

# Are Your Programs Working? Evaluating Ethical Conduct in Companies

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Many companies that get caught up in scandals have ethics and compliance (E&C) programs. So why aren't they working? One way to evaluate your program is to compare it to those of companies that achieve the highest Program Effectiveness Index (PEI) scores.

## A Culture Of Ethical Conduct

The PEI was developed by governance consulting firm LRN, based on the results of its annual survey of E&C programs. LRN's goal was to help companies determine whether their programs actually promote a culture that encourages ethical conduct and a commitment to compliance.

The index measures correlation rather than causation. In other words, it doesn't tell you whether certain governance and compliance behaviors and attributes result in an effective program. Rather, it shows the degree to which certain behaviors and attributes are associated with more or less effective programs.

By comparing companies with the highest scores (the top 20% — or most effective) with the lowest-scoring companies (the bottom 20% — or least effective), LRN was able to reveal some best practices.

## Company Priorities

The top 20% are substantially more likely to list culture and business values among their key priorities. And PEI scores were well above average for companies that emphasize risk mitigation, leadership development, culture and values, and innovation. On the other hand, companies that focus on cost reduction and cash management — including the majority of those in the bottom 20% — tend to have below-average scores.

## Reporting Structure

The most effective E&C programs are led by an executive who reports to the CEO or the board of directors (or one of its committees), rather than to the general counsel. Among other things, LRN believes that giving the chief compliance officer (CCO) a "seat at the table" sends a message to everyone in the company that ethics and compliance are important.

Most CCOs also update the board regularly (typically, two or four times per year). The small percentage of companies whose CCOs didn't report to or update their boards were among those with the lowest PEI scores.

## Setting The Tone

What the CEO does and says — the "tone from the top" — has a strong correlation with program effectiveness. For example, PEI scores are significantly higher at companies whose chief executives:

- Demonstrate ethical leadership through their words and actions,
- Hold executives accountable for modeling expected behavior,
- Refer to the company's code of conduct in public,
- Use the company's values as a framework for making decisions,
- Are the first to complete E&C training,
- Connect with E&C officers regarding senior management performance and promotions, and
- Address E&C issues in meetings.

But tone from the top may not be enough. Given the small percentage of employees who interact regularly with top executives, it's critical to support the company's culture and values with the right "tone in the middle." Companies whose middle management focuses on E&C issues have above-average PEI scores, while companies without middle management support score well below average.

## Review Your Programs



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These are just a few highlights from LRN's 2014 Ethics & Compliance Program Effectiveness Report. You can find the full report [here](#). By reviewing your E&C program in light of LRN's findings, you can identify ways to improve its effectiveness.