Open Source Excellence

Why Compliance Programs Work Like Pushing a Rope… How Leaders Can Impact Behaviour

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Few ingredients are as important to building a successful organization as culture and most CEOs will argue that integrity is one of the cornerstones. But how do CEOs foster an entrepreneurial spirit and ambitious drive to perform *without* compromising ethical standards? With the consistent stream of ethical scandals in the financial sector and beyond, answering this question has become one of today's key leadership challenges. Here is what we see. The CEO refers to business integrity in speeches and company-wide communications; employees are trained on the Code of Conduct and certify their commitment annually; well-staffed compliance and audit functions manage a hotline and monitor violations; and employees who breach ethical standards are sanctioned.

Doesn't this sound like a pretty good effort to encourage ethical conduct? Strong tone from the top, clear expectations and widespread awareness, combined with checks and balances. Perhaps it is similar to what you have in place in your organization?

If so, you should be worried. The elements above had been in place in the organizations that experienced severe ethical breakdowns leading to reputational disasters, billion-dollar fines, jail sentences and outright collapses.

Despite the many well-intended efforts to ensure ethical conduct, much of it works like pushing a rope. In fact, most ethics & compliance programs are bureaucratic, expensive and toothless as about 99% of resources are spent on policies, compliance training and monitoring, while less than 1% focus on managing the factors that drive behavior in performance-driven organizations: what leaders say and do, and what gets rewarded. Are today's ethical lapses really caused by 'bad apples'? Surely, people of right character would always do what is ethical, no matter the circumstances? Such a narrow perspective, however, fails to recognize how much people are influenced by the organizational context in which they do business. While some large organizations may have a few outright crooks, even good people will do what they know is wrong, if the context does not specifically encourage, or even discourages, responsible behavior. Think of physicians incentivized to perform a certain number of specific surgeries to achieve targets and

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get their bonus, or bank staff working under pressure to grant a certain number of mortgages every day, or risk being sanctioned.

So why do CEOs invest time and effort into such traditional compliance programs if these are costly, drain employee engagement and have little impact? They do because they have to. The U.S. Federal Sentencing Guidelines and the UK Bribery Act, amongst others, require companies to establish “an effective ethics & compliance program” and “adequate procedures,” in order to protect themselves from severe penalties or possible exclusion from government business. Sadly, such regulatory requirements hinge on the “bad apples” theory, and therefore prescribes tick-the-box activities with no real impact on behavior.

Brushing regulatory arguments aside, however, there are several reasons why leaders should indeed strive to manage organizations responsibly, albeit in an entirely different way: one that motivates employees, explores opportunities from increasing ethical expectations in today’s society, and achieves sustainable performance. While the potential benefits are great, CEOs cannot view it as a nice-to-have hobbyhorse to be addressed when everything else is done, or a risk management exercise to be handed over to the General Counsel or Chief Compliance Officer with no further ado. Rather, it requires leaders to do two things 1) view business through holistic lenses to meet not only commercial, but also legal and ethical responsibilities *simultaneously*, and 2) create the right context that enable others to do the same — through the guidance that leaders provide, the organizational climate they establish and behaviors they reward.

The latter means introducing a two-dimensional incentive system that measures and rewards the achievement of business objectives against adherence to ethical standards, with equal weight and direct impact on compensation and career prospects. Moreover, performance incentives should combine financial and non-financial incentives, which have been shown to be more effective motivators for performance.

Some leaders argue that rewarding ethical conduct is absurd; why reward something that is simply expected? Company values placed on the wall at corporate headquarters already define how to behave and a code of conduct sets limits. In any case, integrity is too subjective and impossible to measure. So it goes. Well, performance-driven organizations indeed already do reward what is expected; leaders are rewarded for leading, researchers for researching and sales people for selling. In the end, an organization rewards what it believes is important. Therefore, if it strives to conduct business responsibly, it must reward it.

A holistic approach to managing organizations responsibly challenges conventional thinking, assumptions and practices. It impacts how and whom organizations hire, promote and reward; how leaders are developed and lead, how decisions are taken and how business is conducted. And, despite its real impact it comes at a fraction of the costs of prevalent compliance programs. Leaders of companies of whatever size should ask themselves: what do we really encourage people in our organizations to do?