessing the ethical power of your workforce requires two shifts.

First is a shift in organizational culture. Senior management must go beyond simply declaring what the company's ethical values are, and expressly state that ethical behavior is the company's top priority. Then management needs to prove that point by establishing incentives for ethical behavior.

This is no mere hair-splitting distinction. The truth is that most employees already have a good sense of corporate ethical values. They're just not certain when to act on those values, especially if acting on ethical concerns might conflict with other business objectives such as closing a sale or meeting a product deadline.

So when we talk about management's role in establishing an ethical corporate culture, the work here is more about sending a clear message that, yes, employees should put ethics first; and then follow up on that principle with measures that give employees the incentive to act ethically. To site some examples:

- Compensation and promotion policies that include metrics for ethical behavior.

- Procurement policies that include due diligence on third parties to identify past misconduct, or clauses requiring a commitment to your Code of Conduct.

- The formation of in-house committees to review and discuss the company's ethical performance at regular intervals.

All those steps, however, only give employees the incentive to act ethically. Companies still need to *empower* employees to act ethically, in tangible and practical ways.

That is the second shift that needs to happen: *a shift in compliance program operations,* to give employees the tools and support they need to act ethically. Compliance officers should dwell less on, "How does our program meet our regulatory obligations?" and more on, "How does our program help employees act ethically?"

This is where the practical parts of a compliance program enter the picture, including, but not limited to:

- Internal whistleblower hotlines accessible and easy to use.

- Clear policy manuals that help employees answer their own questions quickly, about conflicts of interest, harassment, corruption, or other issues that might arise.

- Third-party due diligence and risk management tools and procedures that automate much of the work, so that employees aren't overwhelmed with tedious, repetitive searches for data.

- Investigation and case management tools that let compliance teams resolve issues promptly, so that employees know their allegations are heard.

In short, connecting ethics and compliance is about alignment. Senior management and compliance officers need to assure that the company's ethical priorities, corporate policies, and compliance tools all work together; so that employees can put ethics at the center of what they do.

" Connecting ethics and compliance is about alignment."

What benefits arise from empowered ethics and connected compliance?

The benefits are many, but if employees are the most important part of a corporation, we can start there: a more ethically engaged workforce is a better workforce.

For example, one study after another has shown that corporations with a strong ethical culture (defined by, say, higher rates of internal reporting) tend to have lower employee turnover and higher productivity. That can lead to lower costs in recruitment and training, as well as higher revenue from more productive employees. More broadly, when employees "feel heard," they're more likely to bring concerns to management's attention — which is just another way of saying employees have a stronger desire to help the company solve its problems. A company that is more responsive to its problems is better positioned to thrive in the competitive marketplace.

A company that can resolve ethics and compliance issues more promptly also makes a better impression upon regulators, business partners, and other stakeholders. For example, a business that enforces ethics across its enterprise and down through its supply chain, *and can document that effort,* is a more attractive third party to its own customer base. A company that reduces its ethical missteps, and addresses them more promptly when those missteps do happen, will have lower reputation risk with its customers and consumers at large — always important in today's social media-saturated world.

The goal with empowered ethics and connected compliance isn't specifically to save money for the organization, although that can happen as you experience fewer serious regulatory infractions. Rather, the goal is to assure that acting ethically delivers a real return on investment — and one larger than acting unethically, or only acting in a check-the-box compliance approach.

66 **A more ethically engaged workforce is a better workforce."**

Overcoming the challenges you're likely to encounter

This shift in mindset is, of course, easier said than done. Compliance officers will encounter numerous obstacles both practical and conceptual. Let's consider a few of them.

Senior managers won't strike the right tone. The CEO might claim that he or she wants a strong ethical culture, but then not follow up by directing subordinates to implement the necessary policies, practices, and even personnel to put that ethical focus into practice. To overcome this obstacle, try consulting with other mid- and senior-level executives first, to build a consensus on the most important, strategically advantageous changes that could be implemented first (say, incentive compensation plans). Then present those ideas to the CEO, so that the culture shift isn't simply another message from on high that has no real support.

Your compliance processes are too complicated. Even when senior management does strike the right tone, if your compliance processes make acting on ethical concerns too difficult — too many forms to submit, too many questionnaires to answer, too much confusion on how to raise a concern — employees won't participate.

For this obstacle, focus on how to embed compliance goals into your existing business processes; or on automating compliance processes to alleviate that burden from employees. Automated due diligence and case management systems, easy internal reporting hotlines, training that's relevant and accessible for each population group; there are a host of ways to simplify and integrate your compliance operations, so that when employees do want to act on their ethical concerns, the compliance program isn't a burden to that.

Employees don't feel heard when they speak up. The true threat here is not that employees won't speak up; it's that they won't feel "heard" when they do speak up — because the compliance function doesn't respond to them in a timely manner.

This is a failure of internal reporting and case management. To overcome this obstacle, compliance officers need to integrate those two capabilities, and then automate them both as much as possible. For example, pre-designed workflow charts to guide investigations, or automated reminders to follow up with whistleblowers at certain times.

Difficulty in measuring and monitoring progress. Measuring compliance program success and improvement over time will be crucial in years to come, considering the U.S. Justice Department's new focus on compliance program effectiveness — including a strong desire to see data that proves the program's effectiveness over time. This means compliance officers will need complete, accurate, reliable data; and that data must connect to useful key performance and key risk indicators (KPIs and KRIs).

Compliance officers will need to approach this challenge from several directions. For example, the CCO might want to assess the compliance program's own progress in, say, responding to hotline calls or closing investigations promptly (two important KPIs for any compliance program). To do that, the compliance officer will need to work with IT teams (either your own, or those of your software vendors) to assure that the compliance program's IT systems can extract the correct data to feed into those KPIs.

Other KPIs will need other "feeds" of data, including feeds that come from third parties in your supply chain or from paid data vendors. To measure, monitor, and report progress, compliance officers will need to assure that all data is classified properly and stored in a single data repository. In short, measuring and monitoring progress is a constant exercise in data management; have the tools, processes, and people to do it well.

Conclusion

As we said at the beginning, compliance officers need a better strategy for meeting expectations today. Organizations need to put ethical behavior at the center of how employees view their jobs and daily routines; and then create a compliance program apparatus that empowers employees to act on their ethical concerns, rather than leaving them wondering what they should do.

Such a shift takes time, and isn't necessarily easy. Compliance officers will need to build a business case for why the company should make that shift. To do that, they'll need to show how their compliance program can help employees be better, more productive performers — and how that, in turn, can help the company's bottom line and its relationship with regulators, customers, investors, and other stakeholders.

The alternative is to stay the course, ladling one more compliance procedure after another onto the workforce, and struggling to keep up with floods of data and ceaseless reports. But that's barely sustainable right now, and it certainly won't be sustainable in the future — which is, after all, what CEOs and the boards are supposed to worry about.

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