**SLIDE 8**

In his book ‘Why They Do It?’ Eugine Soltes wrote, “Criminologists have historically overlooked corporate deviance because in most instances it was not actually considered criminal”.

In the 1920s, despite the ill effects created by deviant executive behavior, there were little efforts to rein in corporate conduct and limit destructive behavior at the federal level.

Lawless behavior was the norm rather than the exception.

In the 1940s, Edwin Sutherland lobbied to prosecute white-collar criminals as criminals.

Policy and public perception of corporate behaviors was considerably less significant.

Most of the studies conducted in the late 1950s portrayed an economy where criminal activities was tolerated and desired by corporations.

One survey conducted every decade from the late 1920s to the late 1950s found corporate misconduct increasingly tolerated by the public overtime. In 1958, more respondents condemned a firm for not paying a respectable wage than for committing outright financial fraud.

In these earlier cases, punishment was in the form of fines, and after it was over, business went on as usual.

There have been a lot of presidential efforts to increase punishment. In the early 60, President Johnson’s Commission report on the electrical companies’ price fixing scheme stated, “the cost imposed by the price fixing of 29 electrical companies exceeded the aggregated cost of all the burglaries reported during the year”.

Acting on orders from President Kennedy, Luther Hodge formed an advisory council with representatives from the business and educational communities as well as the clergy to develop a system of guidelines to help managers grapple with some of the ethical challenges facing business leaders.

Six month later, Hodge’s group produced a *Statement on Business Ethics and a Call to Action*, which raised a variety of issues around managerial conduct.

Robert Kennedy, Attorney General, optimistically believed that the business community would respond favorably to the advisory group’s findings.

Not a solitary soul stood up to support the *Call to Action* program.

Ultimately, the statement did not instigate a wide and lasting moral condemnation of corporate deviance.

Sutherland and AG Kennedy believed that punishing executives criminally would lead to public censure.

What they failed to understand was that criminal prosecution was itself insufficient to lead to this condemnation.

Society also had to view corporate and executive offenses as morally reprehensible.

In the 1970s, all of the sudden white-collar crime filled the news.

Led by consumer advocates like Ralph Nader, executive conduct came under increasing scrutiny, and once well regarded business leaders transformed into villains.

From a car manufacturer’s explicit decision to leave a faulty fuel tank in place, to a chemical company knowingly discharging pesticide into waterways, corporate America became increasingly defined by its dubious ethical standards.

Managerial malfeasance caught the attention of the media like never before, and the reputation of many business leaders started to plummet.

In the 1980s, attorney generals became more aggressive in supporting the new paradigm against white-collar criminality.

Criminal sanctions coupled with prison had now become an accepted norm for executives perpetrating misconduct.

Across, the world, status and wealth, while once providing a source of protection, often now prove to be a vulnerability.

**SLIDE 12**

Why people Commit Fraud?

* Is it the lack of resources to fund their life style?
* Is it the pressure to meet revenue or other goals that result in bonuses or administrative awards?
* Is it an underlying hostility toward the organization or institution where they work?
* or is it because we are born criminals?

Lambroso, a criminologist and a researcher, concluded that some people are deeply and fundamentally flawed that they are born criminals.

Other studies found that corporate criminality arises not from acts of mistaken judgment or some situational influence, but rather from a deviant nature that is innate and simply waiting to exploit an opportunity.

In being themselves, these individuals are the cause of the crime.

In an era of globalization, along with opportunities for growth, the global interconnected economy brings new challenges.

For example,

* Expanding third parties Networks.
* Potential for corruptions and conflicting standards of workplace integrity.
* Regulations, expectations and customs diverge.

Each layer of complexity brings with it new areas of risk.

Enron and World.com schemes occurred despite heavily regulated sectors.

Lawmakers grew more convinced that criminal prosecution by itself is insufficient, and issuing additional regulations will not alone prevent fraud. Lawmakers’ began the quest for additional but more effective tools and controls to combat fraud.

In 2004, SOX became law. Whatever controversy SOX brought to the table, it surely indicated a clear shift in the lawmakers understanding of the risk of fraud.

SOX resurrected few existing key controls like implementing ERM, a Whistleblower or a Hotline mechanism, and ethics and compliance programs. For variable reasons, these already existing and known controls fell through the cracks over time and their effectiveness was considerably diminished.

**SLIDE 14**

What is missing is factual information.

We have to recognize the need for data-driven insights on workplace integrity throughout the institution.

The time has come to talk about not only doing what is right but to take a more expansive view of workplace integrity.

A workplace integrity that includes compliance with applicable laws, organizational ethical standards and universal principles such as respect, fairness, and honesty.

Conduct in the US workplaces continues to shift.

Based on historic findings and current indications, the ethics and compliance initiative suggests that leaders should brace for employee conduct to worsen in the days ahead.

The good news is

Rates of observed misconduct in the US are on the decline, coming close to historic lows.

Reporting of suspected wrongdoing has reached an historic high.

The bad news is

More employees feel pressure to cut corners that ever before, and rates of retaliation for reporting wrongdoing have doubled in the past two years.

Pressure and retaliation are the two metrics most closely associated with trouble ahead.

The worst news is

Little progress has n=been made across the country to implement the most important strategy for mitigating wrongdoing.

Misconduct drops substantially when organizations have strong cultures in place, yet the number of organizations with strong culture has not changed.

**SLIDE 15**

The 2016 global business ethics survey shows that in most countries, pressure to compromise standards is felt by more than 1 in 5 employees.

What causes pressure and to what extent matter.

The extent to which employees feel pressure to compromise organizational standards is a leading indicator of a larger potential threat: the presence of actual wrongdoing.

Nearly all public and private sector employees surveyed who felt pressure also said they witnessed misconduct where they worked.

In the absence of pressure, fewer employees said they observed misconduct in their place of business.

What this Means to us [Internal Auditors]?

The survey shows that where pressure to compromise standards is high, misconduct is more common.

Organizations of any type that want to project forward about the possibility of future misconduct should determine whether employees feel pressured to compromise integrity, standards or laws.

Take measures to identify where there is pressure and the root of such pressure.

If possible, poll your workforce regarding the presence of pressure to compromise workplace standards or the law to uncover problems before they become more serious.

Ensure that management training and leadership development programs for those in supervisory positions emphasize their responsibility to act as role models for integrity.

Give them the skills to identify and minimize sources of pressure and train them to advocate the organization’s commitment to workplace integrity.

Evaluate internal performance systems (e.g., quotas, bonus structures) that might lead to compromised standards.

Ensure that expectations and reward systems are not sending the message that standards are less important than results.

Evaluate if your managerial decision-making processes create pressure to compromise standards and to what degree.

The 2016 global business ethics survey also shows that misconduct is observed by large numbers of employees.

Economic conditions, local customs and national cultures differ, but when it comes to workplace behavior, a few types of misconduct predominate everywhere.

Although much of the conversation focuses on high-profile problems such as bribery and fraud, the most common issues involve problematic communication and poor conduct in day-to-day relationships.

Employees in nearly every country cited lying to employees, customers, vendors or the public and abusive behavior more frequently than other forms of misconduct asked about.

**Slide 16**

Lying was among the three most widely observed forms of misconduct among employees of all sectors.

Abusive and intimidating behavior also stood out, ranking among the most widely observed forms of misconduct.

When it comes to misconduct within an organization, one-time violations are generally less worrisome than chronic rule breaking, and misbehavior by lower level employees is typically less threatening than misbehavior in the executive suite.

While misconduct is often committed by a single person, across all sectors, 10 percent of those who observed lying classified the misconduct as being organization-wide.

Survey asked respondents about 16 different forms of potential wrongdoing, and several of these were particularly likely to be committed by top management or to occur for extended periods.

Abusive or intimidating behavior towards employees

Accepting bribes, kickbacks or inappropriate gifts.

Decision made or actions taken to benefit the employee over the interest of the organization.

In the US, despite the decline in misconduct overall, the most frequent observed types of misconducts remain virtually unchanged since 2013.

Most observed types of misconduct in the US 2013 2018

Observed abusive behavior 20% 21%

Observed conflict of interest 16% 15%

Observed Lying to employees and external stakeholders 28% 26%

Observed internet abuse 18% 16%

Observed health violations 14% 15%

**SLIDE 17**

White-Collar offenders have greater cognitive control, useful for creating and acting on goals.

They are driven more by abstract rewards like money.

White-collar offenders have information processing and brain superiorities that give them an advantage in perpetrating criminal offenses in occupation settings.

Harper’s Magazine on Sutherland book *White Collar Crime* in 1949 wrote, “Institutional crimes can never have the emotional impact of personal crimes, though the former maybe just as – or – more reprehensible and injurious to society”.

Few studies concluded that committing a white-collar crime against individuals is easier done when there is not a personal interaction with their victims.

It is easy to commit a white-collar crime from behind a computer than in face-to-face interaction.

We will not discuss the psychology of white-Collar criminals, but I want to trigger your curiosity to assess how your management makes decision or actions, and whether these decisions or actions could create pressure and misconduct?

I want to introduce to you two Models.

I will use a real life situation to introduce to you two models that the US navy uses in variable forms in its risk assessment that I think of value to us.

On 27 March 1977, two fully loaded 747 jumbo jets collided at Tenerife in the Spanish Canary islands. KLM flight 4805, commanded by veteran pilot captain Jacob Van Zanten, slammed into Pan Am flight 1736 while attempting takeoff.

Disregarding warnings from the tower, Pan Am, and his own crew, Van Zanten initiated takeoff while the Pan Am flight was still on the runway.

**Prospect Model**

Some managers are “loss averse” meaning; they care more about a loss than an equivalent gain.

Losses and gains are determined dependent on how a choice is presented or a decision is framed rather than on data about the actual costs, rewards, or consequences.

This means risk assessments are influenced by the framing of an issue by senior managers.

When probability is factored in, people tend to overweight certain events and underweight potential events in their risk assessments.

The notion of human decision-making is degraded in specific circumstances is not unfamiliar.

The cumulative effect is that people will choose to take significant risks in the hope of avoiding a minor certain loss, even if that choice results in greater potential loss.

**Rubicon Model**

The Rubicon Model’s primary insight is that people tend to adopt different risk assessment mindsets before and after a decision is made.

Prior to a decision, people adopt a “deliberative phase” mindset where they carefully consider possible alternative options and more accurately assess their consequences.

After a decision is made, the mere act of mentally “crossing the Rubicon” shifts their mindset to an “implementation phase.”

During the implementation phase, people become more susceptible to tunnel vision, self-serving illusions, and are prone to selectively interpret information that affirms their decision.

**SLIDE 20**

Organizations initiate an ethics and compliance program for a variety of reasons.

* Sometimes an act of wrongdoing has taken place, awakening leaders to the need for a formal effort to prevent similar incidents.
* At times, legal or regulatory requirements heighten the need for an organization to initiate a program.
* In other instances, leaders want to promote a standard of conduct to guide everyday employee actions and behaviors because they believe it to be important for the success of the business.

With more and more organizations committing to higher quality programs, it begs the question: does it make a difference when an institution dedicates more resources and heightens the priority of its ethics and compliance efforts?

To find an answer, the ethics and compliance Initiative surveyed employees about the presence of an ethics and compliance program in their workplace, the quality of such program, and then examined the impact of the ethics and compliance program at varying degrees.

The results are powerful.

In organizations where employees perceive that a higher quality program element is present, favorable ethics and compliance program outcomes are increased by more than 10 times.

When employees are encouraged to base decision-making on organizational values and standards, favorable ethical outcomes increased by 11 times.

When employees felt their supervisors would hold them accountable for wrongdoings, favorable ethics outcomes increased by 12 times.

When employees felt encouraged to speak up even with bad news, favorable ethics outcomes increased by 14 times.

Initiate an ethics and compliance program and make a difference.

So, what is the purpose of an ethics and compliance program?

1. Ensure and sustain integrity in the organization’s performance and reputation.
2. Reduce the risk of wrongdoing by parties employed by or aligned with the organization.
3. Increase the likelihood that the organization will responsibly handle suspected and substantiated wrongdoings.
4. Mitigate penalties imposed by regulatory and governmental authorities for violations.

While most organizations begin implementing activities that fall within a minimum standard program such as having a code of conduct, the good news is that even in the early stages, these efforts can have a profound effect.

According to research, when a minimum standard program is present, employees are more than 2x likely to report suspected wrongdoing to management.

Almost 4X as likely to express satisfaction with their company’s response to their reporting. and,

More than 4X as likely to say that they work in a strong ethical culture.

Minimum standard programs, even yielding great benefits, are outperformed by higher quality programs.

Based on the results of its surveys, the ethics and compliance initiative identified five principles as the pillars of a high quality ethics and compliance program:

* **Strategy:** Ethics and compliance program is central to business strategy.
* **Risk Management or ERM**: Risks are identified, owned, managed and mitigated.
* **A culture of integrity:** Leaders at all levels build and sustain a culture of integrity.
* **Speaking up:** The organization encourages, protects and values the reporting of concerns and suspected wrongdoing.
* **Accountability:** the organization acts and holds itself accountable when wrongdoing occurs.

Once a program is in place, working towards a higher level of quality generally involves moving the responsibility, message, and accountability for ethics and compliance to leaders across the organization.

When executives and managers recognize and own their role in shaping the conduct of the organization, ethics and compliance becomes a part of the culture.

The ethics & compliance initiative identified 15 business objectives of a high quality ethics and compliance program, with some objectives having more impact than other objectives.

 These objectives can provide a good place to start:

* Leaders create an environment where employees are empowered to raise concerns.
* Ethics and compliance program aligns with the larger objectives of the business.
* All employees are expected to act in line with company values, and held accountable if they do not.
* Employees are provided guidance and support for handling key risk areas; and,
* Investigations are objective, consistent, and fair to all parties.

These are some of the favorable outcomes of a high quality ethics and compliance program.

1. Employees do not bend the rules.
2. My supervisor shares information about what is going on in the company.
3. After talking with my supervisor, I feel heard.
4. **Top management is open and honest about critical issues that affect the organization**.
5. Top management shares information about what is going on.
6. Top management keeps their promises and commitments.
7. **Employees understand our company's core values.**
8. I can identify situations that could lead to ethics violations in the company.
9. **I am prepared to handle situations that could lead to ethics violations in the company.**
10. I seek guidance from colleagues/company resources when I am unsure of what ethical action to take.
11. I feel like I can raise concerns to my supervisor’s boss without fear of retaliation.
12. **Employees can question the decisions of management without fear of retaliation.**
13. Employees can raise concerns without fear of retaliation from co-workers.
14. After reporting misconduct, I would report again.
15. After reporting misconduct, I feel I was treated fairly.
16. After reporting misconduct, the resolution was appropriate.
17. After reporting misconduct, I was satisfied with the company’s response.

**SLIDE 23**

Employees offer an invaluable perspective when it comes ethics and compliance perceptions, actions and behaviors in a workplace.