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# Compliance and business success, Part 2: Counterbalancing performance pressure through integrity leadership

» Every company uses the same management toolbox to organize and drive its workforce to higher performance.
» The workforce is driven toward a financial target through tools like tailored objectives, performance reviews, rewards for success, and consequences for failure.
» Through this, the value and contributions of each employee are continuously monitored and measured against the target.
» Integrity leadership is a set of visible, consistent, and measurable compliance-enabling processes and communications that are implemented directly by the business.
» To balance performance pressure with compliance, integrity leadership must be fully embedded within all aspects of the management toolbox.

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In Part 1 of this article, published in the previous edition of *Compliance & Ethics Professional*, we reviewed the three major forces fueling compliance violations and suggested that the most widespread of these forces is unbalanced performance pressure. This exists in companies where the balance has tipped so decisively toward short-term financial performance that the culture is easily interpreted by the workforce as "performance at any cost and by any means necessary." In this second part, we present a concrete set of practices we have termed "integrity leadership" that should be introduced and guided by the Compliance department, but implemented and led by the C-suite in order to visibly, consistently, and measurably counterbalance the performance pressure that so often leads to costly compliance failures. Although there are many facets to integrity leadership beyond what can be discussed in this article and illustrated in Figure 1, explained here are its first six elements.

### Target setting and communications

Financial targets are the essential driver of performance and growth. They are designed to stretch, motivate, and bring out the best of a company's workforce. They can successfully do this if they are based on a realistic assessment of market conditions and the company's ability to reach its target *in the right way*. This qualifier is essential, because a company's ability to produce is always greater than its ability to produce in the right way. For example, a pharmaceutical company's sales target of $100 million may have been feasible to hit in the right way when originally set with three competitors on the market, but may now be impossible to reach without crossing the line into illegal "off-label" promotion when two unexpected competitors enter the market.

The reaction of senior leadership to more competition will profoundly affect its corporate culture. Does it lower its financial target to reflect the new market reality, or does it continue to drive its workforce toward the original target, even if that target is now likely unreachable *in the right way*? This is not to say that senior leadership intends for its workforce to violate the law to hit the target. The hope is that ingenuity, new opportunities, and improved market conditions will permit the original target to still be reached. But the decision to push for an overstretched target puts the pressure and drive for performance on steroids as everyone in the workforce tries to squeeze every drop out of the lemon to hit target. It also sends a message to the workforce, because many will interpret the overstretched target as evidence that executive management cares more about *how much* than it does about *in what way*. This leads to an imbalanced corporate culture that pushes employees down the path toward compliance violations.

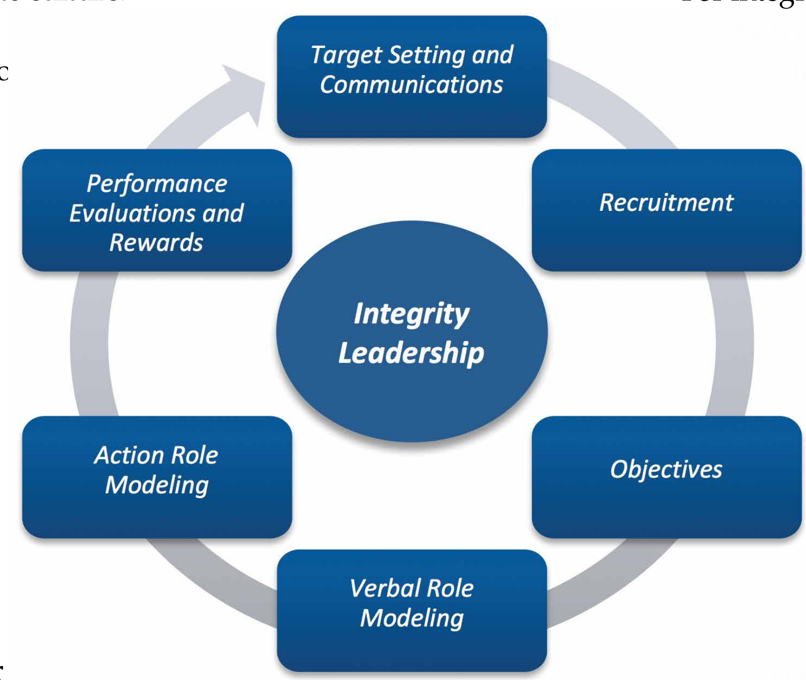


**Figure 1: The First Six Elements of Integrity Leadership**

What is needed is a counterbalance to the heightened financial target pressure the workforce is experiencing. Setting the right tone at the top has long been recognized as an important element of ethical leadership, but senior leadership's yearly endorsement of the code of conduct is insufficient to counterbalance the enormous performance pressure experienced by the workforce.

For integrity leadership to ly effective, com- ance messaging should be embedded within all financial target communications and should: (1) specifically address the financial target; (2) be actively, timely, and consistently communicated/ reinforced across the organization; and (3) provide the workforce with the right perspective on how to approach and interpret the financial target. For example, in the case of more competition, such messaging from a sales head might sound something like:

> *Team, as you know, more competition means we are behind target by $30 million! Now's the time to reach down deep and do what's needed to meet or beat our financial target. I am counting on you! What I ask of you is to give your absolute best while never crossing the line. I would rather stay true to our values and maintain the trust of our customers and communities than hit that target improperly. To be clear, hitting the target improperly is not hitting the target at all. Looking forward to celebrating with you in Hawaii when we nail this and win the President's Club Award.*

The tone of the messaging will vary with the identity of the communicator (e.g., sales head, CEO, production head), but the key is to ensure that every target communication sent by executives and managers appropriately balances the company's performance and compliance objectives, so this balance becomes a stable part of the company's culture. Now when employees are pushed to a fork in the road by the performance pressure they feel, they will consider the fact that their senior leadership, department head, and direct boss have all acknowledged the challenging year, but specifically directed and repeated that they would rather do things right than hit the financial target inappropriately.

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### Recruitment—What you assess is who you hire

The "right crowd" is just as important in the corporate world as it is in other areas of life. During our youth we learn of the powerful influence peers can have on our behavior, and as parents we worry about the circle of friends with whom our kids are associating. In the corporate world, the "right crowd" are the high performers who not only act with integrity themselves, but who: (1) encourage others to act with integrity in all their business dealings; (2) vocally challenge and speak out against strategies, initiatives, and/or activities that could violate company policies and the law; and (3) overcome business challenges with innovative solutions that move the business forward in a legal and ethical manner. By contrast, the "wrong crowd" are the people who: (1) show a lack of care for, and/or commitment to, ethical standards and corporate policies; (2) consistently and inappropriately seek to push the legal limit; and (3) inappropriately influence others to disrespect and/or disregard policies and ethical standards.

How then to attract and hire the right crowd? A background check is not enough. Most companies have not yet focused on this issue. They assess mainly functional expertise, performance history, and likeability. But integrity leadership skills can be assessed and measured as objectively as functional skills, and developing a selection process that favors the hiring of high-performing integrity leaders will go a long way toward reducing the risk of major compliance violations. In particular, a company's recruitment process should establish specific and escalating integrity leadership requirements based on whether the job level is an individual contributor position, manager position, or executive position, and assess the candidate's ability to carry out those important requirements based on his/her competencies, proclivities, and past experiences. This can be accomplished by amending job descriptions to require integrity leadership skills and behavioral interview guides and training to teach how to assess those skills.

For example, executives should not only be assessed on their personal commitment to acting with integrity, but also on the specific steps they took to lead their previous organizations with integrity. If any past organization was sanctioned under the executive's leadership, a red flag should be raised and questions posed to ascertain the executive's level of involvement and responsibility. Was the company sanctioned for conduct that occurred prior to or during the executive's reign? What was the nature of the sanction? Why did it occur? What did the executive do subsequent to the sanction to lead with integrity and ensure no repeat violations? What has the executive learned from the sanction and how will it guide his/her future leadership? Executives who cannot provide clear and pertinent answers have not given this much thought and are not skilled integrity leaders.

### Objectives—The goals you set are what you get

For performance and integrity to operate seamlessly together like two interconnected pistons in a high performance engine, you should never find one described without the other. That, by definition, is the key to a well-balanced culture. Objectives are another foundational area where these pistons need to operate in perfect sync. There are two aspects to integrity leadership in goal setting that can reduce the risk of compliance violations by helping to counter-balance the pressure to hit target at any cost that can act upon the workforce. First, each performance objective should formally and explicitly state *in what way* the objective needs to be attained. Since the full objective is not just to hit target but to hit it in the right way, both aspects of the objective—*how much* and *in what way*—should be listed for every performance-driven target. (This particular recommendation applies mainly to the high-risk producing arms of a company such as sales and marketing, manufacturing, business development, and research and development, and not to support functions like human resources, communications, and legal.)

For example, if the performance target is to achieve net sales of $10 million, the full objective should be to achieve net sales of $10 million *in full compliance with company policies and the law.* Adding this qualifier is not window dressing. It has incredible psychological and practical importance, because it gives life to the company's values and commitment to integrity by making them a goal that needs to be achieved by the entire workforce each and every year. Not only does it reinforce the company's culture to employees, but it makes crystal clear that targets are only hit if achieved in full compliance with company policies and the law.

> For performance and integrity to operate seamlessly together like two interconnected pistons in a high performance engine, you should never find one described without the other.

Second, in addition to explicitly tying performance goals to integrity, every employee should have their own integrity leadership objectives, which vary in nature and weighting depending on whether the employee is an individual contributor, manager, or executive. For example, managers should have objectives that incentivize them to both act and manage with integrity. Such objectives might include: (1) visibly, actively, and consistently role modeling integrity leadership for their team (including the specific elements of verbal and action role modeling discussed below); (2) partnering with the Compliance department to identify and control the major risks affecting their functional area; (3) ensuring that both they and their team are adequately trained in those risk areas; (4) ensuring that both they and their team timely complete and understand the content within all legal and compliance training courses; (5) holding a workshop or soliciting formal feedback from their team on steps the team can take to reduce the risk of compliance violations and implementing the top solutions; and (6) ensuring both they and their team achieve zero policy violations as revealed through monitoring, auditing, and investigations. Having specific compliance goals provides managers with the necessary incentives to keep compliance top of mind and on the agenda, because they will be formally evaluated and then either penalized or rewarded for their integrity leadership results.

Executives (e.g., presidents/CEOs, vice presidents, and managing directors who are part of their company's governing body or leadership team) bear the greatest responsibility for steering the corporate ship in the right direction. But in today's marketplace, the short-term tenure and incentive schemes of executives obscure, if not altogether override, the long-term imperative of the ship's survival. How much do they really care if the ship is severely damaged or even ultimately sinks, as long as they have made as much money for themselves as possible while temporary voyagers aboard the vessel? Unlike the captains of old, they won't be around to go down with the ship if it crashes against the rocks.

How then to rebalance the focus of executives onto the ship's integrity and long-term survival in an age of constant change and rapid turnover? If performance is their overriding objective, then over time the fruits of overpowering short-term sales and operating income targets might be readily apparent:

- outdated machinery, technology, and systems;
- inadequate staff and resources to ensure the company complies with the complex legal system in which it operates;
- risky business practices and a repetitive or growing pattern of violations; and
- a culture of fear, blame, and stress.

But if the objectives and rewards of executives are balanced, then they will have a balanced focus and take the time and energy necessary to care for the overall state and proper functioning of the ship and its operations. This would allow them to balance the time they spend on developing, acquiring, making, and selling product with the time they spend on safeguarding the ship through compliance, quality, risk management, legal, and security.

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### Verbal role modeling

What you say is heard, and what you don't say is heard even louder. It's a fast paced world, and technology and the accelerating pace of business seem to be making the world spin faster every year. There seem to be more initiatives and projects to manage than ever before. Just keeping up with emails can sometimes feel like a full-time job. Given this demanding and stressful environment, it's no wonder that some managers and executives want to believe that it is sufficient to simply "expect" integrity and compliance from employees as a basic employment duty, without the need to constantly reinforce it. No argument can be made with the fact that performing in the right way is the duty of every employee, but the belief that proactive, visible, and repetitive reinforcement of this duty is not needed ignores a number of realities, including the unbalanced performance culture this attitude yields, and the unprecedented and still escalating fines and sanctions being applied to companies for compliance violations. Indeed, it could be a costly mistake to believe that a mention here and there by senior leadership at town halls, coupled with yearly code-of-conduct training, is sufficient to counterbalance the daily pressure collectively exerted by all of management's to drive performance.

To ensure a balanced culture, active verbal role modeling should be blended into the daily business activities already performed by management. For example, most managers already hold team or department meetings and business reviews, but few take the time to consistently reinforce their commitment to performance with integrity and their zero tolerance of compliance violations during these meetings. But if the objectives of managers required them to visibly demonstrate integrity leadership in order to hit specific and measurable integrity leadership targets, they would be far more likely to consistently blend such messaging into their meetings. It is so simple to do and the messaging can conform to the personal style of individual managers. For example:

> *At our very first meeting, we agreed on a core set of values that would guide our behavior in everything we do. Those values are integrity, professionalism, and mutual respect. I'd like to begin this meeting by reminding you of those values, and what they mean to me and the company. As you know, there is zero tolerance for those who intentionally cross the line. I am here to support you, so you can give your best while never crossing the line."*

To ensure a balanced culture, active verbal role modeling should be blended into the daily business activities already performed by management.

There are countless ways managers can strengthen the company by interweaving this fourth element of integrity leadership (i.e., verbal role modeling) into their daily business practices. The key is for them to have it "top-of-mind, on the agenda, and highly visible." Moreover, the success of the incorporation and true uptake by management is measurable. If management pays lip service to integrity leadership, but doesn't earnestly adopt it, this can be ascertained in employee surveys designed specifically to measure the company's culture and integrity leadership. Indeed, true adoption and implementation can be assessed through questions such as:

- How often does your manager clearly and specifically reinforce that compliance must never be compromised to hit financial targets? (a) never; (b) a few times a year; (c) a few times a month; (d) weekly.
- Do you have objectives requiring you to demonstrate integrity leadership? If so, does your manager actively evaluate and give effect to these objectives during mid- and end-of-year performance evaluations? (a) I have no integrity leadership objectives; (b) I have integrity leadership objectives, but my manager never discusses or gives weight to them; (c) I have integrity leadership objectives, and my manager discusses and gives weight to them through rewards and punishments during mid- and end-of-year performance evaluations.

- If complying with certain regulations or corporate policies would lead you to miss a key performance indicator, such as a key sales or production quota, your manager would: (a) expect you to come up with a creative solution to hit your objective, even if it means deviating from regulations/ policies; (b) expect you to comply with all regulations/policies and support you when it comes time to explain to upper management why quotas were not met; (c) fault you for not meeting your objective, and hold you accountable during mid- and end-of-year performance evaluations.

The answers to these questions depend on what employees hear, see, and feel all around them. Employees depend on the earnest application of all elements of integrity leadership, from financial target communications, to integrity leadership objectives, to verbal and action role modeling, and to performance rewards being tied to integrity. As stated above, what you say is heard, but what you don't say is heard even louder. When integrity leadership does not exist and/or is not being sufficiently reinforced, it is distinctly noticed by a company's workforce, and they take it as a clear sign that the company cares primarily about hitting the numbers. This can lead, as we have seen, to an imbalanced culture of fear and blame, where heroes become zeroes from one moment to the next, and employees are pushed down the wrong path in the fork in the road to hit their numbers at any cost. But if the practical steps prescribed by integrity leadership are earnestly adopted and implemented by a company's entire management, this will: (1) be earnestly felt and experienced by the aggregate of employees, (2) balance the company's culture, (3) shine through in employee surveys, (4) create goodwill and a positive reputation for the company inside and out, (5) attract the right kind of candidates, and (6) safeguard the company and its executives from significant compliance sanctions.

> Everyone knows that people pay far more attention to what their managers do than to what their managers say. This is because, as with all other things in life, actions speak louder than words.

### Action role modeling

What you do is noticed even more than what you say. Everyone knows that people pay far more attention to what their managers do than to what their managers say. This is because, as with all other things in life, actions speak louder than words. The greatest integrity leaders will therefore not only *say*, but will also *show*. They will teach their team to raise compliance concerns *before* business decisions are made, and then visibly and openly assess and give weight to those concerns in front of the team. Where the concerns are valid, they will take action to modify the business activity and/or seek the advice of the Compliance and Legal departments if unsure. The final decision and reasons for that decision will be transparently explained to the team to show them the emphasis the manager and company place on properly assessing and giving effect to legitimate compliance concerns, even if this means modifying or abandoning risky revenue-generating activities.

This is one of the strongest demonstrations of a manager's true commitment to performance in the right way. Having observed the manager's verbal role modeling, any member of the team who was wondering whether the manager was just acting the part will now know through the manager's action role modeling that he/she is indeed the real deal.

### Performance evaluations and rewards

What you compensate and celebrate is noticed the most. This concept isn't new, and although many companies already have compensation systems that are meant to reward *how* results were achieved, the problem is that most of these systems are relatively ineffectual at truly promoting and rewarding compliant behavior. For example, because these systems provide few active and measurable "compliance indicators" for managers to evaluate (other than the absence of any known compliance violations), they become perceived by many as another valueless check-the-box exercise. As such, managers give almost everyone a status quo "passing grade" for compliance, without highlighting or rewarding real integrity leadership. Employees soon realize that hitting the numbers is the only way to really get rewarded.

Real integrity leadership at companies necessitates a reward and recognition system that proves to employees that *in what way* is not only a prerequisite for job security, but also truly matters to them, because it yields tangible and meaningful income and rewards, and is essential for their career advancement. Managers should not only be evaluated on their own compliant behavior, but also on the compliance results of their team. Just as a manager's rewards depend on whether his/her team hits performance targets, so too should the manager's rewards depend on whether his/her team acts with integrity and compliance. For example, top marks and a larger bonus should be given to managers who can demonstrate that they: (1) raise compliance topics regularly at their meetings as reflected on the agenda and in the minutes; (2) include compliance messaging in every target and performance communication; and (3) meet or beat all of the integrity leadership targets set forth in their objectives. Conversely, managers who cannot provide meaningful and specific examples of what they have done to lead with integrity, or whose team fails to complete all legal and compliance training courses, and/or engages in inappropriate behavior as witnessed through auditing/monitoring, corporate investigations, and/or the receipt of warning letters, etc., should get low marks on the values rating and should see their bonus meaningfully reduced.

Managers should not only be evaluated on their own compliant behavior, but also on the compliance results of their team.

Likewise, the rewards of executives who are responsible for the overall oversight, funding, and resourcing of compliance at their company should not only be based on their own compliant behavior, but also on the company's actual compliance success. Does the company have an adequately resourced and effective compliance program based on its size and income relative to industry standards and government requirements? Is the company in satisfactory standing with government regulatory agencies that audit its level of compliance? As with managers, failing to hit such integrity leadership targets should significantly reduce the rewards of executives, but meeting or beating those targets should meaningfully enhance them.

## Conclusion

Integrity leadership is a back-to-basics, practical, and comprehensive framework that lets business take control of its own risks by having the very people who create the pressure simultaneously counterbalance it. This strengthens the business at its core, making it more resilient against external attack. By embedding integrity leadership into every facet of the performance machine, management as a whole will be creating a culture that unambiguously, visibly, and consistently communicates the right perspective to employees, and the workforce won't be left unsupported and alone when powerful pressures from the relentless drive for performance clashes with the values set forth in the code of conduct. At the same time, upper management will benefit from knowing that it has taken every proactive measure to safeguard the company's profit and growth from unknown violations taking place beneath it in the shadows. As stated by Jack and Suzy Welch, "It's Management 101 to say that the best competitive weapon a company can possess is a strong culture. But the devil is in the details of execution. And if you don't get it right, it's the devil to pay."[1] ✳

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1. Jack and Suzy Welch: "Goldman Sachs and a culture-killing lesson being ignored. *Fortune*, April 30, 2012. Available at http://bit.ly/1evkiqU