Curbing Bribery and Corruption with a Strong Corporate Culture

The benefits of a strong corporate culture of ethics and anti-corruption are well established and can help in improving financial performance, enhancing the ability to raise capital, building and improving reputation and brand, as well as strengthening an organization’s competitive position. Strong organizational ethics can also help attract high-performing employees and reduce turnover, strengthen customer satisfaction and loyalty, and improve employee morale.


Mike Juergens

“The benefits are a powerful incentive for C-suite executives and boards to guide their companies to be ethical and compete effectively, even when facing others that use illicit practices,” said Mike Juergens, managing principal with Deloitte Risk and Financial Advisory, Deloitte & Touche LLP, during a Deloitte webcast, “Global Ethics and Compliance In Uncertain Times: Leveling the Playing Field.”

Instilling such a mindset throughout an organization often requires management and the board to have a "laser focus on culture," according to Mr. Juergens, and an effective plan to not only detect and address issues related to bribery, corruption and financial risk, but to take preventive measures.

Regulatory Efforts May Empower the CCO


Keith Darcy

“Broadly, ethics and compliance programs are effective when they are industry specific, metrics oriented and operationalized,” noted Keith Darcy, an independent senior advisor to Deloitte & Touche LLP’s Regulatory and Operational Risk practice, and a presenter on the webcast. He pointed to several requirements issued by the U.S. government to operationalize and standardize corporate compliance programs, including the Securities and Exchange Commission’s (SEC) National Exam Program and the Department of Justice’s (DoJ) Foreign Corrupt Practices Act (FCPA) pilot program and Evaluation of Corporate Compliance Programs.

The pilot program assesses whether to provide credit to organizations that self-report potential FCPA violations and agree to cooperate with DoJ investigations.

The evaluation framework poses questions in 11 areas designed to assess compliance program effectiveness. “In practice, organizations may want to reverse-engineer their compliance program based on the DoJ questions to help identify and address gaps,” suggested Mr. Darcy.

He also noted that the DoJ's efforts to strengthen corporate ethics and compliance programs indicate that the agency supports "empowering" chief compliance officers (CCOs). For that to happen, several organizational precursors could be needed, such as making the post a senior position to signal that the C-suite and board consider the CCO a valued member of the leadership team. Further, CCOs need a clear and independent mandate from leadership, a seat at the strategic decision-making table and line of sight into the board and C-suite to be fully empowered.

Making organizational changes to empower CCOs is challenging, observed Mr. Juergens, requiring “strong leadership support that focuses on aligning the organization’s code-of-conduct values to the types of behaviors expected of management and the workforce.”

One way to do that is for a CEO to be specific about the types of actions the organization will take to promote company values, with the goal of cascading that message to the chief executive’s direct reports and ultimately to the rest of the workforce. In that way, “the tone at the top, mood in the middle and buzz at the bottom are aligned,” said Mr. Darcy.

Webcast attendees acknowledged a need for effective communication with respect to ethics and compliance programs. When asked, “Which do you think poses the biggest challenge to employee compliance in your organization’s global ethics program?” nearly one-quarter of the 4,394 respondents chose “Inconsistency of clear, concise and frequent ethics program communications and training for all employees.”

Which do you think poses the biggest challenge to employee compliance in your organization’s global ethics program?	
Votes Received: 4,394	
Differing ethical standards for various employee groups (i.e., C-suite and board are held to higher level of compliance than other professionals; employees held to higher standard than C-suite and the board, etc.)	15.4%
Inconsistency of clear, concise and frequent ethics program communications and training for all employees	24.7%
Lacking incentives (i.e., financial, performance evaluation, etc.) to reward ethical behavior and repercussions for unethical behavior	16.8%
Varied ethical postures of third parties with whom employees regularly interact	14.5%
Don't know/NA	28.5%

Source: Poll results from Deloitte Dbriefs webcast, “Global Ethics and Compliance in Uncertain Times: Leveling the Playing Field,” May 24, 2017.

Activity to curb bribery and corruption on a global scale is accelerating, according to Don Fancher, principal with Deloitte Financial Advisory Services LLP, and U.S. and Global leader for Deloitte Forensic, who presented on the webcast. The SEC reported that since its whistleblower program began in 2010, the Commission has received tips from individuals in 103 countries outside the United States. The Organisation for Economic Cooperation and Development indicated in its 2017 “Fighting the Crime of Foreign Bribery” report that 302 investigations are being conducted in 28 countries, with 115 individuals and 13 entities subject to ongoing prosecutions in 11 countries.

Don Fancher

Bribery and Financial Crime

Several leading practices can help organizations improve and measure the effectiveness of their global ethics and compliance programs, noted Mr. Fancher. A first step is providing a “speak-up” or hot line for employees to report potential ethics violations, along with promoting the hotline and testing its effectiveness and how it is used. For example, is the hotline being used only for human resource and talent issues, or for reporting potential ethics violations?

Generally, there appears to be some confidence that employees will report misconduct, judging from results to a polling question asked during the webcast.

Exit interviews can be another effective tactic to address bribery and corruption. This is particularly true if the interviewer asks questions that prompt responses about issues stemming from the tone at the top: For example, was significant pressure applied within the organization to perform in a certain way or achieve certain results?

Well-crafted annual employee surveys are a leading indicator of potential violations, and can be followed by proactive and preventive measures such as enhanced ethics and compliance training. In this way, management can use surveys to understand whether training resonates with employees and determine if training is being effectively applied throughout the organization.

Other effective measures include programs that identify countries and/or regions that pose a high degree of ethics, bribery and corruption risk to the organization and are followed by the implementation of risk-sensing programs that target those areas and issues.

How confident are you that your organization's employees will report unethical behavior involving fellow employees, clients and other third parties?	
Votes Received: 3,841	
Highly confident	30.1%
Somewhat confident	46.9%
Not confident	8.6%
Don't know/Not applicable	14.3%

Source: Poll results from Deloitte Dbriefs webcast, "Global Ethics and Compliance in Uncertain Times: Leveling the Playing Field," May 24, 2017. Copyright © 2017 Deloitte Development LLC. All rights reserved.

Financial crime—which costs the global economy at least $2.1 trillion[1] annually related to money laundering, sanction violations, the financing of terrorist and human trafficking, theft of intellectual property and corporate espionage—can be effectively addressed by focusing on a "lifecycle" approach, rather than only reacting to a crisis, suggested Mr. Fancher.

He explained a six-step process that starts with compliance and moves into prevention, detection, investigation, remediation, and finally monitoring and testing. As data is collected throughout the process, it is funneled back into the compliance program to continually evolve and improve those efforts. "The process requires tight coordination among several corporate functions and the use of analytics and advanced technology to help improve an organization's ability to monitor, test and improve risk-sensing capabilities," said Mr. Fancher.

Culture: More Art Than Science

Broken down into its core components, corporate culture comprises values, beliefs and behaviors, noted James "Chip" Cottrell, who serves as a senior adviser to Deloitte Global on ethics, integrity and governance matters and who presented on the webcast. He observed that an ethical culture is "more of an art than a science," adding that culture "yields profit when there is a link to a reward system that influences whether or not people do the right thing on a day-to-day basis."

James Cottrell

Corporate culture has a broad impact on organizations because it defines the way employees serve customers and interact with each other, and determines how organizations respond to challenges. Yet, management and boards sometimes pay less attention to culture because it can be difficult to measure and manage, and therefore left to evolve on its own. Despite the challenges of managing culture, corporate leaders appear to understand its value. Deloitte's Global Human Capital Trends 2016 report found that 82% of more than 7,000 CEOs and human resource leaders believe that, "culture is a potential competitive advantage," and as a result organizations are attempting to change corporate culture to respond to shifting talent markets and competition.

That includes responding to the expectations to Millennials and Generation Z, including transparency. "The younger generation is perfectly willing to blow the whistle on corruption. They don't want to tolerate malfeasance in an organization," said Mr. Darcy.

The importance of culture becomes apparent “when things go wrong and reputation is affected,” added Mr. Cottrell, “which often is the case when there is misalignment among an organization’s culture, expectations and strategy.” Generally, there are four drivers of misconduct:

—Business models that focus solely on growth which typically lead to inherent conduct vulnerabilities

—Labor-intensive or convoluted processes around automation and other streamlining efforts, which can increase the chance of error and give employees incentive and opportunity to ignore controls that are designed to prevent misconduct

—Inadequate or nonexistent monitoring and surveillance, allowing misconduct to go undetected and unmanaged from a risk perspective

—A weak culture within which poor conduct can develop into various disparate subcultures, or lead to a prevailing culture that does not balance short-term financial performance with other important business and ethical imperatives.

Ideally, culture should be embraced and embodied by the entire organization, but responsibility for building and sustaining a strong culture should be “owned by boards and management,” according to Mr. Cottrell, “because a weak culture can lead to ineffective strategies and unethical behavior.”

Endnote

1. http://www.unodc.org/unodc/en/frontpage/2011/October/illicit-money_-how-much-is-out-there.html

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