



IS YOUR CULTURE A RISK FACTOR?

**Using Culture Risk Assessments to
Measure the Effectiveness of
Ethics & Compliance
Programs**

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Culture is the leading risk factor for compromising integrity and compliance in companies today.

Enron had all of the elements usually found in comprehensive ethics and compliance programs: a Code of Ethics, a reporting system, as well as a training video on Vision and Values led by Ken Lay and Jeff Skilling. And while there was criminal activity, Enron did not seek out to hire felons. Rather, it was the mindset and culture of the company that brought out the worst in some top executives, and inaction and passivity on the part of many others.

Culture is the leading risk factor for compromising integrity and compliance in companies today. Yet many organizations are unable to implement a truly effective ethics and compliance program because they lack sufficient knowledge of how their culture can create vulnerabilities and risks. And without that knowledge, companies cannot measure progress towards meeting ethics and integrity goals.

Moreover, many companies only focus their ethics program assessment and measurement on elements that do not directly determine the outcomes they need. Ethics officers need to be certain that the data they obtain, such as code certifications and compliance course completion, correlates to the compliance behavior and the ethical culture they are seeking.

An ethical culture is a reflection of the collective ethical values and behaviors of all employees, managers and leaders. A Culture Risk Assessment is a useful tool, providing a measurable overview that can direct an organization to specific behavioral problem areas that increase the likelihood of both unethical conduct taking place, and if it does take place, of not being reported.

WHY MEASURE CULTURE?

"If you can't measure it you can't manage it."
-- Peter Drucker

CULTURE TRUMPS COMPLIANCE

According to Keith Darcy, Executive Director of the Ethics Officer Association, we are now entering the second phase of the corporate ethics movement: culture.

We're moving beyond compliance for a very simple reason: because culture trumps compliance. We're a legalistic society, and we've created a lot of laws. We assume that if you just knew what those laws meant that you would behave properly. Well, guess what? You can't write enough laws to tell us what to do at all times every day of the week in every part of the world. We've got to develop the critical thinking and critical reasoning skills of our people because most of the ethical issues that we deal with are in the ethical gray areas. Virtually every regulatory body in the last year has come out with language that has said in addition to law compliance, businesses are also going to be accountable to ethics standards and a corporate culture that embraces them.

If an organization needs to manage its corporate culture to maintain ethical standards, it has to measure and assess that culture in a manner that can then lead to practical steps to closing gaps and reducing risks of unethical, if not criminal, conduct.

This isn't news to most corporate leaders. A recent poll of business leaders found greater management attention needs to be focused on a corporation's culture to achieve best practices in ethical business. According to the survey, conducted by the Center for Corporate Change, a corporation's culture was found to be the most important factor influencing the attitudes and behavior of executives. This factor was named twice as often as any other factor, including share price (25 percent) and incentive compensation (23.2 percent).

Yet, 88 percent of respondents said that management devotes little attention to considering the effect of culture on their executives. Measuring and managing culture is still the most elusive element in determining the effectiveness of an ethics and compliance program.

ENRON HAD A CODE

Enron remains one of the best examples of form over substance with regard to ethics and compliance. Enron had put into place most, if not all, of the basic elements that had been set out by the Federal Sentencing Guidelines. But there is no evidence that the Board weighed the impact of Enron's culture on the risks the company faced.

Even if form alone was ever enough to reduce ethics-based risks, the clear evidence is that we have to go further. Leading ethics and compliance officers understand that internal controls and policies alone are not enough. The Association of Certified Public Accountants recently released a report noting that a leading source of financial fraud is management override of what might otherwise appear to be effective internal controls.



If an organization needs to manage its corporate culture to maintain ethical standards, it has to measure and assess that culture.



A dynamic ethical culture gives organizations a high degree of comfort that it can withstand challenges to its integrity.

Every ethics and compliance program that is serious about the need to align behavior to the organization's standards is looking at the cultural environment where decisions take place.

THE BENEFITS OF A POSITIVE ETHICAL CULTURE

What does a company gain from focusing on maintaining a positive ethical culture? A dynamic ethical culture gives organizations a high degree of comfort that it can withstand challenges to its integrity.

What does a healthy ethical culture look like? Best practices have shown that key attributes such as these indicate a healthy ethical culture:

- Employees feel a sense of responsibility and accountability for their actions and for the actions of others.
- Employees freely raise issues and concerns without fear of retaliation.
- Managers model the behaviors they demand of others.
- Managers communicate the importance of integrity when making difficult decisions.
- Leadership understands the pressure points that drive unethical behavior.
- Leadership develops processes to identify and remedy those areas where pressure points occur.

In an ethical culture, employees and managers understand why doing the right thing is important for the organization's long-term viability, and they have the determination, courage and freedom to see that the right thing gets done. An ethical culture supports independent thinking employees and managers who make decisions consistent with the organization's values.

The challenge is determining how to get to this state, and whether the tools in place to measure and monitor performance of the ethics program are sufficient to gauge whether adequate progress is being made.

Many organizations have set expectations for ethical conduct and are working towards maintaining a strong "tone from the top." However, many of these same organizations really don't know whether their employees and managers will demonstrate integrity in their actions when they are under pressure, and immediate business objectives loom large in front of them. As the former director of accounting at WorldCom, Buford Yates, Jr. said as he was sentenced to a year in prison for his role in the fraud, "When faced with a decision that required strong moral courage, I took the easy way out."

Corporate culture is made up of the collective values of employees and managers that are reflected in their collective actions. Companies must therefore be aware of the range of values held by its employees if it is to be able to shape and guide its culture towards supporting the kinds of ethical behaviors needed to reduce the risk of ethics scandals and criminal prosecution.

THE GOVERNMENT CARES ABOUT CULTURE

In weighing the factors as to whether or not to charge an organization, the most important is the role of management. Although acts of even low level employees may result in criminal liability, a corporation is directed by its management and management is responsible for a corporate culture in

which criminal conduct is either discouraged or tacitly encouraged.

US Department of Justice "Thompson Memo" January 20, 2003

It's not enough to have policies. It's not enough to have procedures. It's not enough to have good intentions. All of these can help. But to be successful, compliance must be an embedded part of your firm's culture.

Lori A. Richards Director, Office of Compliance Inspection and Examinations, U.S. Securities and Exchange Commission

[E]ffectiveness of compliance programs could be enhanced if, in addition to due diligence in maintaining compliance programs, organizations also took steps to build cultures that encouraged employee commitment to compliance.

U.S. Sentencing Commission, Presentation of the Ad Hoc Advisory Group on the Organizational Sentencing Guidelines (2003), Note 7, At 51.

The 2002 Sarbanes-Oxley legislation requires a positive "tone at the top" as part of Section 404 implementation. The Department of Justice examines the environment in which decisions are being made. The revised Federal Sentencing Guidelines now talk of the need for a culture of ethics and compliance.

And yet, now years after passage of Sarbanes, companies are still struggling to come to grips with defining the characteristics of an ethical culture that will truly reduce the risk of fraud and scandal. This lack of clarity makes it difficult to determine how to measure and assess the ethical culture of an organization in a systematic and objective way.

The SEC has been using recent settlements to elaborate on what types of corporate behavior demonstrate a positive culture. In October 2004 the SEC entered into a precedent-setting settlement with Royal Ahold, in which the Commission imposed no monetary fine after Ahold's board and management voluntarily disclosed accounting irregularities at the company.

Royal Ahold took the initiative in bringing to the authorities' attention that its subsidiary U.S. Foodservice unit had overstated revenue by more than \$800 million. The company also conducted a top-to-bottom review of all potential problems. The company, without prompting from the SEC, shared the results of its investigations with the regulatory agency, analyzed and reformed its accounting practices at its operating units, and dismissed employees, including high-ranking management, who took part in the alleged fraud.

In announcing its settlement with Ahold, the SEC cited the company's extraordinary cooperation and extensive remediation as the reason why it decided not to fine the company. By imposing no monetary penalty on a company that acted responsibly and proactively to disclose and redress wrongdoing, the SEC sent an unambiguous signal that Ahold should serve as a model for how the Commission expects boards and management to behave when wrongdoing is uncovered.

The key question is how can a company know if it has the kind of management that would do the same thing in similar circumstances?



Companies are still struggling to come to grips with defining the characteristic of an ethical culture.

THE ROLE OF CULTURE IN ASSESSING THE RISKS OF CRIMINAL CONDUCT

THE FEDERAL SENTENCING GUIDELINES REQUIRE AN ASSESSMENT OF CULTURE

- “the organization shall periodically assess the risk of criminal conduct” - §8B2.1(c) ; and
- “the organization shall take reasonable steps to evaluate periodically the effectiveness of the organization's compliance and ethics program”- §8B2.1(b)5(B)



How do companies know whether their employees, managers and leaders will do the right thing, even if they know what the rules are and what procedures to follow?

The Federal Sentencing Guidelines require organizations to periodically assess both the risk of the occurrence of criminal conduct, as well as the effectiveness of the organization's compliance and ethics program in reducing those risks. However, many organizations are uncertain as to the breadth of assessment needed to meet this requirement. A narrow view of the Sentencing Guidelines before the 2004 amendments might have led to a conclusion that deploying the seven elements recommended in the Guidelines would de facto make any ethics and compliance program sufficient and defensible in court.

The revised Guidelines now require companies to focus on how to prevent criminal conduct by effectively managing identified risks and uncertainties. Most experts agree that such an assessment is multi-faceted. In addition to identifying the most likely risks as well as the controls and processes in place to address those risks, the organization must also understand what causes those risks to occur in the first place.

Many organizations are able to assess the scope of the legal risks they face. They can determine exposure to general risks, such as harassment or conflicts of interest, as well as specific risks related to their business. They are also gaining skills in determining what internal controls can be put in place to monitor those risks, as well as what elements of the ethics and compliance program can best inform employees and managers on the code standards and behavioral expectations.

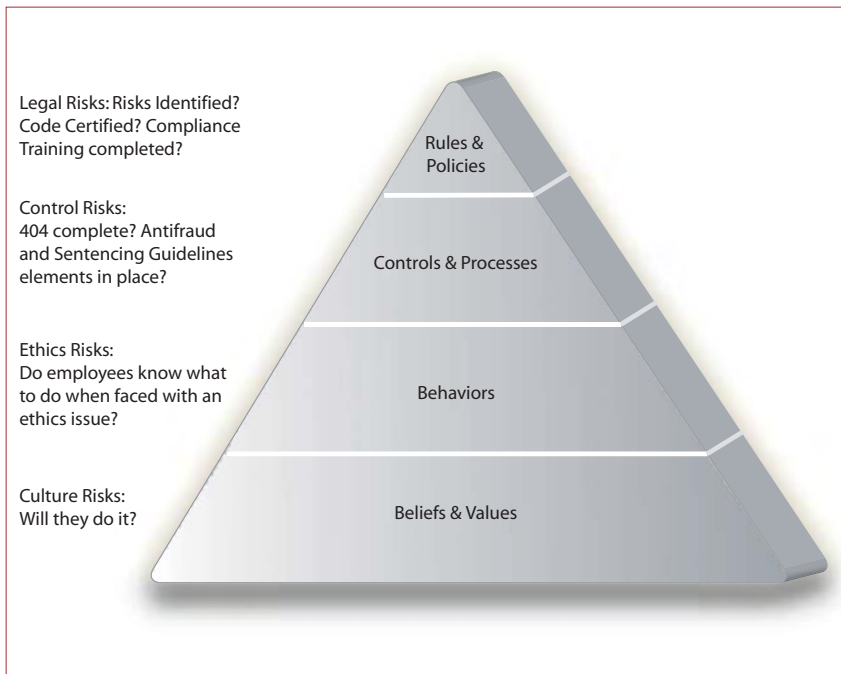
But many companies still struggle with the foundational elements of their culture. How do they know whether their employees, managers and leaders will do the right thing, even if they know what the rules are and what procedures to follow?

WHAT NEEDS TO BE MEASURED?

Typically there are four types of analysis in assessing risks of criminal or unethical conduct, each focusing on a specific aspect of the total risk picture. Each alone will not provide a complete picture, and not all are suitable for measuring ethical cultures. However, companies need to understand the differences in the approaches and how they relate to each other.

Legal Risks: Rules and Policies

For each area of the law, the organization must identify specific risks that are most likely to lead to compliance failures and ethical lapses. This review is usually undertaken by legal counsel and results in the publication of the Code of Conduct



and the related underlying policies and standards, as well as specific compliance training. This type of risk assessment can help determine which challenges the organization faces, but it is of limited use in determining HOW the organization will meet those challenges.

Control Risks: Controls and Processes

The first step in managing the risks faced by the organization is identifying the control activities that mitigate the legal risks. This work is usually undertaken by Internal Audit and today is integrated into the Sarbanes Section 404 Internal Controls work.

In addition to determining the scope of its legal and audit risks, an organization must evaluate the sufficiency of its ethics and compliance programs. Many programs are evaluated to determine if they are addressing the seven requirements of the Federal Sentencing Guidelines. However, the amended 2004 Guidelines reject the “check-the-box” approach. The steps of the Guidelines must be evaluated in terms of how well they move the organization towards its goal of reducing the likelihood of criminal activity.

Ethics Risks: Behaviors

There is no guarantee that merely complying with the Guidelines actually reduces risks, or addresses the underlying behavior patterns that lead to risk in the first place. Therefore, the adequacy of an ethics program cannot be determined without evaluating its impact on behaviors that create the risks. Any review of program elements, such as training, hotlines, monitoring, etc., can only be done in the context of how effective they are in changing behavior. Towards that end, it is critical that the organization determine whether it is monitoring key behaviors.

Ethics Risks can be monitored through employee surveys, interviews, focus groups, and use of key indicators such as the volume and nature of calls to the hotline.

What are the values of employees,
managers and leaders in the
organization?



Culture is the sum total of all of the collective values and behaviors of a company's employees and managers.

Culture Risks: Beliefs and Values

Effectively managing Legal Risks will identify where the company is most likely to get into trouble. Effectively managing Control Risks will identify best practices in oversight. Effectively managing Ethics Risks will identify and train employees on what they should do. However, the critical foundation element for determining culture is whether all employees, including leaders and managers, will in fact do the right thing.

What are the values of employees, managers and leaders in the organization? Are they truthful, transparent and fair? Will they communicate openly? Do they know how to create an environment where ethical behavior is supported? Research by leading experts such as Linda Klebe Treviño has focused on the role of values in the effectiveness of an ethics program. In her research, employees' perception of shared values was a key factor in designing an ethics program. The concept of shared values, as a part of organizational culture has been defined as "the shared set of norms and beliefs that guide individual and organizational behavior." These norms and beliefs are shaped by the leadership of the organization, are often expressed as shared values or guiding principles, and are reinforced by various systems and procedures throughout the organization.

Linking values to the legal and control risks, as well as to the key behaviors that support the ethics program, provides a full assessment of the sufficiency of an ethics and compliance program. This is what is meant in the requirement that the organization assess "the likelihood that certain criminal conduct may occur because of the nature of the organization's business."

The remainder of this analysis presents a model of Culture Risk Assessments as the foundation for program evaluations, and as the underpinning for determining the ability of an organization to create an ethical culture.

CULTURE RISK ASSESSMENTS

THE ROLE OF CULTURE

Most compliance programs are generated from "corporate" and disseminated down through the organization. As such, measurement of the success of the program is often based on criteria important to the corporate office: how many employees certified the Code of Conduct, or how many employees went through the training, or how many calls were received by the hotline.

Culture is different, and is measured differently. An organization's culture is not something that is created by senior leadership and then rolled out. A culture is an objective picture of the organization, for better or worse. It's the sum total of all of the collective values and behaviors of all of its employees, managers, and leaders. By definition it can only be measured by criteria that reflect the individual values of all employees. Therefore, understanding cultural vulnerabilities that can lead to ethics issues requires knowledge of what motivates all of the employees and how the myriad of human behaviors and interactions fit together like puzzle pieces to create a whole picture of the organization. An organization moves towards an ethical culture only if it understands the full range of values and behaviors needed to meet its ethical goals. The "full-spectrum" organization is one that creates a positive sense of engagement and purpose which drives ethical behavior.

Here is a practical example of this at work: Most organizations have a policy that prohibits retaliation against those who bring forward concerns or claims. However, creating a culture where employees feel safe enough to admit mistakes and to raise uncomfortable issues requires more than a policy (Legal Risk Management) and “code training” (Integrity Risk Management). To truly develop an ethical culture, the organization must be aware of how their managers deal with these issues up and down the line, and how the values they demonstrate impact desired behaviors. The organization must understand the pressures its people are under and how they react to those pressures. The organization must know how its managers communicate and whether employees have a sense of accountability and purpose. Determining whether an organization has the capabilities to put in place such a culture requires careful examination. Do employees and managers demonstrate values such as respect? Do employees feel accountable for their actions and feel that they have a stake in the success of the organization? These factors may well determine the success of “code training” on fear of retaliation.

MODELS OF ETHICAL COMPANIES

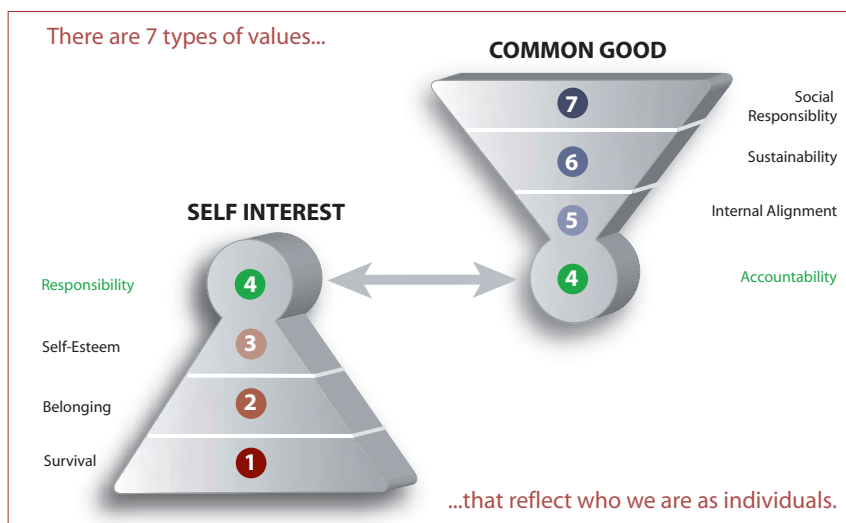
A successful Culture Risk Assessment meets the following criteria:

- Makes it possible to translate soft qualitative data on values into quantitative data that can be reported internally and externally.
- Provides a base-line measurement instrument for monitoring changes in the organizational culture.
- Provides a method for measuring the resources available to the organization to meet its integrity goals.

The Culture Risk Assessment models presented below have been adapted from the Corporate Transformation Tools developed by Richard Barrett & Associates. Such tools provide a comprehensive framework for measuring cultures by mapping values. This technique has been used by more than 700 organizations in 24 countries in the past six years. It has been adopted by the international management consulting firm McKinsey & Co. as its method of choice for mapping corporate cultures and measuring progress toward achieving culture change.

At the heart of the Culture Risk Assessment is the concept that all values and behaviors can be assigned to one of seven dimensions that make up individuals

If we can identify the values and behaviors of a group of individuals, we can measure the overall culture.





A full spectrum ethical organization embodies values that encompass most, if not all, of the 7 levels.

and organizations. Whatever we focus on in our personal lives is a reflection of our individual awareness; whatever organizations focus on is a reflection of the collective awareness of the organization. Therefore, if we can identify the values and behaviors of a group of individuals, we can measure the overall culture by mapping individual values to the seven levels.

The 7 Levels of values fall into three categories that have defined values since the days of Socrates: Values that reflect our Self-Interest, Values that reflect the Common Good, and Values that reflect Responsibility and Accountability which help individuals and organizations in transitioning from self-interest to the common good.

Organizations grow and develop in the same way as individuals. Researchers have identified seven well-defined developmental stages. Each stage focuses on a particular existential need that is common to all forms of human group structures. Organizations develop and grow by learning to master the satisfaction of these needs. In general, organizations that learn how to develop values in each of the 7 Levels have the best chance on sustaining a positive ethical culture. Research has shown that these organizations are the most resilient and profitable of all organizations because they have the ability to respond appropriately to all business challenges.

An organization needs to know whether it is resilient enough to withstand ethical crises and challenges. To do that, it must understand its culture and be aware of its strengths and weaknesses. How else can it design the means to fill gaps and weak spots? To that end, the organization must determine if it has the depth to adequately identify and then manage integrity risks by empowering employees to do the right thing.

A successful ethics and compliance program looks at values from three distinct vantage points. First, what are the collective values of the organization? Has the organization pulled together the right blend of individuals to be satisfied with its "corporate" culture?

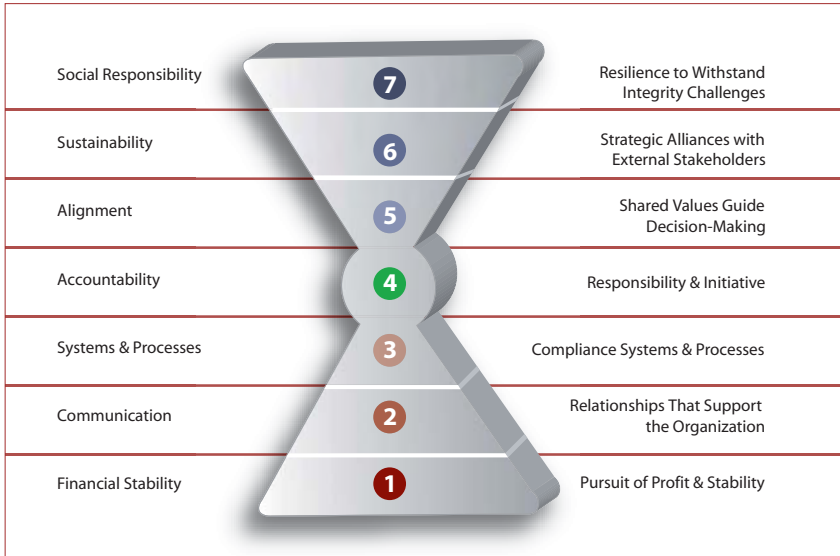
Second is a look at managers. Managers are the critical link in the success of any ethics and compliance program and the company needs to be assured that its managers have the character and values needed to demonstrate key ethical behaviors.

Third are the individual employees. Do the individuals within the organization have the range of values to be accountable and ethical in their day to day activities?

What follows are three values "maps" that categorize the full range of values into the 7 levels. Seeing and understanding which levels are well represented and which reflect limiting values will provide leadership with a deeper understanding of what motivates employees and managers in engaging in, or refraining from, key behaviors that drive ethical performance.

SEVEN LEVELS OF AN ETHICAL ORGANIZATION

What is the character of the organization? What values are encouraged and which are discouraged? A full spectrum ethical organization embodies values that encompass most, if not all of the 7 Levels.



Levels 1, 2 and 3 - The Organization's Basic Needs

Does the organization support values that enable it to run smoothly and effectively? From an ethics perspective, is the environment one in which employees feel physically and emotionally safe to report unethical behavior and to do the right thing?

Level 1 - Financial Stability

Every organization needs to make financial stability a primary concern. Companies that are all-consumed with just surviving struggle to focus enough attention on how they conduct themselves. This may, in fact, create a negative cycle that makes survival much more difficult. Managers may exercise excessive control. Employees may be working in an environment of fear.

In these circumstances, unethical or even illegal conduct can be rationalized. When asked to conform to regulations, organizations do the minimum with an attitude of begrudging compliance.

Organizations with challenges at this level need to be confident that managers know and stand within clear ethical boundaries.

Level 2 - Communication

Without good relationships with employees, customers and suppliers, integrity is compromised. The critical issue at this level is to create a sense of loyalty and belonging among employees, and a sense of caring and connection between the organization and its customers.

The most critical link in the chain is between employees and their direct supervisors. Poor communication makes transparency impossible. Key information is not getting disclosed. There is persistent fear of retaliation.

Without good relationships with employees, customers and suppliers, integrity is compromised.



Does the organization support values that create a collective sense of belonging where employees feel that they have a stake in the success of the ethics program?

Fears about belonging and lack of respect lead to fragmentation, dissension and disloyalty. When leaders meet behind closed doors, or fail to communicate openly, employees suspect the worst. Cliques form and gossip becomes rife. When leaders are more focused on their own success, rather than the success of the organization, they begin to compete with each other.

Level 3 - Systems & Processes

At this level, the organization is focused on becoming the best it can be through the adoption of best practices and a focus on quality, productivity and efficiency. Level 3 organizations have succeeded in implementing strong internal controls and have enacted clear standards of conduct. However, organizations need to be alert to resorting to a "check-the-box" attitude that assumes compliance comes naturally from implementing standards and procedures. Organizations need to be mindful of the risks of hierarchical structures and power-based silos that limit communication, as well as employee and manager engagement in living ethical principles.

Level 4 - Accountability

The focus of the fourth level is on creating an environment where employees and managers begin to take responsibility for their own actions. They want to be held accountable - not micro-managed and supervised every moment of every day. For a successful ethics and compliance program, every employee must feel they have personal responsibility for the integrity of the organization. Everyone must feel that his or her voice is being heard. This requires managers and leaders to admit they do not have all the answers, and invite employee participation.

Levels 5, 6 and 7 - Common Good

Does the organization support values that create a collective sense of belonging where employees feel that they have a stake in the success of the ethics program?

Level 5 - Alignment

The critical issue at this level is developing a shared vision of the future and a shared set of values. The shared vision clarifies the intentions of the organization and gives employees a unifying purpose and direction. The shared values provide guidance in decision-making.

The organization develops the ability to align decision-making around a set of shared values. The values and behaviors must be reflected in all of the organization's processes and systems, with appropriate consequences for those who are not willing to walk the talk. A precondition for success at this level is to build a climate of trust.

Level 6 - Sustainability

At this level, the organization is able to use its relationships with stakeholders to sustain itself through crises and change. Employees and customers see the organization is making a difference in the world, either through its products and services, its involvement in the local community or its willingness to fight for causes that improve humanity. Employees and customers must feel that the company cares about them and their future. Companies operating at this level go the extra mile to make sure they are being responsible citizens. They support and encourage employees' activities in the community by providing time off for volunteer work and/or making a financial contribution to the charities that employees are involved in.

Level 7 - Social Responsibility

To be successful at level 7, organizations must embrace the highest ethical standards in all their interactions with employees, suppliers, customers, shareholders and the community. They must always give consideration to the long-term impact of their decisions and actions.

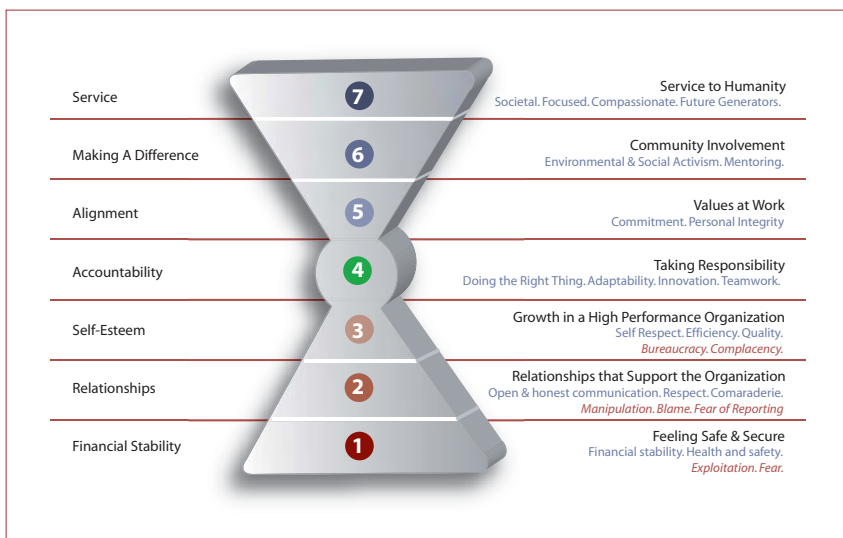
Distribution of Values across levels: Organizations do not operate from any one level of awareness. They tend to be clustered around three or four levels. Most organizations are focused in the first three levels - profit and growth (Level 1), customer satisfaction (Level 2) and productivity, efficiency and quality (Level 3). The most successful organizations tend to be distributed across the full spectrum with particular focus in the upper levels of consciousness—the common good—accountability, leading to learning and innovation (Level 4), alignment (Level 5), sustainability (Level 6) and social responsibility (Level 7).

Some organizations have fully developed values around Levels 1, 2 and 3 but are lacking in Levels 5, 6, and 7. These organizations may have a complete infrastructure of controls and procedures, but may lack the accountability and commitment of employees and leaders to go further than what is required.

Similarly, some organizations have fully developed values around Levels 5, 6, and 7 but are deficient in Levels 1, 2, and 3. These organizations may have visionary leaders and externally focused social responsibility programs, but may be lacking in core systems that will ensure that the higher level commitments are embedded into day to day processes.

SEVEN LEVELS OF AN ETHICAL EMPLOYEE

The values of an organization are the composite of the values of its employees and managers. An organization needs to know whether its people embrace the values required to move the organization towards its ethical goals.



Levels 1, 2 and 3 - Self-Interest

Level 1: Safety - At this level, employees focus on matters that impact their livelihood and physical safety. Level 1 includes values such as financial stability, wealth, safety, self-discipline and health. Employees who do not feel physically safe

Being respected encourages a sense of engagement and willingness to participate in building an ethical culture.

and secure in their jobs are less likely to feel accountable for their actions and report issues of which they are aware. The potentially limiting aspects of this level are generated from survival fears. Limiting values include greed, control and caution. Companies with employees who do not demonstrate positive values at this level need to be vigilant in monitoring whether critical compliance and ethics information is being reported.



An organization is only as ethical
as its leaders.

Level 2: Relationships - This level concerns the quality of interpersonal relationships. It includes values such as open communication, family, friendship, conflict resolution and respect. Being respected encourages a sense of engagement and willingness to participate in building an ethical culture. The potentially limiting aspects of this level result from fear of loss of control or regard. Fear of reporting dramatically limits the ability of the organization to identify potential unethical or criminal conduct.

Level 3: Self-Esteem - This level addresses an individual's need to feel good about themselves and the role they play in the organization. It includes such values as being the best, ambition, professional growth and reward. The potentially limiting aspects of this level stem from employees demonstrating low self-esteem and feeling out of control, which creates a high level of integrity risk. Overly ambitious employees and managers put their own interests first, generating integrity risks for the entire organization. Potentially limiting values include status, arrogance and image.

Level 4: Accountability - The focus at this level is taking responsibility for one's actions through self-actualization and personal growth. It contains values such as courage, responsibility, knowledge and independence. This is the level where people work to overcome their fear of retaliation, as well as their fear of not pleasing their boss by doing the right thing. Level 4 requires continuous questioning of beliefs and assumptions. It is also the level where individuals begin to find balance in their personal lives, which positively impacts how they act at work.

Levels 5, 6 and 7 - Common Good

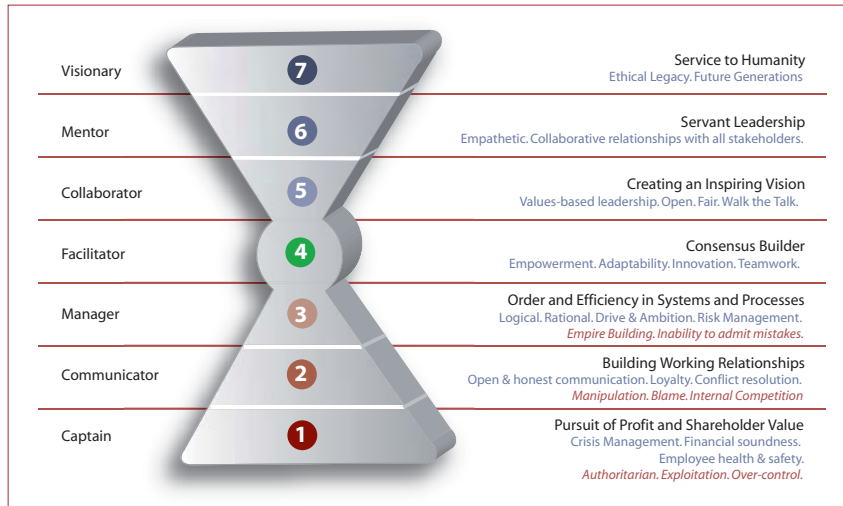
Level 5: Alignment - Individuals feel they can live their values at work. Personal integrity is encouraged and celebrated. This level contains values such as commitment, creativity, enthusiasm, humor/fun, excellence, generosity and honesty.

Level 6: Making a Difference - Level 6 focuses on making a difference in the world. It is also the level of active involvement in the local community. Individuals operating at this level honor intuition and contribution. They may be concerned about the environment or local issues. This level contains values such as counseling, community work, empathy and environmental awareness.

Level 7: Service - Level 7 reflects the highest order of internal and external connectedness. It focuses on service to others. Individuals operating at this level are at ease with uncertainty. They display wisdom, compassion and forgiveness. They have a global perspective. They are concerned about issues such as social justice, human rights and future generations.

SEVEN LEVELS OF AN ETHICAL LEADER

Tone at the top. An organization is only as ethical as its leaders. Leaders must not only demonstrate a high degree of personal integrity, but must also embody the values necessary to create an ethical climate within the organization.



Levels 1, 2 and 3 - Tending to the Basic Needs of the Organization

Level 1: Captain: Level 1 leaders understand the importance of profit and shareholder returns. They manage their budgets meticulously. They look after the health and safety of employees. They are appropriately cautious in complex situations. They deal with short-term issues and goals, and may promote a culture of compliance, but go no further than they have to in satisfying legal regulations. However, Level 1 leaders can go too far, becoming authoritarian and exploitive. If they feel that only they can save the situation, they may limit debate and input from others.

Level 2: Communicator: Relationship managers handle conflicts easily and invest a lot of time in building harmonious working relationships. They do not run away or hide from their emotions. They use their relationship skills to handle difficult interpersonal issues, and their communication skills to build loyalty among their employees. They deliver good news and bad news to all staff. However, poor communicators can play one employee off the other, creating environments where blame runs rampant.

Level 3: Manager: Managers bring logic and science to their work. They use metrics to manage performance. They build systems and processes that create order and efficiency and enhance productivity. They are logical and rational in making decisions. However these managers may be too reliant on objective systems and measures to support the ethics and compliance program. An unhealthy need for self-esteem can lead such managers to be unwilling to admit mistakes, creating ethics risks.

Level 4: Facilitator: Facilitators seek advice, build consensus and empower their staff. They recognize that they do not have to have all the answers. They give people responsible freedom; making them accountable for outcomes and results.

Facilitators seek advice, build
consensus and empower
their staff.



Which values/behaviors most represent who you are?

Levels 5, 6 and 7 - Creating the Common Good

Level 5: Collaborator: The collaborator builds a vision and mission for the organization that inspires employees and customers alike. They promote a shared set of values and demonstrate congruent behaviors that guide decision-making throughout the organization. They are living examples of values-based leadership.

Level 6: Mentor: Mentors are motivated by the need to make a difference in the world. They are true servant leaders. They create mutually beneficial partnerships and strategic alliances with other individuals or groups who share the same goals. They collaborate with customers and suppliers to create win-win situations. They are active in the local community, building relationships that create goodwill.

Level 7: Visionary: Visionary leaders are motivated by the need to serve the world. Their vision is global. They see their own mission and that of their organization from a larger, societal perspective.

HOW TO IMPLEMENT A CULTURE RISK ASSESSMENT

PREPARATION PHASE

Begin by creating customized templates of approximately 80-100 values/behaviors. Two templates are used - a personal values template mapping the values that are important to employees in their lives, and an organizational values template for the values of the current and desired culture of the organization.

Once the templates have been created, and the list of demographic categories has been chosen, create a website where employees can take a 10-20 minute values assessment.

Leaders, Managers, and/or Employees are asked to check the demographic categories that apply to them, and then answer three questions:

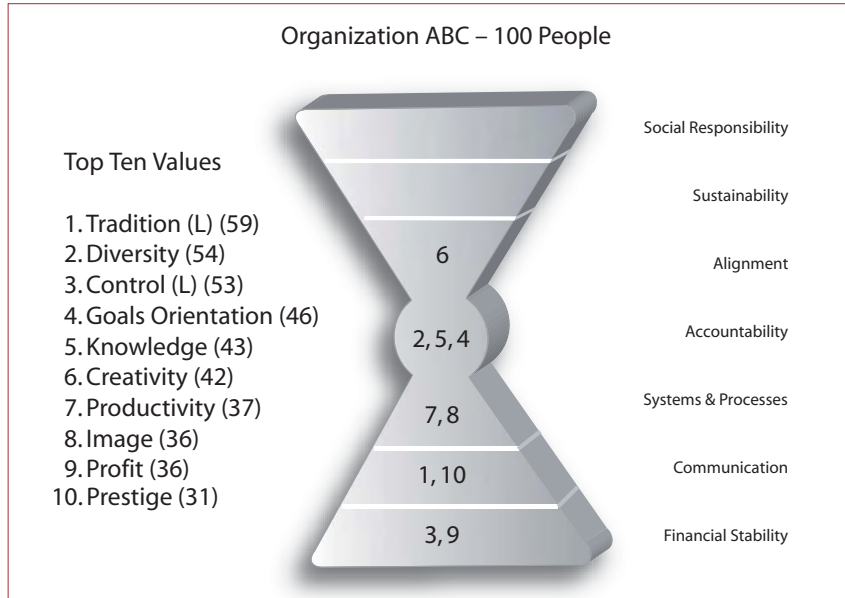
Which of the following values/behaviors most represent who you are, not what you desire to become? Pick ten (from the Personal Template).

Which of the following values/behaviors most represent how your organization currently operates? Pick ten (from the Organizational Template).

Which of the following values/behaviors most represent how you would like your organization to operate? Pick ten (from the Organizational Template).

ANALYSIS PHASE

Prepare a data plot assigning the values selected by the participants to one of the 7 Levels. For example, the values chosen by the 100 people at hypothetical ABC Corp. are plotted by where each value fits into one of the 7 Levels.



The results generate a revealing snapshot of strengths and weaknesses in the current culture and indicate whether the entity has the collective vision and capability to become a full spectrum integrity-based organization.

The analysis serves as the foundation for identifying areas of focus and ways to harness the organization's strengths to fill these gaps. The analysis will also shape discussion as to what type of training and communication will be necessary to meet the organization's integrity goals.

Typically, Culture Risk Assessments are first taken by senior leaders, including those responsible for ethics and compliance issues. The results provide two key indicators:

1. Feedback on how the senior team sees the current culture and their collective vision of the desired corporate culture. The analysis will provide insight on how to prioritize interventions to solidify and sustain the culture in order to achieve desired levels of integrity.
2. Identification of areas for additional inquiry in terms of either a wider assessment of the broader culture or specific assessments of business units, higher risk departments or divisions that require more focused ethics and compliance inquiry.

The analysis serves as the foundation for identifying areas of focus and ways to harness the organization's strengths to fill these gaps.

WHAT CAN BE LEARNED?

After the latest round of scandals, what additional information can a Board or Audit Committee learn about their company that might shape what actions should be taken to avoid disaster? What questions warrant greater inquiry?

Based on a review of public documents, the Culture Risk Assessment of one of the companies that recently faced a major ethics scandal could have looked like this:

An action plan tailored to specific behaviors has the best chance of succeeding.



The collective responses of the individuals surveyed are plotted on three charts. The Personal Values chart in the left reflects the collective Personal Values of the participants. Each of the values is linked to one of the 7 levels. For example “Mission Focus” is a value that represents Level 3 - Systems and Processes, so a red dot is placed in Level 3. “Control” could be a limiting value, meaning inquiry is required to determine if it is a negative attribute or not. It is reflected in Level 1 with a white dot. A similar plot is developed for the collective responses for the Current Culture as well as the Desired Culture.

Personal Values - Do we know the values of the people running the company?

- Values such as “Being the Best,” “Control,” and “Excellence” suggest driven professionals comfortable with taking aggressive risks.
- “Personal Fulfillment” and “Wealth” suggest expectations of personal reward commensurate with creating shareholder value.
- Pride in upholding standards of excellence.
- Gap in Level 2 reveals no focus on relationship values: leaders focused primarily on their personal growth and wealth. Their personal values do not include terms that reflect “respect” or “cooperation.”

Current Culture Values - What fires might be smoldering below the surface?

- This is an organization in crisis. Despite positive values such as “Mission Focus” and “Teamwork,” the organization neither has values that support a strong financial foundation or the Systems and Processes needed to keep the organization moving forward.
- Strong egos that can lead to Information Hoarding and Empire Building.
- Lack of trust reflected through values such as Fear, Blame, Power, and Information Hoarding.
- The aggressive tactics of managers are insulated from review and critique through fear and intimidation.

- Looking good is more important than substance.
- Creating new business models rewarded over maintaining the store.
- Innovation pursued at the expense of managing basic systems, controls, and processes.

Desired Culture Values - Is this the kind of company we want to have?

- Do we have the right people to get us there? The Desired Culture is admirable, but the organization cannot achieve those values if they are not reflected in the personal values of our leaders.
- Our employees want to be the best of the best.
- Open and authentic communications are desired. Is this a reaction to the negativity in the current culture?
- Dynamic and committed culture
- Respect for the individual
- New markets and new ways of doing business
- Decisions based on integrity

Based on how the organization's employees and leaders articulate their current and desired values, learning objectives for training and messaging for internal communication can be targeted to the groups that need the most work in closing critical gaps. It is one thing to see a need for better communication; it is another to learn why the problem exists, and then target the underlying values that shape that behavior.

An action plan tailored to specific behaviors has the best chance of succeeding. Employees and managers, who can be shown why certain behaviors are critical for the organization to meet its integrity goals, and can be shown how well they demonstrate the desired behaviors, have the most incentive to change.

For this organization, leadership could have addressed gaps in values as follows:

Level 1 - Financial Stability

- Leadership to focus on breaking down fear and internal empires.

Level 2 - Communication

- Training and systems to foster an environment of open communication and respect.
- Focus on the specific factors that create fear of reporting.
- Encouraging and expecting transparency.
- Customer Service. A lack of respect for customers is related to unhealthy aggressiveness that creates unnecessary risks.

Level 3 - Systems and Processes

- Internal controls to manage bureaucracy and efficient systems.
- Training and performance management systems to focus on the value and benefit of identifying errors and admitting mistakes.

Level 4 - Accountability

- Independent and accountable decision-making.
- Learning from mistakes: senior leaders modeling the benefit of admitting mistakes early to nip problems in the bud and to learn from lost opportunities without creating blame.



A solid understanding of what motivates employees and managers to do the right thing is the foundation for developing a truly effective ethics and compliance program.



Level 5 - Alignment

- Assuring consistent values-based decision-making across the organization.
- Active integration of shared vision and values into each division's business operation.
- Employee enthusiasm and commitment to mission.

Level 6 - Sustainability

- Developing collaborative relationships with external stakeholders.
- Addressing lack of respect for customers and external stakeholders.

The Action Plan developed as a result of the Culture Risk Assessment is used in conjunction with the other three types of risk assessment tools. Together, a plan can be developed to shape and prioritize the various types of interventions needed to build the kind of ethical culture needed to effectively reduce the risk of criminal conduct.

CONCLUSION

Enron had a Code of Ethics.

Management override of internal controls is a leading source of fraud.

Hotline call statistics may not reveal whether employees are too intimidated to call.

Therefore, focusing only on Legal Risks, Control Risks and Ethics Risks may not be enough to determine whether an organization is achieving the underlying goal of creating a culture where criminal conduct is not condoned or tolerated.

A solid understanding of what motivates employees and managers to do the right thing, as well as what holds them back, is the foundation for developing a truly effective ethics and compliance program -- the kind of program envisioned by the amended Federal Sentencing Guidelines, and demanded by regulators and prosecutors.

Harvey Pitt, former Chairman of the SEC said recently that the starting point for creating an effective 'tone at the top' resides with the character of senior corporate managers themselves.

Particularly in this day and age of complex regulatory requirements, companies err if they assume that their tone can be set by having effective procedures and policies in place. Having effective procedures and policies is certainly necessary, but it's not sufficient. A company must also have the right people in leadership positions, leaders who are truthful, transparent, and fair, just as they expect their companies and employees to be. That means leaders must not only talk the talk, they must also walk the walk. As financier and Wall Street legend Bernard Baruch aptly put it, a whole succession of technological revolutions can't do away with the need for character or the ability to think and act ethically.

How does a company know if its employees have these critical values? A successful assessment of the corporate culture is the best place to start.

ABOUT WORKING VALUES

Working Values Ltd. has been a proponent of the truly ethical workplace, promoting values-based ethics since its founding in 1993. Working Values contends that while articulation of standards can set goals, standards alone cannot change behaviors. To achieve this necessary change and ensure systems that will propagate continuing ethical behavior, companies must evolve from rules-based – or end-result focused – ethics to values-based ethics, where ethics as an ongoing process, with an emphasis on an integrity-based control environment.

Working Values helps organizations articulate their vision and balance their strategic goals with their values and standards. We offer a range of consulting services and learning products to help companies assess the current state of their culture and then develop and implement an action plan that will effect change.



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