Measuring Organizational Culture

...and why it matters
“Without ethical culture there is no salvation for humanity.”

Albert Einstein, 1953
COMPLIANCE PROGRAM EFFECTIVENESS

Effectiveness has been a benchmark for compliance programs for many years now

  - “An effective program…means…that it will prevent and detect criminal conduct”

  - “a compliance program that cannot demonstrate improvement in mitigating risk areas cannot be deemed effective.”

- 2005 OIG Supplemental Compliance Program Guidance for Hospitals with new section on effectiveness
  - “Hospitals with an organizational culture that values compliance are more likely to have effective compliance programs and, thus, are better able to prevent, detect, and correct problems.”
Question:
Why does Organizational Culture matter?

Answer:
Because $1 + 1 = 3$
Ethics Resource Center

National Business Ethics Survey 2007
National Business Ethics Survey – 2007

Fifth in a longitudinal survey of U.S. Workplaces starting in 1994

2007 report polled 3,452 employees in business, government and nonprofit sectors (separate reports for each sector)

Provides national benchmark on organizational ethics

Tracks the views of employees at all levels within organizations
National Business Ethics Survey – 2007

The Bad News

- Ethical misconduct is very high – during the past year more than half of employees saw ethical misconduct of some kind
- Many employees do not report what they observe – they are fearful about retaliation and skeptical that their reporting will make a difference
- The number of companies that are successful in incorporating a strong enterprise wide ethical culture into their business has declined since 2005
National Business Ethics Survey – 2007

The Good News

– The number of formal ethics and compliance programs is on the rise
– Companies that move beyond a singular commitment to complying with laws and regulations and adopt an enterprise-wide ethical culture dramatically reduce misconduct
– The 2007 NBES identifies characteristics that comprise an effective ethical culture
KPMG
Integrity Survey
2005-2006
KPMG Integrity Survey 2005-2006

- 2005-2006 report polled 4,056 respondents from 11 industry sectors, 16 job functions, and 4 thresholds for organization size

- Benchmarked results against 2000 survey

- Tracks the views of employees at all levels within organizations
KPMG Integrity Survey 2005-2006

The Bad News

- Level of misconduct remains unchanged since 2000
  - 74% of the respondents reported that they have observed misconduct in the prior 12 month period.
  - These numbers are consistent across many industry sectors, with 75% of Healthcare respondents reporting observance of misconduct in the prior 12 month period.
  - Half of respondents reported observing serious misconduct (misconduct that if discovered would cause a significant loss of public trust)
- Only 38% of respondents felt they would call the compliance hotline if they observed misconduct
The Good News

- Conditions that facilitate Management’s ability to prevent, detect, and respond to fraud and misconduct have improved since 2000
- Pressure to engage in misconduct is down
- Confidence in reporting concerns to management is up
- Comfort level in using a hotline to report misconduct is up
- Confidence that appropriate action would be taken in response to alleged improprieties has increased
KPMG Integrity Survey 2005-2006

The Good News

- At companies with comprehensive ethics and compliance programs:
  - Employees reported fewer observations of misconduct
  - A higher percentage of employees believed their CEOs and execs valued ethics and integrity
  - A higher percentage of employees felt comfortable raising and addressing ethics concerns
  - A higher percentage felt motivated and empowered to “do the right thing.”
Ethics Resource Center

National Government Ethics Survey 2007
National Government Ethics Survey-2007

- Fourth in a longitudinal survey of U.S. Workplaces starting in 1994
- 2007 report polled 3,452 employees in business, government and nonprofit sectors
- The 774 respondents from the government sector analyzed separately
- Provides national benchmark on government ethics
- National distribution of surveys
National Government Ethics Survey-2007

The Bad News

• Prevalence of misconduct is the highest of all Industry Sectors measured in KPMG study (81%)
• National Government Ethics Survey reports that misconduct across government is very high (57%)
• The strength of ethical culture in government workplaces is declining, while pressure to commit misconduct is growing (NGES)
• Only 8% of government workplaces have strong ethical cultures
The Good News

• More that 80% of employees say that they feel prepared to handle situations inviting misconduct (NGES)

• 70% of government workers who observe misconduct report it to management (NGES)

• When a strong ethical culture is in place within a government organization, misconduct is reduced by 52%, retaliation is reduced by up to 89% and reporting rises by 40% (NGES)
The whole is greater than the sum of the parts

- Coupling a Strong Ethical Culture with a Strong Ethics and Compliance Program is the path to the Greatest Reduction in Ethics Risk.
- The strength of a company’s compliance program has the greatest impact on encouraging employee reporting.
- The strength of a company’s ethical culture has the greatest impact on misconduct.
- Together, culture and program maximize ethical behavior and appropriate reporting in the workplace.

\[1 + 1 = 3\]
The effect of negative work environment

- In the absence of a compliance program and limited ethical culture in an organization there is an increased likelihood of misbehavior with a decreased likelihood of reporting the behavior.
- As a workplace becomes more negative (six elements identified), more employees witness at least one incident of misconduct.
- Where five of six negative work factors are present, 98% of employees observed at least one form of misconduct in the past 12 months.
Compliance without culture creates risk

- Adding a compliance program to a negative work environment will not reduce observation of misbehavior.
- Adding a compliance program will increase reports to management of the observed misbehavior.
Case Study: Morgan Stanley

• In 1997, Morgan Stanley and Dean Witter Discover Co, merged to create a “consumer-corporate powerhouse.”
• John Mack was leading Morgan Stanley
• Phillip Purcell was a Dean Witter executive
• After merger, Purcell became chairman and CEO of Morgan Stanley with John Mack as president and COO.
• Mack and Purcell had an apparent handshake deal that would pass the Morgan Stanley reigns back to Mack
• This did not come to pass and Mack resigned in 2001, stating that trust was one area of concern.
Case Study: Morgan Stanley

• On December 9, 2004, a Morgan Stanley managing director sent a letter to Purcell and the Board of Directors requesting that the firm be broken up.

• On March 3, 2005 the G8 requested Purcell’s resignation

• In March 2005, Purcell identified that Pandit was leading the G8. Purcell requested management committee to consider other successors for president and CEO

• On March 28, 2005 Purcell presented a reorganization plan that did not include Pandit in the org chart. Pandit immediately left the Morgan Stanley building and resigned.
Case Study: Morgan Stanley

- April 13, 2005: The Board of Directors sent a memo to the G8 stating “It is clear to us that your ill-considered, professionally directed attacks on Morgan Stanley and our people are damaging the firm and its shareholders. We ask you to desist.”
- By mid-year 2005, more than 50 bankers and high-level executives had left Morgan Stanley.
- June 13, 2005: After additional turmoil and conflict, Purcell announced his retirement – though he would remain until a successor was named.
- June 30 2005: John Mack named Chairman of the Board and CEO of Morgan Stanley
Case Study: Morgan Stanley out of the woods yet?

- May 10, 2007: Randi Collotta, a 30 year old former Morgan Stanley compliance officer (or compliance lawyer) pled guilty to one count of conspiracy and one count of securities fraud.
- She admitted to receiving $9,000 for leaking confidential information on several acquisitions and deals to a broker in Florida
- The confidential information leaked allowed for insider trading
- Randi Collotta learned about the deals through her position on Morgan Stanley’s compliance committee.
- The acts occurred between Sept 2004-Aug 2005
Measuring Organizational Culture

So, how do you measure organizational culture

- Organizational Change Models (Application of Kubler Ross Grief Model)
- Employee Surveys
Application of Kübler-Ross Grief Model

- Culture means the shared values and beliefs of an organization that are deeply embedded within the organization, cross multiple areas of the organization, and guide individual and organizational behavior.

- A culture of compliance would encourage a commitment to compliance with all laws.
Application of Kübler-Ross Grief Model

- Changing the culture in an organization means that people must give up deeply held beliefs.
- While some beliefs are compatible with compliance others are not. Giving up beliefs results in a loss to the individuals who strongly adhere to those beliefs.
- Elizabeth Kübler Ross proposed a 5-stage theory of grieving that manifests when people experience a significant loss through death.
Application of Kübler-Ross Grief Model

- Moving through the stages is not linear.
- The five stages of grieving are:
  - Denial & Isolation - This isn’t happening to me.
  - Anger - Why is this happening to me?
  - Bargaining - I promise I’ll be better, if…
  - Depression - I don’t care anymore.
  - Acceptance - I am ready for whatever comes…
Application of Kübler-Ross Grief Model

- This model has been applied in various non-clinical settings to look at people's reaction to significant loss or to significant change.
- Communication from employees in your organization can reflect how accepting of the compliance culture they are.
- This quick assessment method can point out areas in your organization that may need additional attention, or that may be a risk.
Measuring Organizational Culture: Survey method

- KPMG and ERC have provided national benchmarks related to compliance program functioning
- Easy application to your own organization
- Measuring your program allows comparisons to national benchmarks
- Measuring different business units allows comparisons of culture across your organization
- Longitudinal studies allow you to target a measured area of concern and then remeasure
Local Compliance Survey – 2007

- Fourth in a longitudinal survey of local government healthcare setting starting in 2004
- 2007 survey polled 2,767 employees, with 1,190 responses (43% response rate)
- Benchmarks level of understanding of compliance program and specific measures of organizational ethics
- Tracks the views of employees across departments within organization
Please select the most appropriate answer to the following statements

<table>
<thead>
<tr>
<th></th>
<th>Agree Completely</th>
<th>Agree Somewhat</th>
<th>Disagree Somewhat</th>
<th>Disagree Completely</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I understand the purpose of a Compliance Program.</td>
<td>□</td>
<td>□</td>
<td>□</td>
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<tr>
<td>2</td>
<td>My management team supports the goals and objectives of the Compliance Program and the Code of Conduct.</td>
<td>□</td>
<td>□</td>
<td>□</td>
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<tr>
<td>3</td>
<td>The Code of Conduct is clear and easy to understand.</td>
<td>□</td>
<td>□</td>
<td>□</td>
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<tr>
<td>4</td>
<td>I am aware of the policies &amp; procedures related to my job.</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Question</td>
<td>Agree Completely</td>
<td>Agree Somewhat</td>
<td>Disagree Somewhat</td>
<td>Disagree Completely</td>
</tr>
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<td>-------------------------------------------------------------------------</td>
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<tr>
<td>If a compliance concern comes to my attention, I would report it to a supervisor/manager, the Office of Compliance, or other appropriate area.</td>
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<tr>
<td>If a compliance concern comes to my attention, I would be comfortable reporting it to:</td>
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<tr>
<td>My Supervisor/Manager</td>
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<tr>
<td>The Office of Compliance</td>
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<tr>
<td>HCA Human Resources</td>
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<td>Other (e.g. Safety Officer, Internal Audit)</td>
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<td>Fear of retaliation would prevent me from reporting a compliance problem.</td>
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<td>The Compliance Program has affected the way I perform my day-to-day responsibilities.</td>
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<tr>
<td></td>
<td>Statement</td>
<td>Yes</td>
<td>No</td>
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<td>9</td>
<td>I am familiar with the HCA Compliance Program.</td>
<td>□</td>
<td>□</td>
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<td>10</td>
<td>I have consulted or referred to the Code of Conduct.</td>
<td>□</td>
<td>□</td>
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<tr>
<td>11</td>
<td>I know where to locate HCA policies and procedures.</td>
<td>□</td>
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<td>12</td>
<td>I know the name of the Chief Compliance Officer.</td>
<td>□</td>
<td>□</td>
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<td>13</td>
<td>I know how to contact the Chief Compliance Officer.</td>
<td>□</td>
<td>□</td>
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<tr>
<td>14</td>
<td>I am aware of the Employee Compliance Hotline and how to access it.</td>
<td>□</td>
<td>□</td>
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<tr>
<td></td>
<td>Question</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>15</td>
<td>I am aware of the Compliance Program website on the Intranet.</td>
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<tr>
<td>16</td>
<td>I am aware of the HIPAA website on the Intranet</td>
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<td>17</td>
<td>I have accessed the Compliance Program website on the Intranet.</td>
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<tr>
<td>18</td>
<td>I have accessed the HIPAA website on the Intranet.</td>
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<td>19</td>
<td>I have observed workplace behavior that I felt violated the Code of Conduct.</td>
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<tr>
<td>19a</td>
<td>If yes, did you report the violation to anyone?</td>
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<tr>
<td>19b</td>
<td>Please tell us why you did not report the observed violation.</td>
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</tr>
</tbody>
</table>

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*County of Orange Health Care Agency*  
*2007 Compliance Program Survey*
## County of Orange Health Care Agency
### 2007 Compliance Program Survey

<table>
<thead>
<tr>
<th>20</th>
<th>Assigned Service Area</th>
<th>Admin (includes IT, QM and HR)</th>
<th>Behavioral Health</th>
<th>Fin &amp; Adm Svcs (incl HCA/Accctg.)</th>
<th>Medical &amp; Inst. Health</th>
<th>Public Health Svcs</th>
<th>Regulatory Health</th>
</tr>
</thead>
</table>

| 21 | Are you Supervisory/Management? | Yes [ ] No [ ] |

| 22 | Years with HCA or HCA Accounting | Less than 1 year [ ] 1-2 years [ ] 3-5 years [ ] 6-10 years [ ] 10 or more years [ ] |

| 23 | Please provide additional comments or suggestions you may have regarding the Compliance Program: |

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Some Good News…

I Understand the Purpose of a Compliance Program

- Agree Completely: 78%
- Agree Somewhat: 20%
- Disagree Somewhat: 1%
- Disagree Completely: 0%
Reporting Potential Concerns

Reporting a Compliance Concern

Agree Completely: 83%
Agree Somewhat: 13%
Disagree Somewhat: 2%
Disagree Completely: 2%
Observing Violations

Observed Code of Conduct Violation

Yes: 25%
No: 75%

www.hcca-info.org | 888-580-8373
Reporting of Violations

If Yes, Did You Report The Violation To Anyone?

- Yes: 64%
- No: 36%

www.hcca-info.org | 888-580-8373
Cultivating that Culture
(Josephson Institute of Ethics)

- Communication is a good thing
- Take it seriously/handle it carefully
- Encourage by words and deeds
- Establish ground rules
- Respect how hard it is for employee to deliver bad news
- Listen with open mind
- Avoid negative tone/body language
- Do not allow tirades or yelling
- Be honest and avoid ambiguity
- Provide closure
- Be careful of what you say or do afterwards
Top 10 tips for changing organizational culture

1. Walk the walk. Be the stone the makes the ripple in the pond that spreads throughout the organization.

2. Communicate consistently within your organization.

3. Encourage thoughtful dissent

4. Seek to understand the problems in your organization

5. Take action when there are problems
Top 10 tips for changing organizational culture

6. Celebrate successes
7. Be fair
8. Make compliance and ethics a priority
9. Make the tough calls (when they are yours to make)
10. Get the right people and keep them

“They say that time changes things, but you actually have to change them yourself.”

Andy Warhol
Contact Information

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