

Ethical Business Practice and Regulation:

Culture Risk

Culture Measurement

Building Stakeholder Trust and Sustainable
Business

Ruth Steinholtz

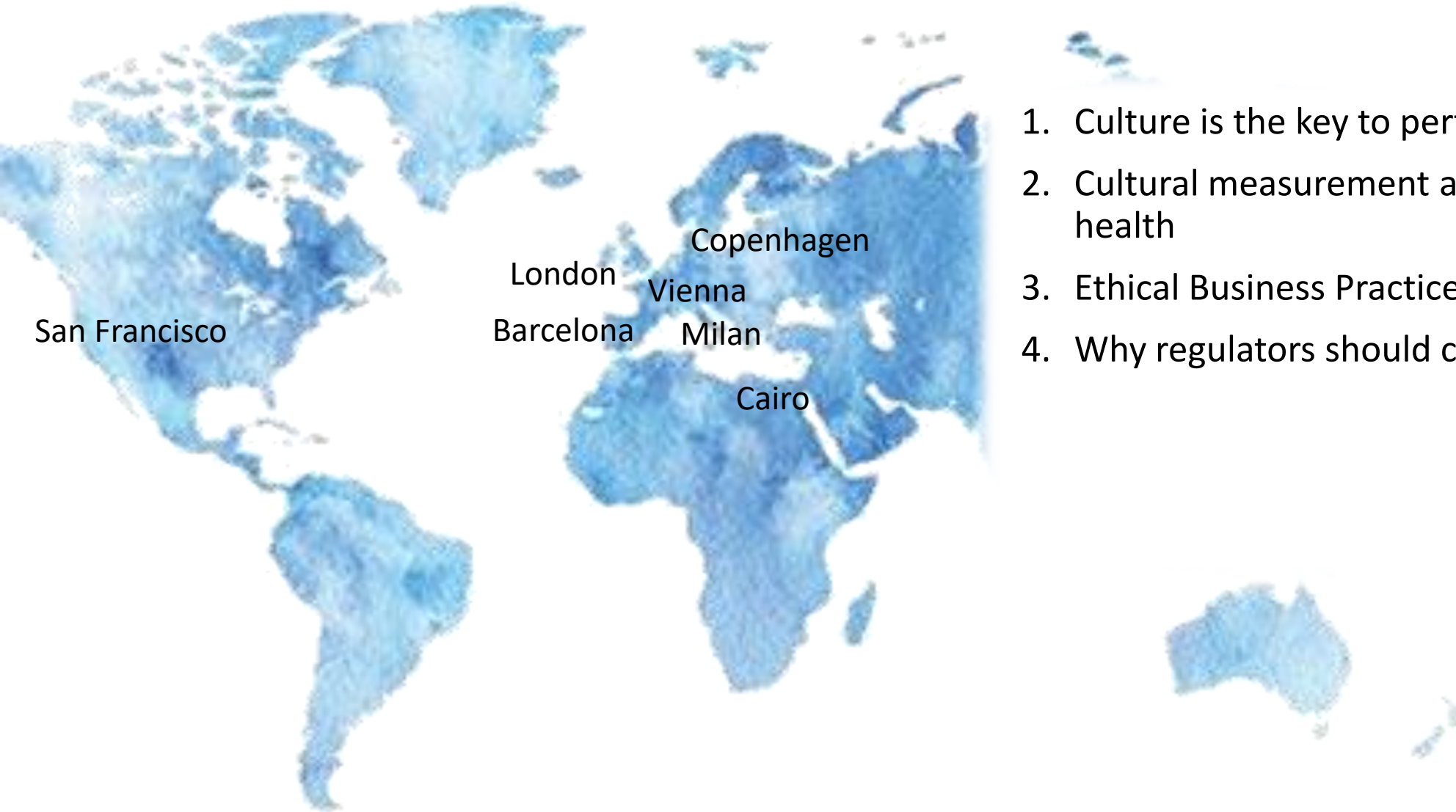
Founder, AretéWork

Certified Barrett Practitioner



Agenda

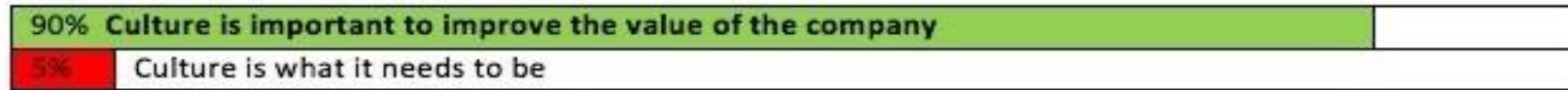
Compliance is an outcome of a healthy culture



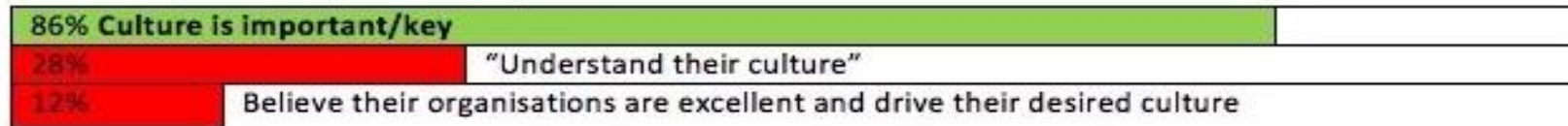
1. Culture is the key to performance & compliance
2. Cultural measurement and culture risk/culture health
3. Ethical Business Practice & Regulation
4. Why regulators should care too

If culture is important why aren't we paying more attention to it?

Duke and Columbia University 2015



Deloitte (Human Capital Trends) 2016



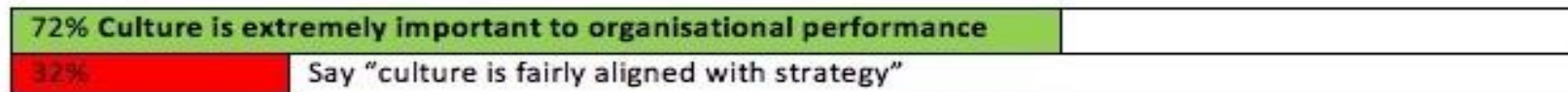
PWC Culture / Change Man. Survey 2013



EY Culture and Boards Survey 2016



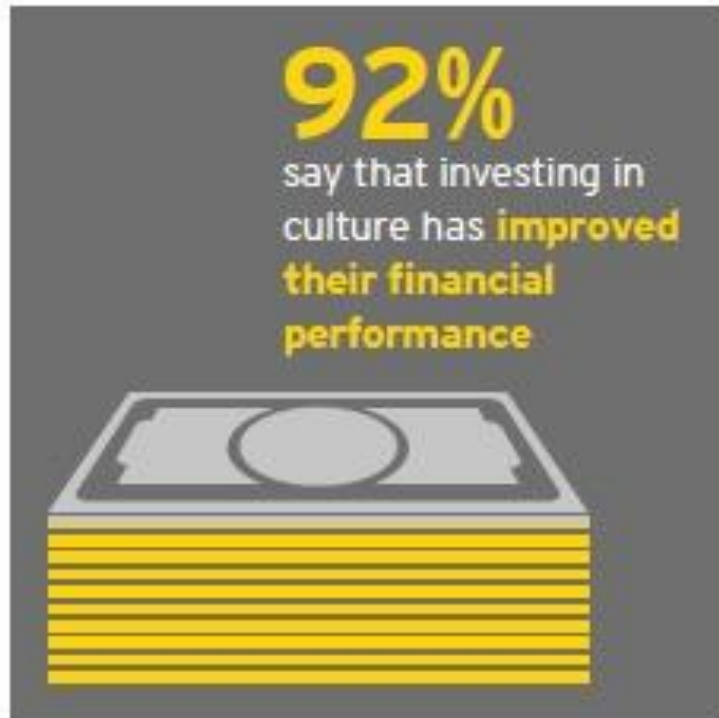
Korn Ferry Institute Global Survey 2014



Source: Tor Eneroth, Barrett Values Centre



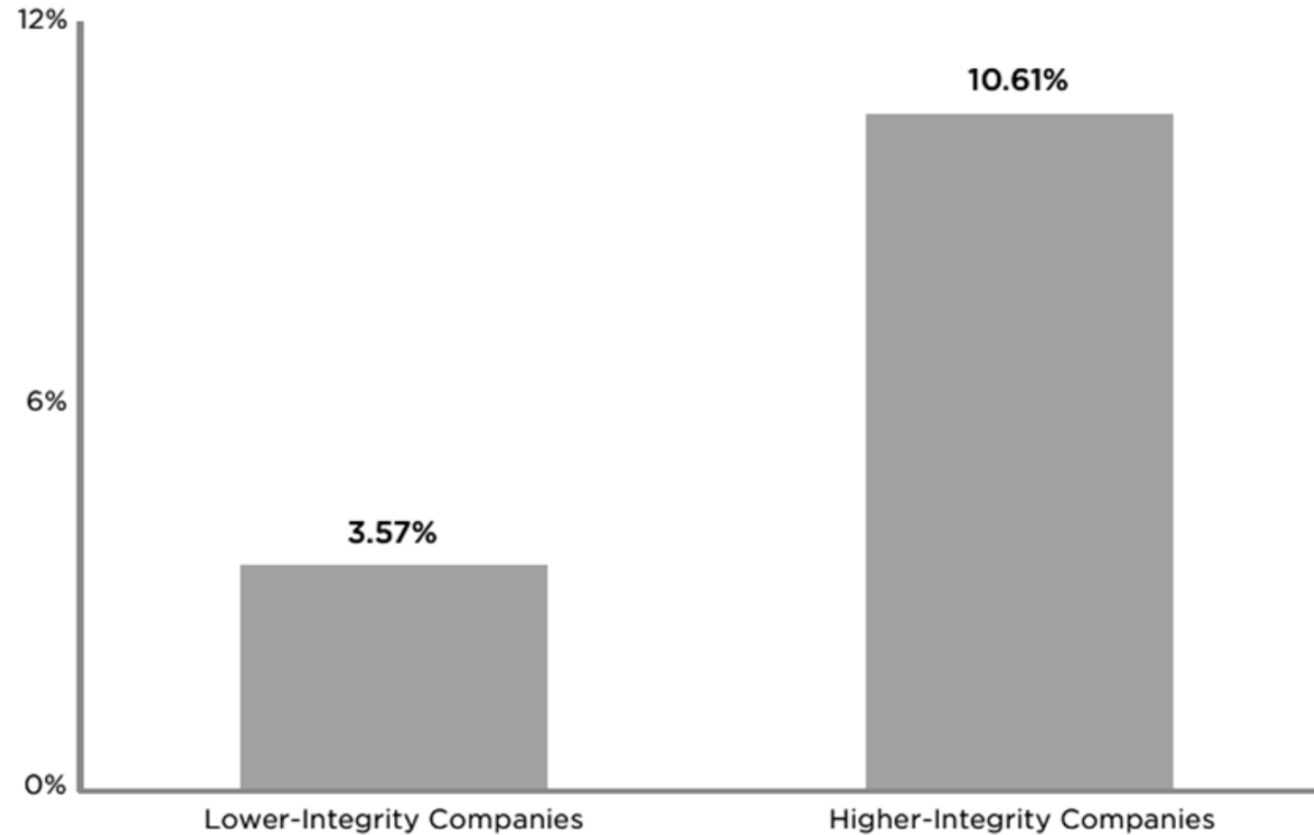
“Culture is vital to overall strategy and performance”



Source: EY Culture and Boards at a glance 2016. Survey of 100 board members of FTSE 350 companies.

Culture Drives Business Performance

Shareholder Return for Higher- and Lower-Integrity Companies
Average 10-Year Total Shareholder Return



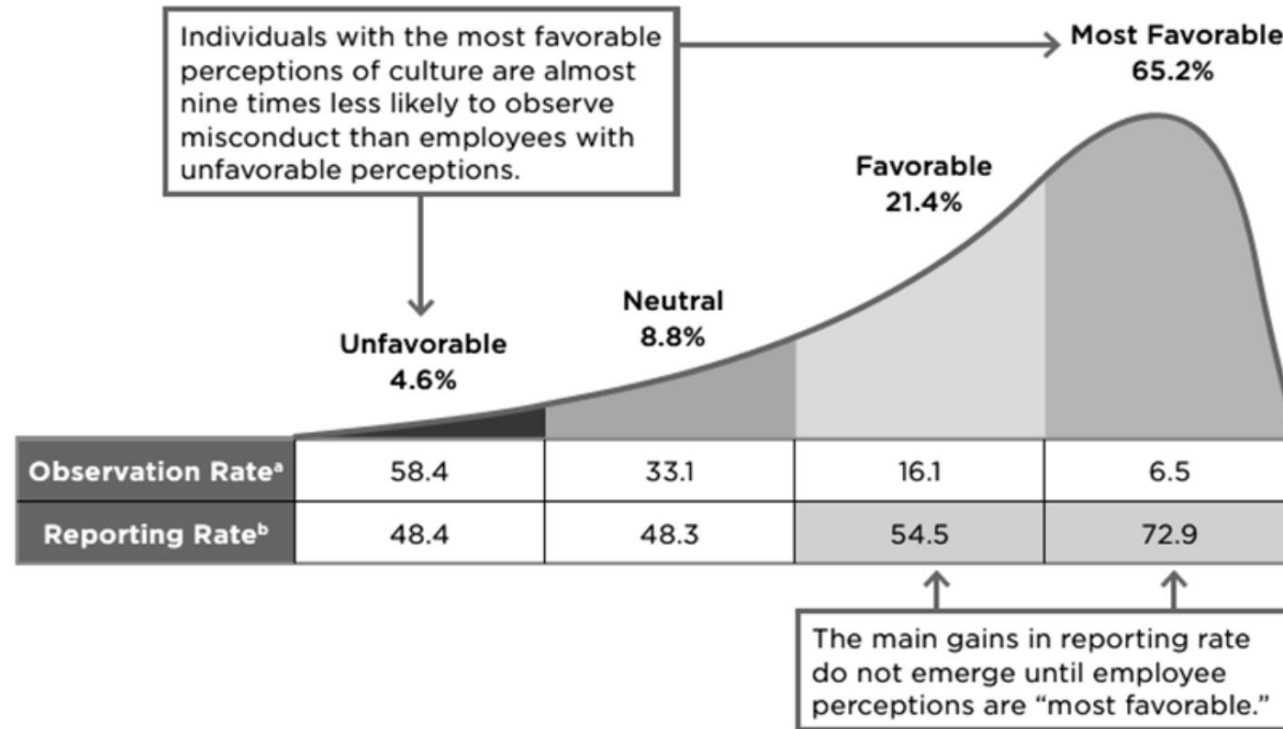
$n = 75$.

Source: CEB 2009–2016 RiskClarity: A Corporate Integrity Service™ Benchmark.

Note: Results of Pearson Correlation: $r = 0.25$, $p < 0.05$.

Culture Reduces Observed Misconduct

The Impact of Culture on Observed and Reported Misconduct
 Percentage of Respondents, 2009-2016



n = 1,821,514 employees; 233 companies.

Source: CEB 2009-2016 RiskClarity: A Corporate Integrity Service™ Benchmark.

^a Percentage of employees within category who observed misconduct in past year.

^b Percentage of employees within category who reported the misconduct they observed.

Bad behaviour in organisations is done by good people for many reasons so punishment is a blunt instrument



It is usually the Barrel – not the apple



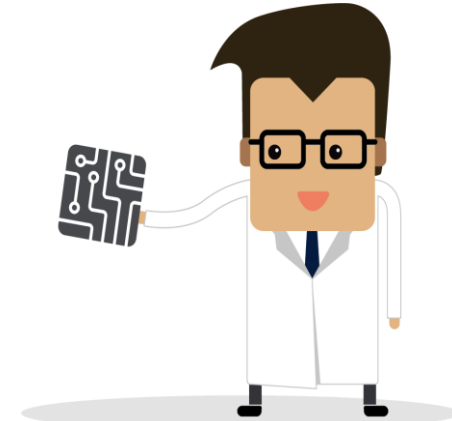
Dan Ariely's Fudge Factor



Framing- cost/benefit?



Skills & knowledge gaps



Authority

MISTAKE / WRONGDOING OCCURS

OPEN, JUST CULTURE



BLAME CULTURE



Culture measurement

The role of culture health and culture risk in determining ethical behaviour

Seven Levels of Organisational Consciousness

Service

7

Service to Humanity and the Planet

Social responsibility, future generations, long-term perspective, ethics, compassion, humility

Making a Difference

6

Strategic Alliances and Partnerships

Environmental awareness, community involvement, employee fulfilment, coaching/mentoring

Internal Cohesion

5

Building Internal Community

Shared values, vision, commitment, integrity, trust, passion, creativity, openness, transparency

Transformation

4

Continuous Renewal and Learning

Accountability, adaptability, empowerment, teamwork, goals orientation, personal growth

Self-Esteem

3

High Performance

Systems, processes, quality, best practices, pride in performance. **Bureaucracy, complacency**

Relationship

2

Employee Recognition

Loyalty, open communication, customer satisfaction, friendship. **Manipulation, blame**

Survival/Viability

1

Financial Stability

Profit, organisational growth, employee health, safety. **Control, corruption, greed**

© Barrett Values Centre

Positive Focus/**Excessive Focus**

7 Levels of Ethical Business Practice

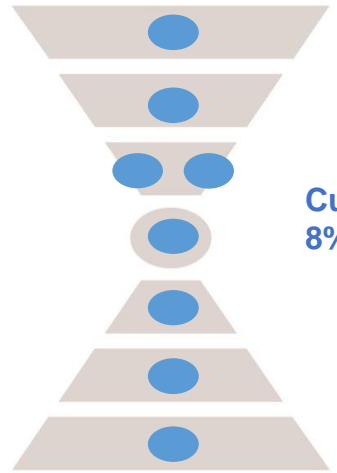


© Barrett Values Centre

A Tale of Two Companies: which will comply?

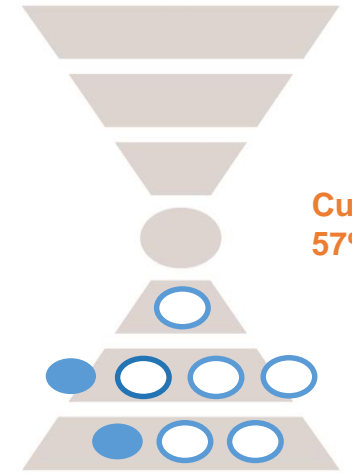
- Service
- Making a Difference
- Internal Cohesion
- Transformation
- High Performance
- Relationship
- Survival/Viability

Organisation A



Cultural Entropy
8%

Organisation B



Cultural Entropy
57%

<u>Value</u>	<u>Level</u>
client satisfaction	2
making a difference	6
integrity	5
teamwork	4
humour/fun	5
quality	3
ethics	7
financial stability	1

<u>Value</u>	<u>Level</u>
blame	2
short term focus	1
internal competition	2
buck passing	3
risk averse	1
customer satisfaction	2
information hoarding	2
profit	1

+25% return on assets vs. -80%
return on assets
Low staff turnover vs. 50%+ staff
turnover

● = Positive Values

○ = Potentially Limiting Values



Department (111)

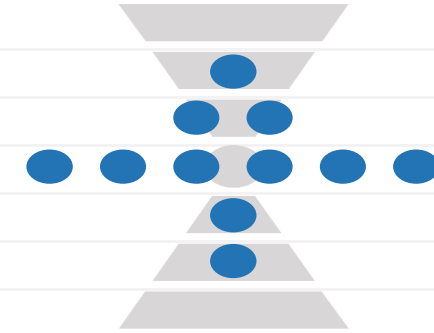
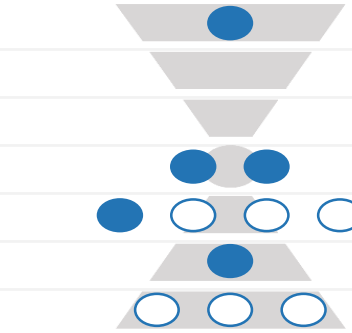
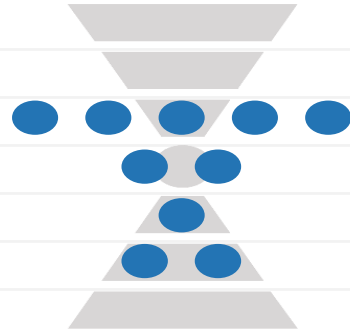
Level

Personal Values (PV)

Current Culture Values (CC)

Desired Culture Values (DC)

7
6
5
4
3
2
1



IRS (P)=5-5-0 IRS (L)=0-0-0

IROS (P)=0-1-3-1 IROS (L)=1-0-5-0

IROS (P)=1-3-7-0 IROS (L)=0-0-0-0

Matches
PV - CC 1
CC - DC 4
PV - DC 1
new requests
Current Cultural Entropy 34%

honesty	50	5(I)	bureaucracy (L)	47	3(O)	continuous improvement	50	4(O)
caring	46	2(R)	silos mentality (L)	47	3(O)	<i>customer satisfaction</i>	41	2(O)
reliable	43	3(R)	cost reduction (L)	45	1(O)	<i>working together</i>	33	4(R)
balance (home/work)	40	4(I)	service to others	37	7(S)	balance (home/work)	32	4(O)
<i>flexible</i>	37	4(I)	<i>professionalism</i>	35	3(O)	collaborative	27	6(R)
fairness	34	5(R)	confusion (L)	33	3(O)	continuous learning	27	4(O)
trust	34	5(R)	job insecurity (L)	33	1(O)	employee engagement	27	5(O)
positive attitude	32	5(I)	<i>working together</i>	29	4(R)	leading by example	27	5(R)
family	31	2(R)	caution (L)	27	1(I)	resourceful	27	4(I)
humour/ fun	31	5(I)	<i>customer satisfaction</i>	26	2(O)	<i>flexible</i>	25	4(O)
			<i>flexible</i>	26	4(O)	<i>professionalism</i>	25	3(O)

Black Underline = PV & CC
Orange = PV, CC & DC
Orange = CC & DC
Blue = PV & DC

P = Positive
L = Potentially Limiting (white circle)

I = Individual
R = Relationship
O = Organisational
S = Societal



Cultural Entropy = Culture Risk

Measures the:

- Percentage of fear, dysfunction, negative and destructive energy, conflict, friction and frustration in an organisation
- Amount of energy in an organisation that is consumed in doing unproductive work

Caused by potentially limiting values and behaviours in the Foundation
(Viability, Relationships & Performance)

Influences the ability to rationalise unethical behaviour and still feel good about oneself.

Low Cultural Health increases culture risk and lowers trust

Cultural Health/ Entropy	Most employees are	Potentially limiting values in current culture, for example	Culture Risk
10% or less	Highly Engaged		Low Risk
11% to 20%	Engaged		Relatively Low Risk
21% to 30%	Becoming Disengaged	Bureaucracy, Hierarchy, Confusion	Medium Risk
31% to 40%	Disengaged	Bureaucracy, Hierarchy, Confusion, Control, Short-term focus, Silo-mentality, Long hours	High Risk
41% or more	Highly Disengaged	Bureaucracy, Short-term focus, Hierarchy, Blame, Control, Confusion, Information Hoarding, Silo-mentality	Very High Risk

Why use the Barrett Culture Assessment ?

- **Identify** core values based upon a balanced model
- **Verify** if core values are aligned with the **personal values** of your employees
- **Access** the collective wisdom: what is needed to reach your potential
- **Establish** a **benchmark** to measure progress
- **Monitor** the success of your strategy and tactics (feedback) & adjust
- **Provide** evidence of commitment to culture and improvement (EBR)
- **Ensure** values, purpose and strategy are **aligned**
- **Create** a common **vocabulary** about culture and values
- **Pinpoint** issues/good practice, understand **causation** - many factors can effect culture

The Culture Change Process



1. Cultural Values Assessment

Barrett Values Centre: Group (16)

Level	Personal Values (PV)	Current Culture Values (CC)	Desired Culture Values (DC)
7			
6			
5			
4			
3			
2			
1			
0			
Match	family	commitment	accountability
CC - DC	commitment	commitment improvement	commitment
PV - CC	commitment	employee fulfillment	commitment improvement
PV - DC	balance, fun	balance, fun/network	employee fulfillment
Healthy Values (HV)	balance, fun/network	balance, fun/network	balance, fun
CC - HV	balance, fun/network	balance, fun/network	balance, fun/network
PV - HV	balance, fun/network	balance, fun/network	balance, fun/network
CC - DC	balance, fun/network	balance, fun/network	balance, fun/network
PV - DC	balance, fun/network	balance, fun/network	balance, fun/network

2. Share results and start dialogue



3. Prioritize values



4. Identify behaviours

5. Create culture development plan

Culture Development Plan

Objective	Current State	Target State	Key Behaviours	Key Messages	Key Activities	Key Metrics	Key Risks	Key Resources	Key Roles	Key Responsibilities
IMPROVE CUSTOMER SERVICE	Customer service is poor	Customer service is excellent	Employees are friendly and helpful	Customers are satisfied	Employees are trained in customer service	Customer satisfaction score	Employee turnover	Customer service training	Customer service team	Customer service team
IMPROVE EMPLOYEE ENGAGEMENT	Employee engagement is low	Employee engagement is high	Employees are motivated and committed	Employees are satisfied	Employees are trained in customer service	Employee engagement score	Employee turnover	Employee engagement training	Employee engagement team	Employee engagement team
IMPROVE OPERATIONAL EFFICIENCY	Operational efficiency is low	Operational efficiency is high	Processes are streamlined and efficient	Operational efficiency is high	Processes are streamlined and efficient	Operational efficiency score	Operational efficiency	Operational efficiency training	Operational efficiency team	Operational efficiency team

6. Implement changes and programmes

Calendar View

Month	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
August 2017							
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							

Regulators (finally) recognize that culture eats strategy for breakfast...

A healthy corporate culture is:

- a valuable asset,
- a source of competitive advantage and
- vital to the creation and protection of long-term value.

Directors should not wait for a crisis before they focus on company culture.

Source: UK FRC: Corporate Culture and the Role of Boards 2016

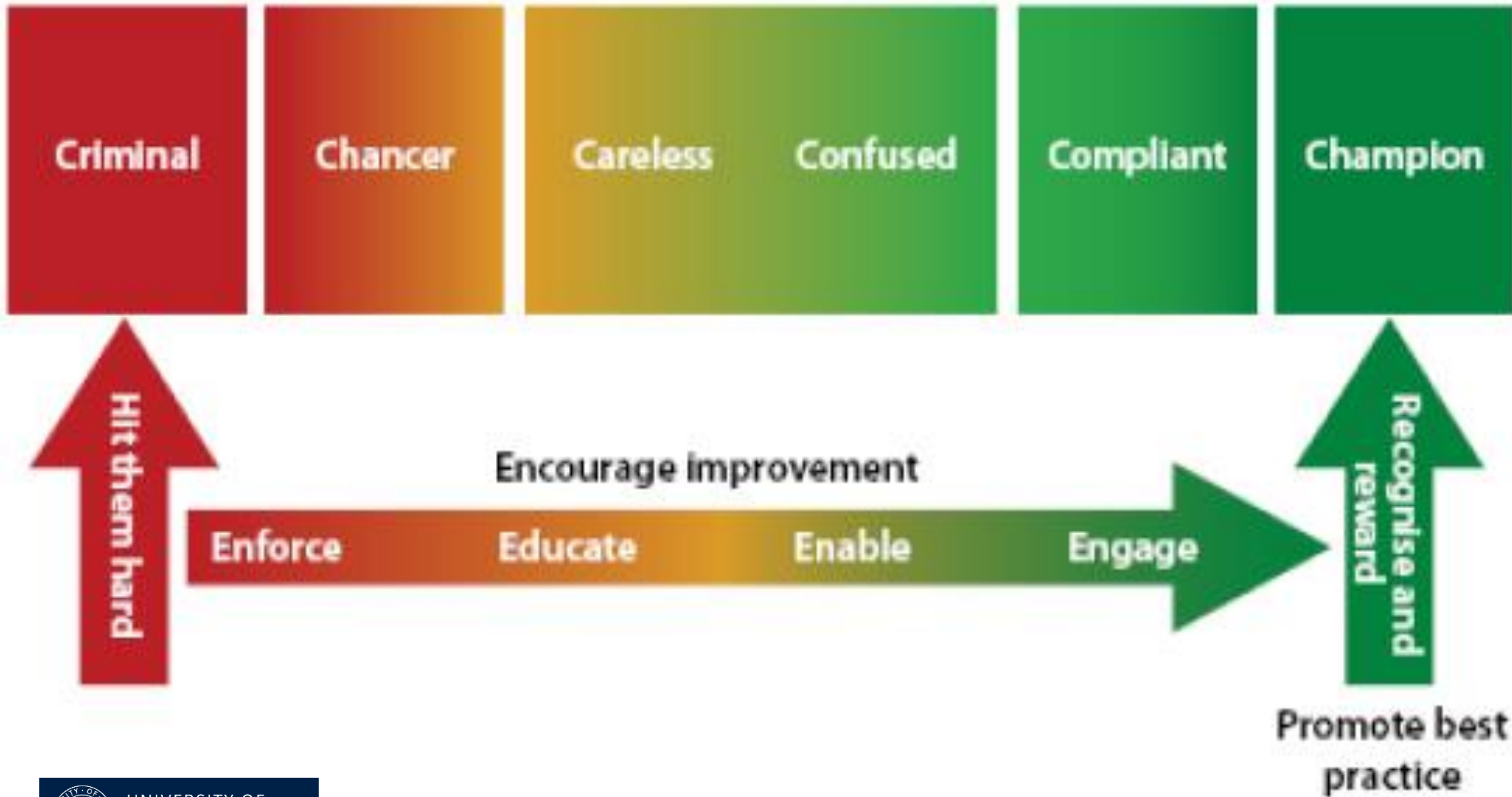
The **focus on culture** needs to be **continuous**.

Periodic reflection on whether the culture continues to be relevant in a changing environment can help the company **adapt its culture to ensure it continues to support the company's success**.

The board is expected to assess and monitor culture for alignment with purpose and values.

Source: UK FRC: Guidance on Board Effectiveness 2018

Compliance and engagement spectrum



The Essence of Ethical Business Practice and Regulation

Evidence that deterrence is largely ineffective to change future behaviour, and compliance fails often and can even be counter productive.

A **relationship** between a business and a regulator, in which the business produces **evidence** of its on-going commitment to **Ethical Business Practice** and the regulator recognises and encourages that commitment.



Ethical Business Practice

- Commitment to a holistic approach to company culture based on true core values.
- The belief that ethics is everyone's responsibility & an effective ethical culture is good for business.
- A learning, just culture that can face issues and deal with them effectively.
- Compliance is balanced with ethics & integrity.
- Evidence of culture (transformation) can be produced via values assessments & other indicators.

ETHICAL BUSINESS PRACTICE AND REGULATION

A Behavioural and Values-Based Approach to Compliance and Enforcement

Christopher Hodges & Ruth Steinholtz



ETHICAL BUSINESS PRACTICE AND REGULATION

A Behavioural and Values-Based Approach
to Compliance and Enforcement

Christopher Hodges & Ruth Steinholtz



EBP Frameworks

Culture and Leadership Framework:

Foundation

People & Ethos

Aligned Systems and Processes

Values-Based Integrity Framework:

The usual suspects, done differently!

Values-based integrity framework



Code developed from within, based upon the organisation's values and aligned with the culture



Regular risk assessments, done by the business, with expert support as necessary and the implementation of mitigation measures in response to the risks



Clear, succinct policies and procedures that are easily accessible and kept updated



Consistent pattern of (positive) communications at all levels of management



Training and development conducted face-to-face and supplemented online or by other technological means, such as apps



A network of employee ambassadors to assist in bringing (values, etc) to life and to support dialogue and continuous improvement

Why its important to build cultural capital across industry sectors

- Mutual interest of all actors to do so: improved regulatory relationships
- Avoid approaches based on punishment – they only cause misconduct to go underground –support “just culture” building
- Hold each other to account; work with human behavioural tendencies, not against them
- Involve (truly) independent 3rd parties at all stages of the process
- Hold a major sector dialogue involving all links in the supply chain – LISTEN to all stakeholders and create ownership and commitment, not resistance



Barrett Values Centre

Central Government Industry Report

Prepared by Barrett Values Centre

February 2015



Central Government Industry Report 2007-2014

Total number of organizations: 79

Time Period: 2007-2014

Countries represented: 19

Average Entropy:

Year	Average Entropy
2007-2014 Combined	30%
2014	34%
2013	28%
2012	28%
2011	26%
2010	36%
2009	31%
2008	27%
2007	31%

Total Number of Organisations by Current Organisational Entropy:

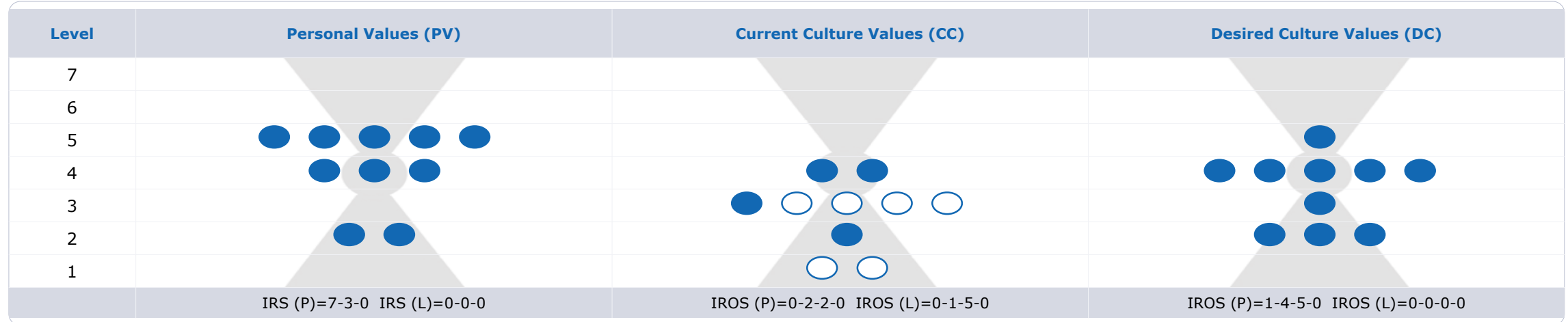
Entropy Band	Number of Organisations
0-10%	5
11-20%	11
21-30%	26
31-40%	19
41% or more	18

Industry Reports are a composite view of a specific industry using results collected from Cultural Values Assessments over time.

The values data represents the most commonly occurring top values. Percentages associated with values denote the percentage of assessments in a given industry where that value appeared among the top values.



Consolidated Cultural Data – Central Government 2007-2014



Matches

PV - CC 1
CC - DC 3
PV - DC 3

honesty	86%	5(I)	bureaucracy (L)	80%	3(O)	<u>accountability</u>	71%	4(R)
<u>commitment</u>	67%	5(I)	hierarchy (L)	51%	3(O)	continuous improvement	71%	4(O)
integrity	62%	5(I)	cost reduction (L)	46%	1(O)	<u>teamwork</u>	57%	4(R)
<u>accountability</u>	59%	4(R)	confusion (L)	38%	3(O)	open communication	49%	2(R)
respect	56%	2(R)	results orientation	38%	3(O)	professionalism	43%	3(O)
humour/ fun	54%	5(I)	<u>customer satisfaction</u>	37%	2(O)	<u>balance (home/work)</u>	42%	4(O)
responsibility	51%	4(I)	<u>accountability</u>	35%	4(R)	information sharing	42%	4(O)
positive attitude	47%	5(I)	silos mentality (L)	35%	3(O)	<u>customer satisfaction</u>	38%	2(O)
<u>balance (home/work)</u>	46%	4(I)	<u>teamwork</u>	35%	4(R)	employee recognition	35%	2(R)
family	44%	2(R)	control (L)	34%	1(R)	<u>commitment</u>	34%	5(I)

Black Underline = PV & CC
Orange = PV, CC & DC

Orange = CC & DC
Blue = PV & DC

P = Positive
L = Potentially Limiting (white circle)

I = Individual
R = Relationship

O = Organisational
S = Societal

Service

7

Service to humanity and societal contribution



Making a Difference

6

External collaboration, community involvement



Internal Cohesion

5

Sense of purpose & strong internal community



Transformation

4

Ongoing improvement and employee participation



Self-Esteem

3

High performance systems and high quality output



Relationship

2

Positive relationships that support organisation needs



Survival

1

Financial viability and employee safety



© Barrett Values Centre

Main modes of contribution to the SDGs

Being (Indirect focus)

The degree to which organizations are living and contributing to the SDGs through their values, culture and internal practices.
e.g. Paying employees fairly and looking after employee health makes a positive contribution to Goals 1 and 3

Healthy culture is one of the single most important factors that influences the ability for organizations to make a positive difference. When our basic needs are fulfilled then we can serve others.

[“No development can be sustainable without including culture.” UNESCO](#)

Doing (Direct focus)

The degree to which organizations make a direct positive contribution to the SDGs through their products, services and partnerships.
Use your talents and capabilities to make a positive difference.

e.g. Working on clean energy solutions would make a direct contribution to Goals 7.

New Plastic free packing would make a direct contribution to Goals 12, 14 and 15

The culture of both regulator and business must change to increase trust and outcomes:

EBP & R provide a road map for that change

Ruth@aretework.com

www.aretework.com





Thank you!



Ruth Steinholtz

AretéWork LLP

+44 7900 681457

ruth@aretework.com