LRN Benchmark of Ethical Culture

How ethical behavior drives business performance in the new world of work

Corporate Ethics   Diversity, Equity, and Inclusion
Leadership Modeling   Transparency   Recognition
Organizational Justice   Business Outcomes
Performance Under Pressure   Values-Based Conduct
E&C Program   Trust   Speaking Out   Rewards

LRN® *Inspiring Principled Performance*®

Kevin Michielsen
CEO

How business defines and achieves performance has evolved.

It's not just financial and operational performance, but ethical performance that matters most.

At LRN we define ethical performance as an ability to deliver strong performance sustainably and over the long term through a higher standard of conduct, good corporate governance, aligned and inspired leadership, and workforces who operate with values and the needs of all stakeholders at the center.

We believe ethical performance is all the more important today as we experience:

A — **A period of unprecedented and simultaneous crises** creating volatility, complexity, and uncertainty.

B — **A new operating environment** that is increasingly digital and virtual, providing enhanced business performance but also introducing new risks.

C — **Skyrocketing stakeholder expectations** that companies behave ethically, responsibly, and make positive contributions to society.

D — **A rise in employee activism,** where people decide where to work and how engaged they are based on what a company does and how it lives up to ethical obligations.

E — **Greater investments in environmental, social, and governance (ESG)** practices and commitments to Stakeholder Capitalism.

F — **An embrace of Diversity, Equity, and Inclusion** as values central to creating cultures committed to justice, truth, fairness, and respect.

G — **A rethinking of board and senior management oversight** and responsibility.

For nearly three decades, LRN posited that ethical performance can only be achieved through the cultivation of a company's corporate culture—and not just any culture but an ethical culture.

We are proud to introduce a new model for achieving ethical performance and a new benchmark for ethical culture.

Once considered visceral—something you could feel and experience but not measure easily—measuring culture has become critical for business leaders concerned about walking the walk and not just talking the talk of responsible business and the regulators, investors, and other stakeholders who monitor the effectiveness of their efforts.

In the past, organizations have relied on measures of employee engagement or lagging indicators such as the number of hotline reports to determine organizational health. These tools provide important data but lack true insight on the state of corporate cultures, the influences on workplace behaviors, and the impacts on business performance. After all, it is the behaviors and decisions made by individuals, leaders, and teams at the micro and macro level that deliver (or fail to deliver) performance over the long term.

In this report, we hope you come to understand the aspects of what makes culture ethical and how those characteristics have clear and measurable influence on behaviors and business outcomes.

You will also find a comprehensive look at the State of Ethical Culture globally. You will gain a sense of how companies map to the characteristics that make up an ethical culture, how real behaviors are generating business results, and areas for improvement.

The research is clear, as is the business case. The most ethical organizations outperform by significant measures across various measures of performance—from customer satisfaction and employee loyalty, to adaptability, innovation, and business growth. This report includes critical insights for any leader who wishes to build new leadership skills and organizational capabilities that enable organizations to thrive in the new world of work.

Executive summary

Culture matters. Stakeholders agree.

But what is culture? How does it influence performance? What aspects of culture have the greatest effect on what outcomes?

How can this data help organizations strengthen and improve culture for greater performance?

LRN sought to measure aspects of culture and the impacts they have on business. The ability to assess culture is a critical capability for business leaders seeking to keep pace with rising stakeholder expectations, a period of uncertainty, and updated regulatory guidance demanding it.

The LRN Benchmark of Ethical Culture is the result of a multi-year, collaborative research effort with data drawn from a cross section of nearly 8,000 employees, representing 17 industries and 14 countries. It builds on three decades of work and supporting research that conclusively proves that ethical cultures don't just protect corporate reputations, they also propel the bottom line.

Key findings on the State of Ethical Culture

**1** ## There is a need to shape ethical culture globally.

The data show there is a pervasive and consistent need to improve ethical culture in all regions across the globe, regardless of company size. There are important variations by industry, with Information Technology reporting the highest levels of performance and Chemicals, Coatings, Fibers and Plastics reporting the lowest performance across the various dimensions that make up ethical culture.

2 ## Companies with the strongest ethical cultures outperform

—by approximately 40%—across all measures of business performance, including levels of customer satisfaction, employee loyalty, innovation, adaptability, and growth. This provides a strong and compelling case for business to invest in building more rigor in the management of ethical culture.

3 ## There is a leadership disconnect.

Senior leaders report more favorable perceptions of the state of their cultures. Middle management report average, and individual contributors and those on the front lines report the lowest perceptions of their cultures.
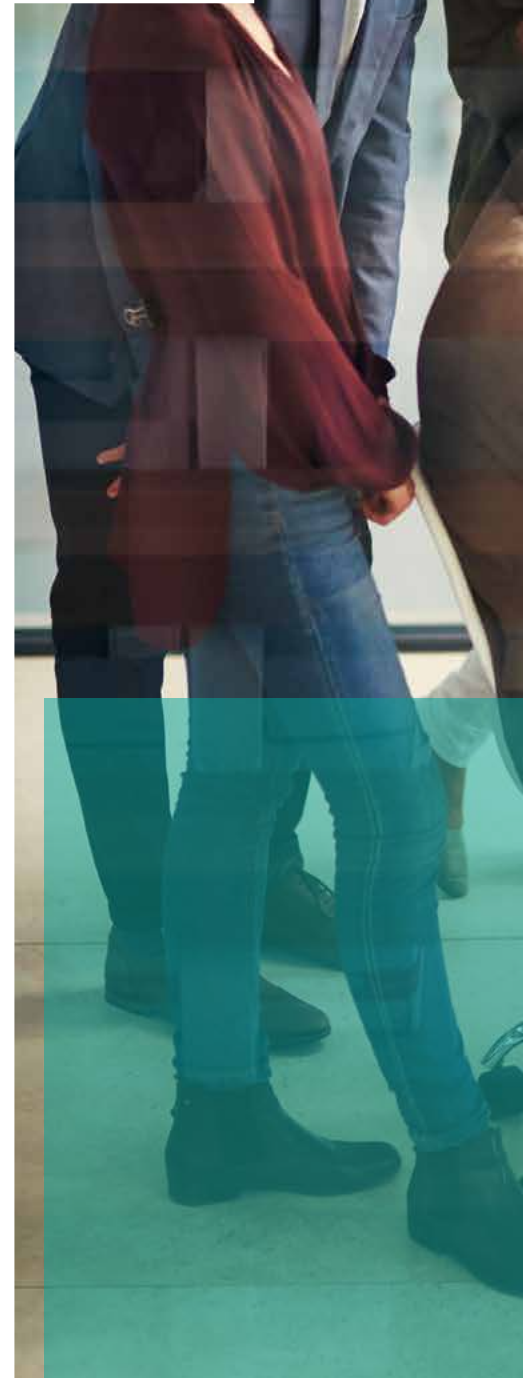
4 There are aspects of culture that have an outsized influence on achieving ethical behavior.

There are strong correlations between what we refer to as Cultural Catalysts and demonstrated ethical behavior. For instance, having high levels of Trust and Organizational Justice—meaning employees report experiencing workplace behaviors that foster trust and that the organization maintains a sense of fairness—are correlated to more people speaking out about misconduct and employees upholding ethical standards even when facing pressure to perform.

5 People identifying as female and persons of color observe unequal treatment in the workplace in the U.S.

The numbers are particularly troublesome given the increasing corporate commitments to Diversity, Equity, and Inclusion, globally and particularly in the U.S.

6 There are three primary drivers of employee loyalty.

These are environments characterized by high trust, a sense that one's company is ethical and purpose driven, and a clear company commitment to Diversity, Equity, and Inclusion.

7 There also exists a Pandemic Paradox.

Even though frontline workers were heralded publicly as heroes for keeping our economy running early in the COVID-19 pandemic, people whose job titles are "office, administrative, individual contributor, skilled manual, warehouse, or factory worker" gave their organization the lowest scores across the various dimensions of cultures, suggesting a disconnect between what a company says it values and the real-life experience of employees.

Our research is based on comprehensive data collected from nearly 8,000 employees worldwide, ranging from frontline employees to the C-suite, and representing 17 industries. It offers a unique view of ethical culture and the impact on ethical conduct and business performance.

Canada

United States

Mexico

Brazil

United
Kingdom

Nether-
lands

France

Poland

Germany

Italy

Russia

China

India

Japan

Regulators agree: culture matters

"...an organization shall... promote **an organizational culture that encourages ethical conduct** and a commitment to compliance with the law."

U.S. Sentencing Commission Guidelines

"The effectiveness of a compliance program requires a high-level commitment by company leadership to implement a **culture of compliance...**"

U.S. Department of Justice, Criminal Division

Ministry of Justice

"Those at the top of an organization are in the best position to foster **a culture of integrity...**"

U.K. Ministry of Justice

"Implementation of ...(a) compliance programme relies on top management's commitment to establish a **culture of integrity**, transparency, and compliance."

Agence Française Anti-Corruption

"...Culture and board/ management oversight: Establish a **culture of ethical leadership** that ensures more effective, accountable, and transparent governance."

UN Global Compact

"...The board and the management should exercise their leadership in **establishing a corporate culture** where the rights and positions of stakeholders are respected and sound business ethics are ensured."

Japan Corporate Governance Code

LRN's Ethical Performance Model

How ethical culture delivers business performance

Organizational culture is commonly understood as the behaviors and norms that are present in an organization: not just stated values but the actual values that guide behaviors—how decisions are really made, emails really composed, promotions really earned, and people really treated every day.

LRN's Ethical Performance Model provides a framework for ethical culture and defines the components that—individually and collectively—drive business performance. The Ethical Performance Model was designed based on the best practices gleaned from LRN's nearly three decades of work in ethics, culture, leadership, values, and compliance as well as LRN's proprietary frameworks, research, and best practices in culture measurement and management.

The individual elements that make up ethical culture do not exist in isolation, however. They have profound influence on one another.
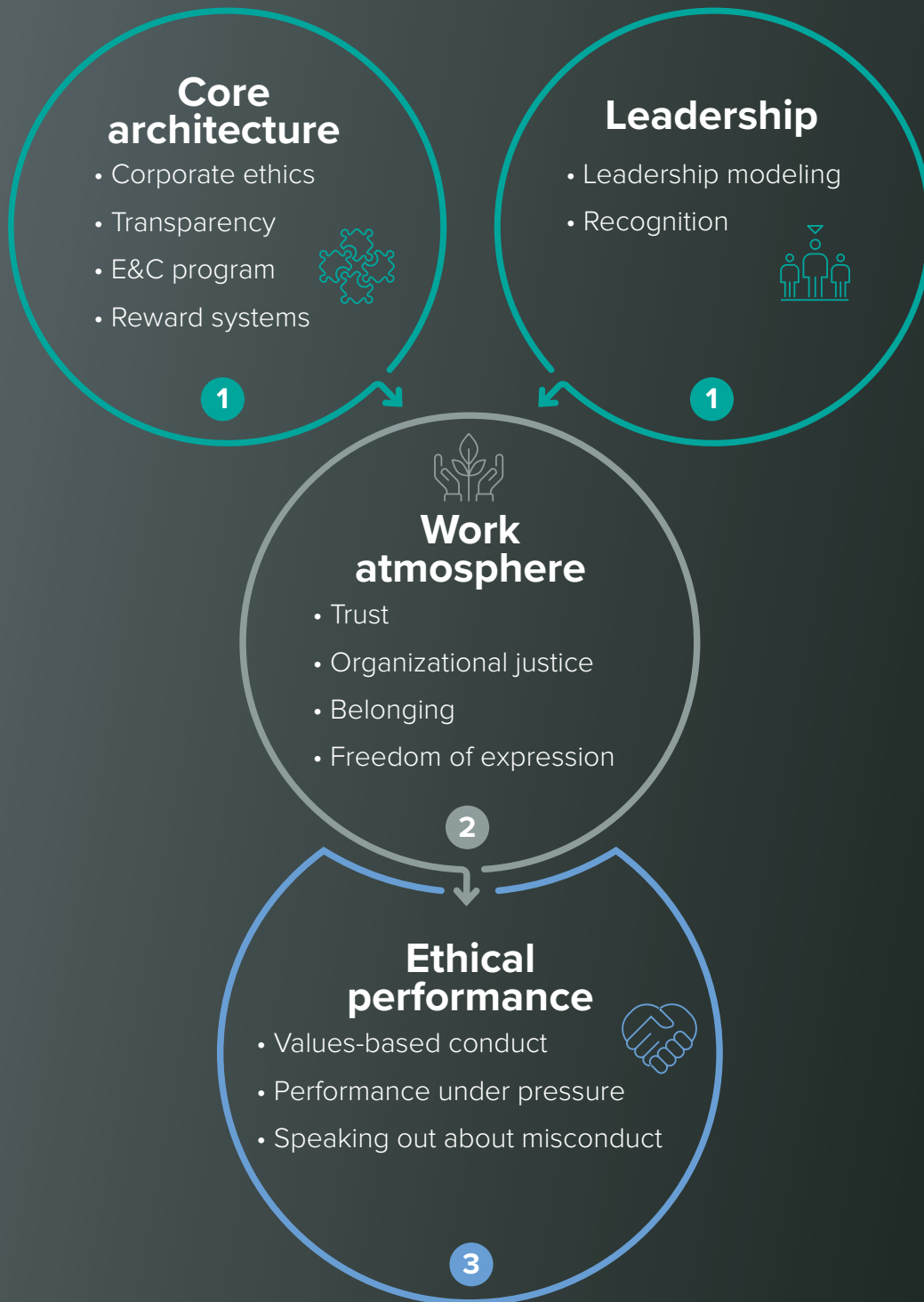
Cultural foundations

The foundations of an ethical culture begin with an organization's **Core Architecture**—the codification of what the organization stands for and the systems that support those beliefs. Core Architecture is reinforced and cascaded by **Leadership** in how they model through words and action and recognize and champion the values-based behavior of their people.

Cultural Catalysts

These dynamics influence the organization's **Work Atmosphere**: how people experience trust, a sense of fairness or organizational justice, belonging, and freedom of expression.

These factors can act like Cultural Catalysts in guiding **Ethical Performance** and the extent to which they are aligned with and driven by shared values and ethics, even and especially when under pressure. This, in turn, has profound impact on traditional measures of **Business Performance**.

LRN's Ethical Performance Model

Core architecture
- Corporate ethics
- Transparency
- E&C program
- Reward systems

1

Leadership
- Leadership modeling
- Recognition

1

Work atmosphere
- Trust
- Organizational justice
- Belonging
- Freedom of expression

2

Ethical performance
- Values-based conduct
- Performance under pressure
- Speaking out about misconduct

3

r2 is a statistical measure that explains the extent to which the variance in one variable explains the variance of another. In this case, an organization's core architecture, leadership, and work atmosphere are responsible for 89% of the variance in whether people behave ethically—a significant degree of impact.

The dimensions of ethical culture: What we measure

Corporate ethics

The extent to which the company is purpose-driven and ethical.

Leadership modeling

The extent to which leaders model and reinforce ethical behavior in words and action.

Program resonance

The extent to which principles, rules, and expectations are understood by, relevant, and useful to employees, specifically through the code of conduct, policies, communication, training, misconduct reporting tools, and E&C program support.

Recognition

The extent to which leaders express appreciation for team members and recognition for how a job is done, not just outcomes achieved.

Transparency

How the company shares information—the good and the bad—openly and honestly.

Trust

The extent to which employees experience trust (multi-directional) and behaviors that foster trust.

Reward systems

The extent to which ethical behavior is included as part of formal rewards structures and reinforced through promotion decisions.

Organizational justice

The extent to which standards of conduct are applied consistently throughout the organization and employees have confidence in reporting and investigative processes.

Diversity, equity, and inclusion (DEI)

The extent to which employees feel a sense of belonging in the organization through efforts to honor diversity, ensure equitable systems, and engage in inclusion.

Freedom of expression

The extent to which employees express their opinions, ask questions, and share feedback.

Speaking out about misconduct

The extent to which employees speak up about ethical misconduct and report improper behavior.

Performance under pressure

The extent to which ethical standards are upheld when under pressure.

Values-based conduct

The extent to which core values guide behavior and decision-making.

Archetypes of culture defined

Though often referred to as an organization's DNA, corporate culture can take many forms and can be experienced differently by employees, depending on certain demographics, geography, and changing business conditions. For the purposes of our reporting, we divided respondents into statistical quartiles for comparison, defining each quartile based on common cultural archetypes we find in our work:

1. Inspired

Top companies exemplify all four pillars of ethical culture. Inspired cultures embrace mission and purpose, shared values, and ethical behavioral expectations. These organizations have supportive leaders who model the values, systems established to hold others accountable to high standards of workplace conduct, and a work environment characterized by high trust, respect, fairness, belonging, and freedom. This, in turn, generates the highest levels of ethical and business performance.

2. Competent

These organizations are well on their way to establishing solid ethical foundations, developing supportive and engaged leaders, maintaining a healthy work atmosphere, and experiencing values-based performance (even under pressure). With more time and investment in culture—reinforcing areas of strengths and intervening where weak—Competent companies have the opportunity to become Inspired.

3. Requisite

The third archetype has an established culture, but it does not excel in inspiring employees and values-driven performance. Requisite cultures score lower on Core Architecture, Leadership, Work Atmosphere, and Ethical Performance than Inspired and Competent companies. These companies are unlikely to experience top business performance.

4. Nascent

Lastly, Nascent organizations lag behind the rest, and may sometimes be experienced as toxic. Employees do not agree that corporate ethics, leadership support, or a healthy work atmosphere are present for these companies. According to our model, these cultural deficits lead to low ethical and business performance.

Key findings

A. There is a need to shape ethical culture globally

B. Culture has a significant impact on performance

C. There is a divide in the experience of senior leaders, middle management, and individual contributors

D. The Culture Catalysts: Trust and Organizational Justice

E. In the U.S., employees report unequal treatment despite an intense focus on Diversity, Equity, and Inclusion

F. Employee loyalty is driven by trust, corporate ethics, and a sense of inclusion and belonging

G. The Pandemic Paradox

There is a need to shape ethical culture globally

While the four archetypes of ethical culture are fairly evenly distributed across geographies and industries, there are meaningful variations when looking at countries or industries as a whole. We know that, traditionally, shaping culture globally is a challenge. Regions vary by language and cultural sensitivities and LRN's supporting research has shown large multinationals, in particular, have struggled to achieve consistent cultures and behaviors across all regions.

Average ethical culture score by industry, across archetypes
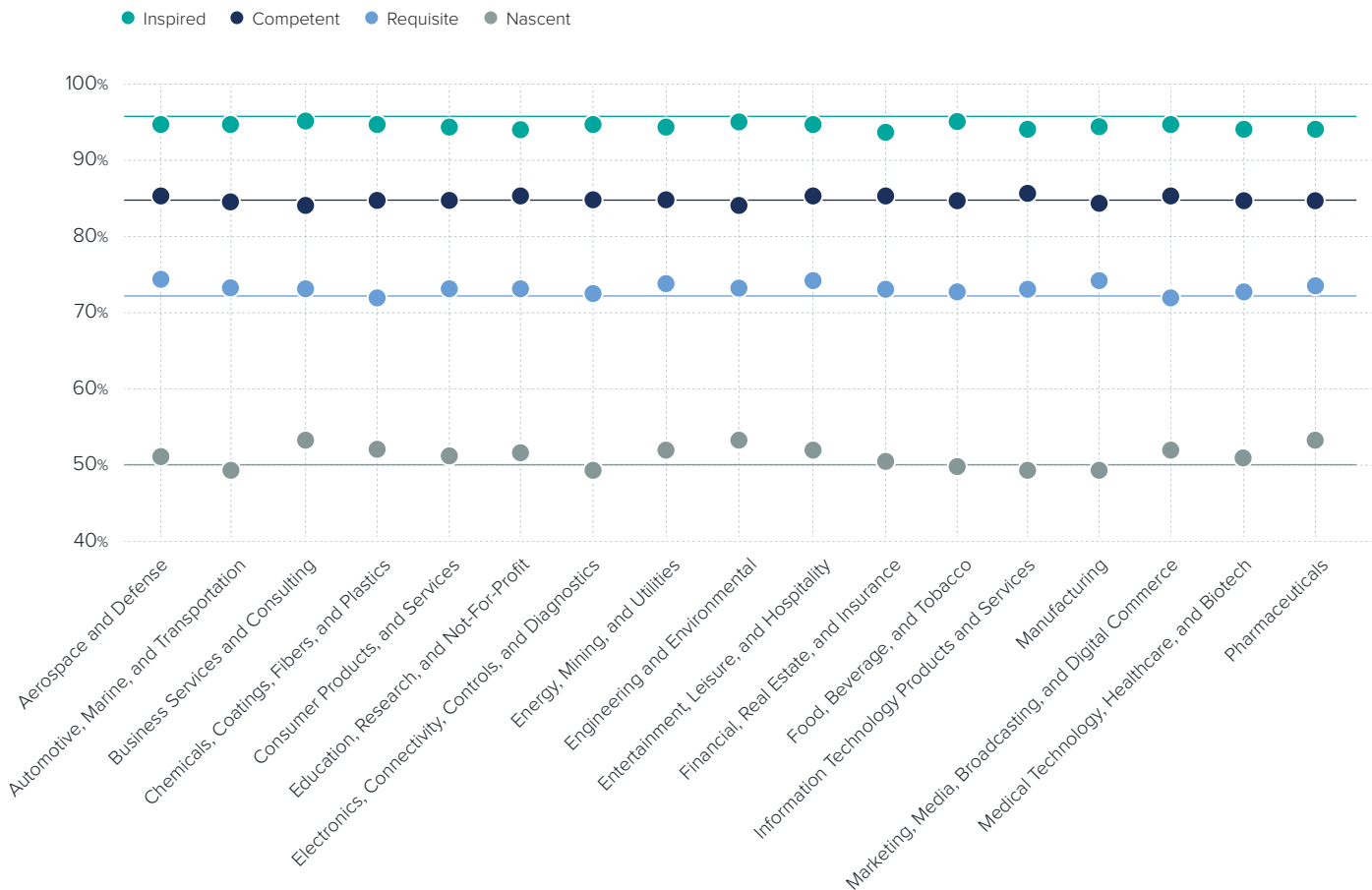
See page 15 for a description of how LRN defines culture archetypes.

Average ethical culture score by industry

Industry	Score
Information Technology Products and Services	81%
Entertainment, Leisure, and Hospitality	79%
Marketing, Media, Broadcasting, and Digital Commerce	79%
Pharmaceuticals	79%
Aerospace and Defense	78%
Engineering and Environmental	78%
Financial, Real Estate, and Insurance	77%
Electronics, Connectivity, Controls, and Diagnostics	77%
Manufacturing	76%
Medical Technology, Healthcare, and Biotech	76%
Energy, Mining, and Utilities	75%
Business Services and Consulting	74%
Consumer Products and Services	74%
Food, Beverage, and Tobacco	73%
Automotive, Marine, and Transportation Products and Services	72%
Education, Research, and Not-For-Profit	72%
Chemicals, Coatings, Fibers, and Plastics	70%

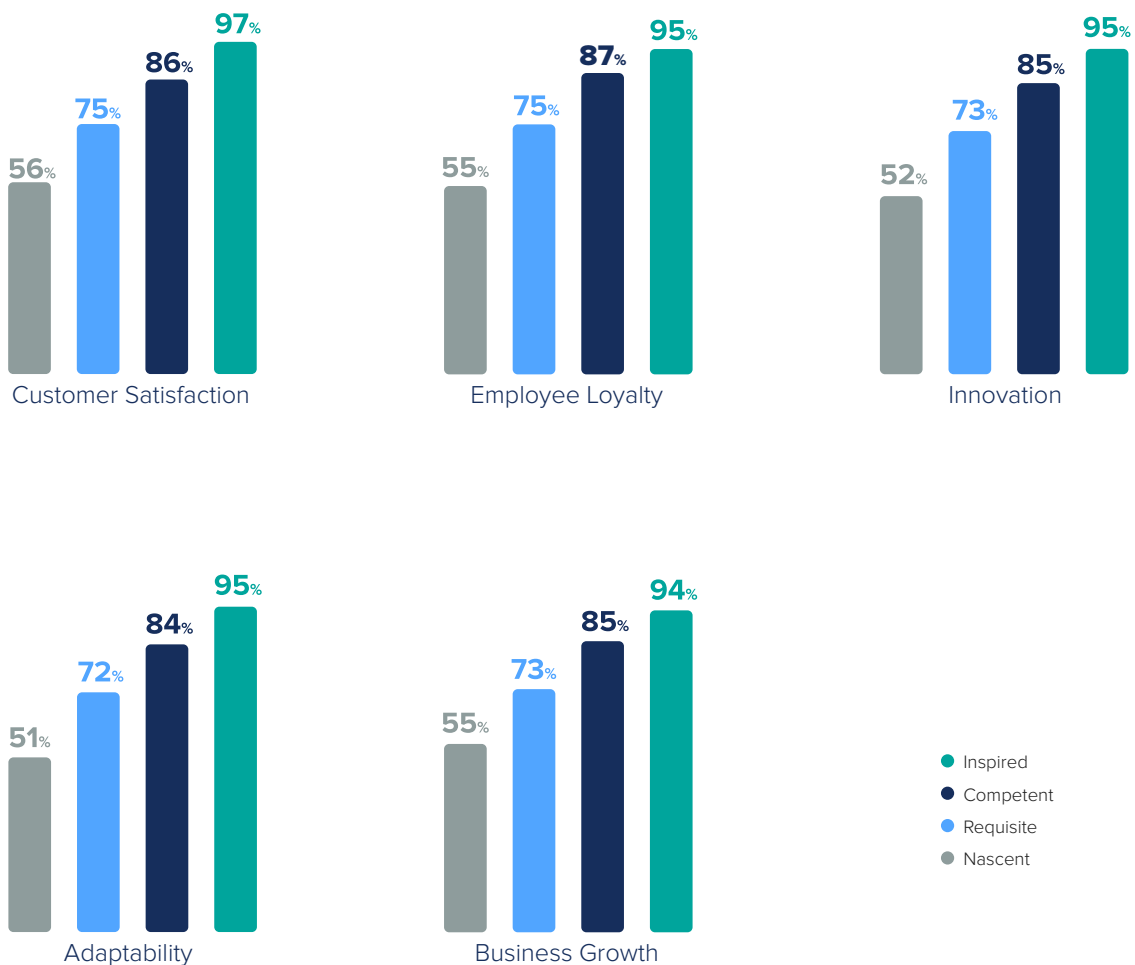### *Do you know your company culture? Questions to ask:*

1. Do we truly understand what is driving and influencing the behavior that we are seeing?
2. Do we know how our employees are experiencing our culture, and how that might vary across the organization?
3. Do we know how employee, leadership, and organizational behavior are impacting our business performance?
4. Are we going through a period of significant change in strategy, leadership, or organizationally?

There are many ways to collect data on your company culture, but the best is going straight to the source: **your employees**.

Culture has a significant impact on performance

We know that culture impacts business results, but how much? We leveraged statistical modeling to explore the relationship between our Ethical Performance Model and traditional business performance metrics, and the answer is quite a lot. Our model found that 66% of the variance in business performance can be attributed to ethical culture. It follows, then, that organizations with strong ethical cultures—the "Inspired" archetype—outperformed by a wide margin across these measures of business performance. The data illustrate how culture reduces organizational risk, protects reputation, and propels growth.

Inspired cultures outperform

Customer Satisfaction: 56%, 75%, 86%, 97%

Employee Loyalty: 55%, 75%, 87%, 95%

Innovation: 52%, 73%, 85%, 95%

Adaptability: 51%, 72%, 84%, 95%

Business Growth: 55%, 73%, 85%, 94%

Legend:
- ● Inspired
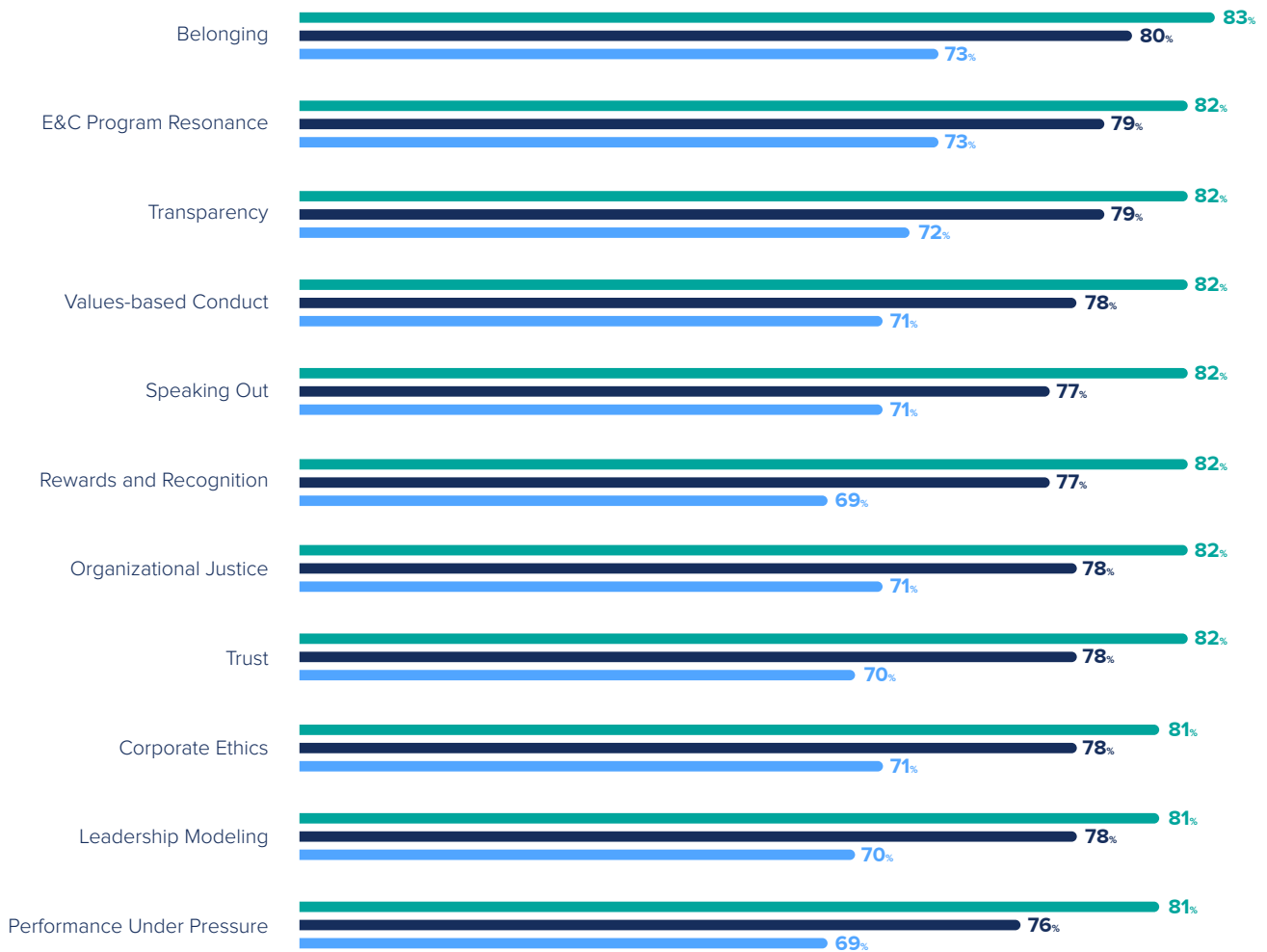- ● Competent
- ● Requisite
- ● Nascent

Data represent mean score converted to a 1-100 scale.

There is a divide in the experience of senior leaders, middle management, and individual contributors

The leadership divide

Average scores across dimensions of culture, by level

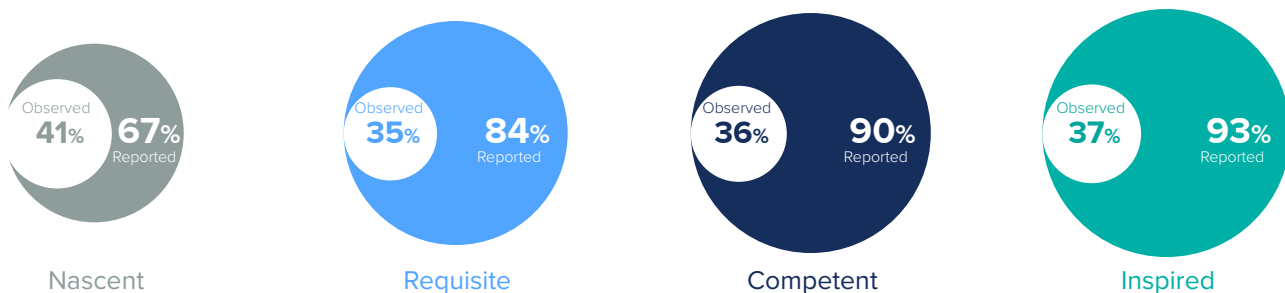● Senior Leadership   ● Middle Management   ● Individual Contributors

Belonging
- 83%
- 80%
- 73%

E&C Program Resonance
- 82%
- 79%
- 73%

Transparency
- 82%
- 79%
- 72%

Values-based Conduct
- 82%
- 78%
- 71%

Speaking Out
- 82%
- 77%
- 71%

Rewards and Recognition
- 82%
- 77%
- 69%

Organizational Justice
- 82%
- 78%
- 71%

Trust
- 82%
- 78%
- 70%

Corporate Ethics
- 81%
- 78%
- 71%

Leadership Modeling
- 81%
- 78%
- 70%

Performance Under Pressure
- 81%
- 76%
- 69%

The "leadership disconnect" is a long-studied corporate dynamic, whereby the further up the corporate hierarchy one is, the rosier one's glasses tend to be. Our data reinforce this concept with senior leadership reporting scores on average about 11 percentage points higher than those of individual contributors across all dimensions of culture. Given leadership's outsized role in shaping organizational culture, it is imperative that leaders establish mechanisms to gain feedback from employees at all levels to truly understand how these dimensions play out on the ground.

The Culture Catalysts: Trust and Organizational Justice

Study data show that rates of observed misconduct are fairly consistent across all archetypes. There is, however, a significant differential between Inspired and Nascent cultures in the rates of employees reporting the misconduct they observed. As companies can only address that which they are aware of, this higher level of reporting represents a significant reduction in risk.

Rates of observed and reported misconduct, across archetypes

Observed 41%	Observed 35%	Observed 36%	Observed 37%
67% Reported	84% Reported	90% Reported	93% Reported
Nascent	Requisite	Competent	Inspired

It's easy to do the "right thing" when it's easy. As many corporate scandal headlines show, it is far harder when under pressure to meet production timelines, sales goals, and other business targets. Regression analysis on our data find that the top two predictors of ethical behavior and decision-making *when under such pressure* are environments characterized by high trust and a sense of organizational justice. Key indicators include:

Trust in company leadership	Team/company success placed above individual success	Consistent standards for conduct, regardless of role or seniority	Confidence in reporting processes

When trust or organizational justice is high, respondents are **8x** **more likely to observe ethical standards upheld when under pressure.***

* "High"= average score of 4.5 or above on a 1-5 point scale; data compares "high" respondents to all others.

Ethical Performance Model at work:
How a senior leader's misconduct became an opportunity to mine for trust

A leading mining company with global operations has prided itself on its corporate stewardship throughout its long, storied history, long before ESG became the latest corporate buzzword.

The company takes how it engages with stakeholders and host communities very seriously. Operating with transparency is embraced as part of the company's culture and as a way to further build trust among colleagues.

The company faced a difficult dilemma when a high-performing and well-respected senior executive, widely considered to be a leader with high integrity and a champion of diversity, was found to have a significant conflict of interest. While the company's leadership quickly realized what to do—terminate the employee immediately for violations of its code of conduct—how should they communicate this very visible departure to employees, to the wider public?

While many, if not most, within the industry would limit public discussion for fear of potential legal issues, the ethics and compliance team saw an opportunity to challenge norms and worked with the executive leadership team to lead a radically transparent approach to communicating the misconduct and use it as a learning and culture building moment.

The CEO sent a lengthy email to the company explaining the incident as a values, ethics, and culture breach. It also took the extraordinary step of issuing a public press release discussing the incident as well as the plan to ensure business continuity.

As the ethics and compliance team was working with executive leadership on an enhanced framework for how to handle misconduct and ensure accountability and organizational justice across the company, another senior leader was involved in a different but equally serious incident of misconduct. The company knew they had to be consistent in how they handled the situation.

Again, the CEO issued a company-wide email explaining what happened. The company then used the two cases as the basis for 25+ workshop sessions across the globe, reaching nearly all senior leaders and significant numbers of middle management, and discussing how they were using their values to make the right, ethical decisions.

The team was credited for providing "moral clarity" in the moment and in a way that would advance its culture. The company also conducted an integrity baseline survey to help uncover further opportunities to de-stigmatize and normalize a "speak-up" culture. This exercise also led to the revelation of the need for a deeper listen-up culture. A "listen, intervene, rehabilitate, and save" mindset was developed to both root out misconduct and ensure accountability while at the same time creating a work environment of visibly-felt, empathetic, and accessible leadership that listens and puts its people first.

### *Ethical culture change in 5 steps*

Culture change isn't easy, but there is an established methodology to follow in shaping an ethical culture.

1. Engage key stakeholders and keep them engaged
2. Assess current state: Survey your people based on your unique cultural dynamics
3. Have the courage to analyze and address realities honestly and transparently
4. Intervene by responding to cultural strengths and critical risk areas
5. Assess, track, and report on progress

In the U.S., employees report unequal treatment despite an intense focus on Diversity, Equity, and Inclusion

Diversity, Equity, and Inclusion (DEI) efforts have grown in corporate priority over the past five years. Calls for racial justice and inclusion have prompted demands for organizations to take a hard look at how they are actively addressing inequality. Yet, despite a rise in concrete plans to improve diversity, the increase of C-suite-level ownership of DEI through Chief Diversity Officer hires, and a wave of anti-bias training in the U.S., our U.S. data show that people identifying as female and those identifying as African, Black, Afro-Caribbean, or African American, report observing unequal treatment in the workplace.

People at my company are treated equally regardless of race, sexual orientation, gender expression, age, and nationality.

● Agree　● Neutral　● Disagree

|	Agree	Neutral	Disagree
Male	77%	14%	10%
Female	67%	21%	11%
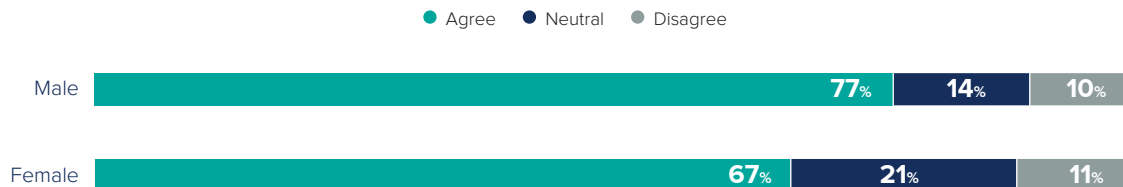
Note: "non-binary" and "prefer not to answer" were provided as answer choices but respondent sample is too small on which to report

People at my company are treated equally regardless of race, sexual orientation, gender expression, age, and nationality.

	Agree	Neutral	Disagree
East or South Asian	82%	11%	7%
White or Caucasian	75%	17%	8%
Hispanic or Latino/a	75%	11%	14%
African, Black, Afro-Caribbean, African American	61%	23%	15%

Respondents identifying as African, Black, Afro-Caribbean, or African American also report a less positive experience of cultural dimensions central to supporting ethical behavior in the workplace. They observe behaviors aligned with values at a lower rate, are less willing to speak out (whether about misconduct or sharing ideas and opinions more generally), and don't find their company's ethics and compliance program as relevant or accessible as their colleagues. Business leaders, particularly those in the ethics and compliance and people and culture functions, should consider how and whether their communication channels, communications, training, policies, and procedures are received by and accessible to diverse employee groups by seeking their input and feedback and adjusting accordingly.
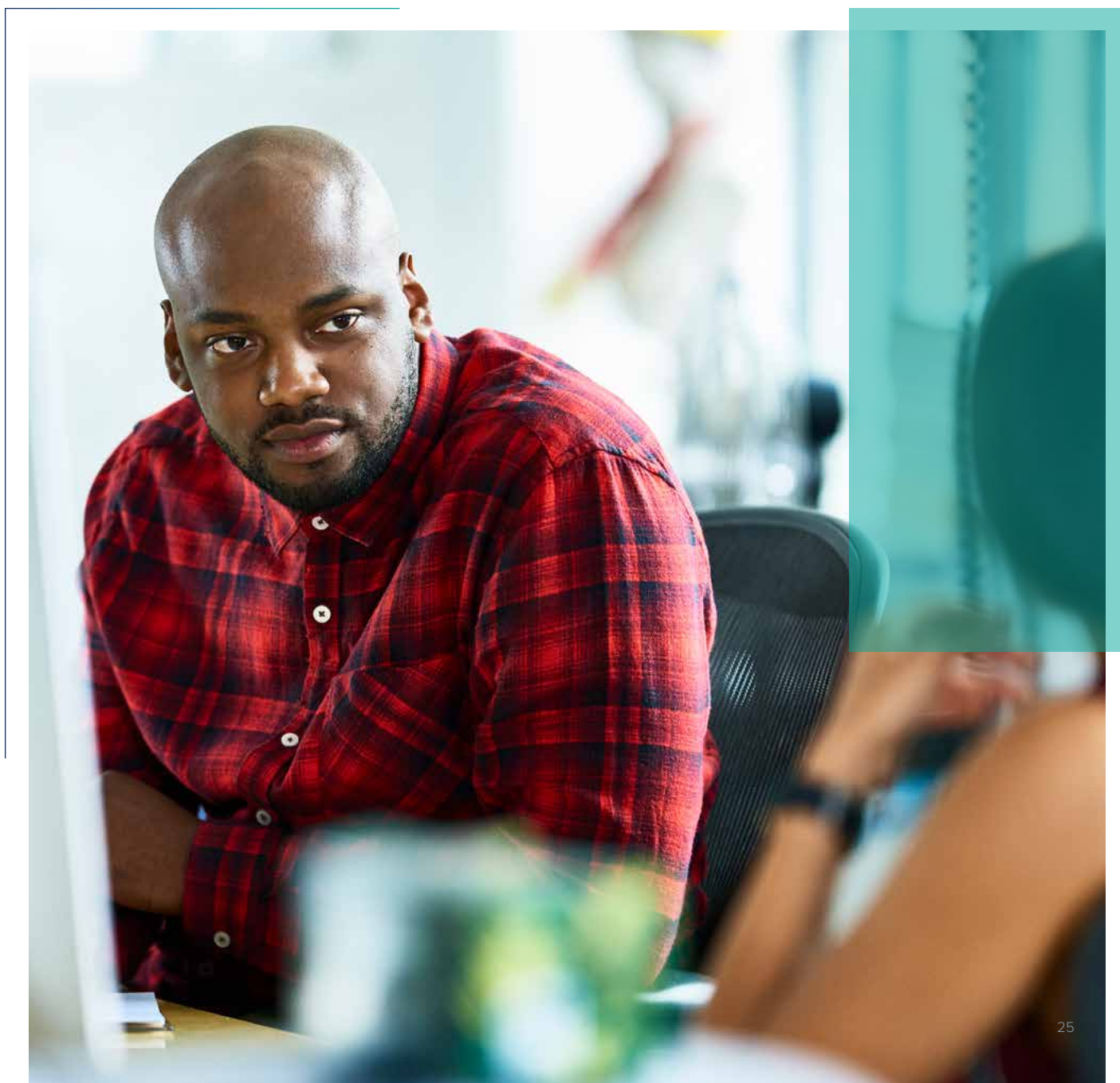
Employee loyalty is driven by trust, corporate ethics, and a sense of inclusion and belonging

How we work has been transformed by the global COVID-19 pandemic. Recent studies report millions of employees plan to leave the workplace post-pandemic (named by the media as "The Great Resignation"). Burnout, mental health and safety, the desire for more flexibility, greater pay, a better and more inclusive work environment, and more meaningful work are cited as reasons more people are considering leaving their organizations. In our data, an employee's desire to stay with their company is predicted by their organization having a culture of trust, purpose-driven, ethical business practices, and a sense of belonging and inclusion.

Average scores across key predictors of employee loyalty by employee's willingness to stay with company

- Want to stay at company
- Neutral on staying
- Do not want to stay at company

Trust
- 81%
- 60%
- 51%

DEI
- 83%
- 62%
- 53%

Corporate Ethics
- 82%
- 60%
- 52%

Ethical Performance Model at work:
How a company enlisted its managers to reinforce performance beyond the bottom line

A commercial and defense manufacturer with its headquarters in the U.S. and operations across the globe found through an analysis of its culture that while formal policies and rules were well understood by employees, it lacked the Cultural Catalysts of Trust and Speaking Out to achieve the kind of ethical behavior outcome it sought to cultivate at the company. The assessment also found that a managerial focus on achieving bottom-line performance was coming at the expense of values-based behavior and decision-making, creating significant risk for the organization. Among the int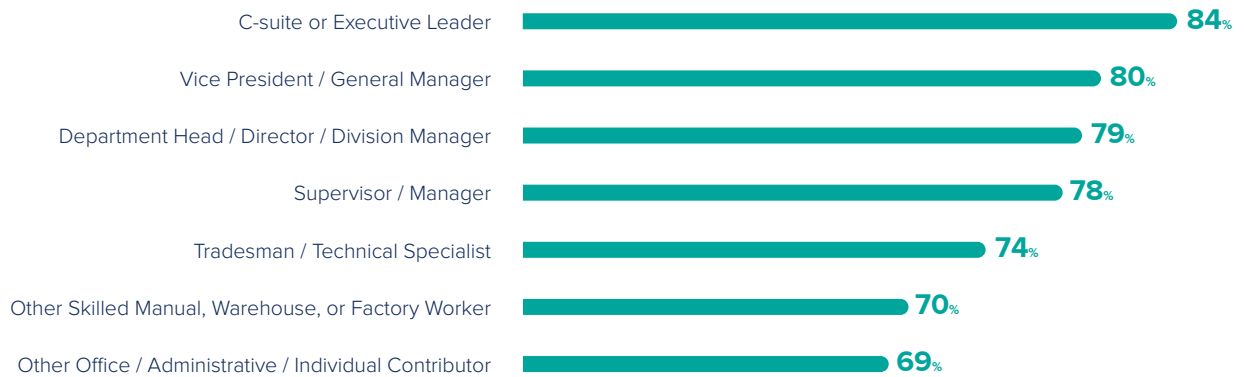erventions that followed were workshops that led to the creation of plant-specific action plans and new training videos and education featuring leaders and employees at all levels discussing the organization's values and how they bring them to life. Most important was a series of manager-led discussions on values/ethics, trust, speaking up, retaliation, respect in the workplace, and what it means to be a good corporate citizen—deemed critical elements to creating a culture of trust where employees felt supported in living the organization's values and ensuring high standards for ethical workplace behavior.

The Pandemic Paradox

Frontline workers and individual contributors gave their organizations the lowest scores across the various dimensions of culture. These are often the very same workers who were tasked to perform despite risks to their own health and safety during the pandemic. They were also asked to adapt to change and be resilient, embrace new safety and operating procedures, and take on new responsibilities. Though circumstances may be vastly different depending on individual roles and industries, there is a clear disconnect between the experience of senior leaders and those on the front lines.

Average ethical culture score by title

Title	Score
C-suite or Executive Leader	84%
Vice President / General Manager	80%
Department Head / Director / Division Manager	79%
Supervisor / Manager	78%
Tradesman / Technical Specialist	74%
Other Skilled Manual, Warehouse, or Factory Worker	70%
Other Office / Administrative / Individual Contributor	69%

*Data represent mean score converted to a 1-100 scale.*

Conclusion

Business is operating in unprecedented and simultaneous crises—a global pandemic, multiple climate-related challenges, and widespread protests against racial inequality and for justice. Stakeholders are holding business to a higher standard of behavior, decision-making, and workplace conduct. Employees, customers, and investors care more about how companies are living up to their promises in an era of Stakeholder Capitalism and Environmental, Social, and Governance (ESG) measures. They are also demanding greater transparency and verification of the authenticity of public commitments to purpose, values, people, society, and planet and are monitoring the effectiveness of their efforts.

Culture also has been widely credited as the most significant contributor to corporate malfeasance, which is why regulators have prioritized a focus on culture in updated guidance over the past several years.

LRN's Benchmark of Ethical Culture presents a compelling case for investing in managing culture and provides clear linkages between ethical performance and business performance. With it, we believe ethical culture is the tool for developing greater resilience and growth in an uncertain world.
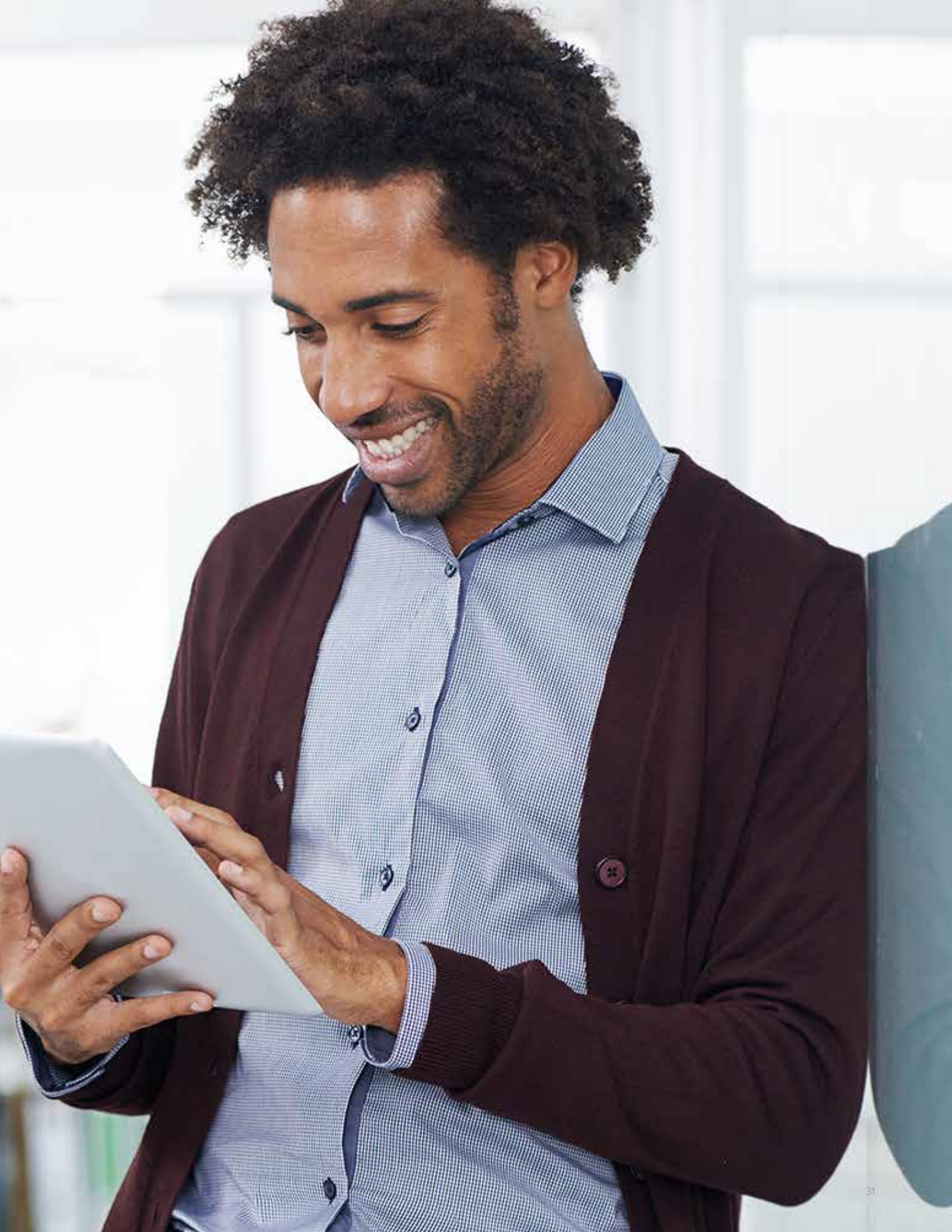
Values drive value

Our research and experience for nearly three decades conclusively shows that values guide behavior and shape culture, which, in turn, bears positively on performance. We encourage you to go deeper by exploring these recent and complementary studies.

The *2016 HOW Report* found that organizations that succeed are those that are purpose-inspired, values-based, and led with moral authority.

The 2021 LRN Benchmark of Ethical Culture builds upon this work.

LRN's 2021 *Ethics & Compliance Program Effectiveness Report: Meeting the COVID Challenge* shows the importance of culture and values in navigating the COVID-19 crisis.

Part Two of LRN's 2021 *Ethics & Compliance Program Effectiveness Report: Leading the Way* suggests that effective board engagement on ethics and compliance translates to positive impacts on business health, ethical foundations, and leadership accountability for ethical conduct.
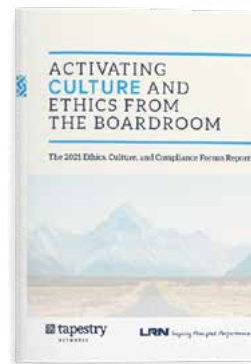
Jointly produced by LRN and Tapestry Networks, *Activating Culture and Ethics from the Boardroom* details the responsibility for boards to ensure executives shape culture and compliance. All agree this is non-negotiable, but approaches differ.

Methodology

LRN's Ethical Performance Model was developed with a recognition that culture matters and is arguably the most important driver of organizational success. The model defines the characteristics of ethical culture and is informed by our nearly 30 years of work and previous research on and frameworks of ethics, culture, leadership, values, and compliance.

The LRN Benchmark of Ethical Culture was designed to provide a new global benchmark against which companies could plot their cultures against their peers and find a roadmap towards inspired cultures.

LRN consulted with an expert in Industrial/Organizational Psychology from Michigan State University to design the questionnaire and then partnered with Qualtrics (a leading assessment provider) to conduct a global study.

Data were collected from 7,591 full-time employees, spanning individual contributors to the C-suite, sampled from 14 countries representing Asia, Europe, North America, and South America. The study was provided in 12 languages: Chinese (Simplified), Dutch, French, German, Italian, Japanese, Russian, Polish, Portuguese (Brazil), and Spanish (Latin America). Quota sampling methodologies were employed to ensure that all groups were equally represented and statistically valid.
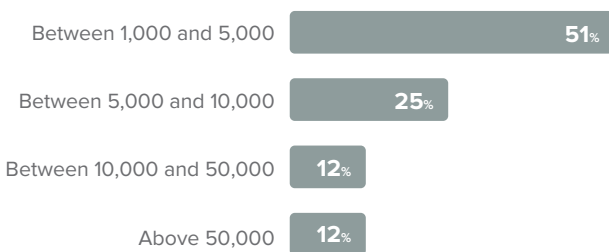
Following data collection, the questionnaire was refined via reliability analyses and validation techniques. The relationship between various components of culture and business performance was established using Structural Equation Modeling (SEM). This advanced statistical technique was also used to test the predictive validity of the model. Results were statistically significant, demonstrating the validity of LRN's Ethical Performance Model and how dynamics within the model influence each other as well as business outcomes.

We divided participant responses into statistical quartiles based on their average ethical culture score; that is, the average of all questions rolling up to the dimensions of culture described in the model. These quartiles were assigned archetype names (Inspired, Competent, Requisite, and Nascent) and were used to explore the differing impact of culture on ethical conduct and business performance.
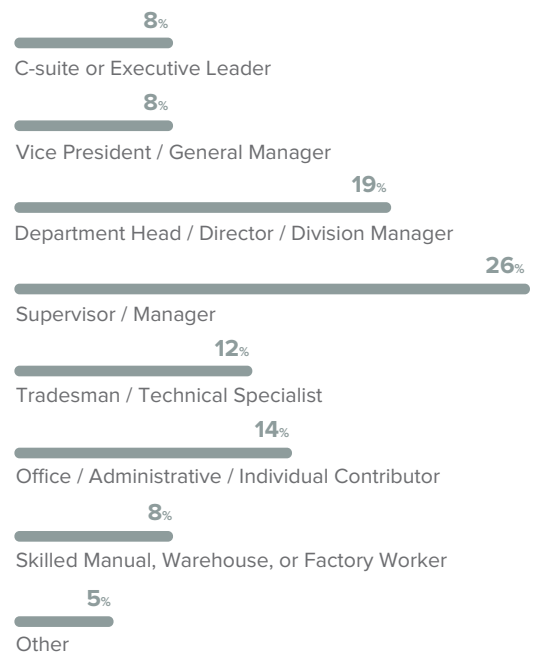
Participation demographics

Company size (Employee count)

Between 1,000 and 5,000	**51**%
Between 5,000 and 10,000	**25**%
Between 10,000 and 50,000	**12**%
Above 50,000	**12**%

Role

8%
C-suite or Executive Leader

8%
Vice President / General Manager

19%
Department Head / Director / Division Manager

26%
Supervisor / Manager

12%
Tradesman / Technical Specialist

14%
Office / Administrative / Individual Contributor

8%
Skilled Manual, Warehouse, or Factory Worker

5%
Other

Country

Canada **6%**

United States **8**%

Mexico **7%**

Brazil **7%**

United Kingdom **7%**

France **7%**

Germany **8%**

Italy **3%**

Poland **7%**

Netherlands **5%**

Russia **7%**

India **12%**

China **8%**

Japan **8%**

Race/Ethnicity

American Indian, Aboriginal Peoples, or Indigenous 2%

2% Caribbean

Multiracial or Biracial 3%

1% Pacific Islander

African 3%

Middle Eastern 3%

Black, Afro-Caribbean, or African American 4%

A race/ethnicity not listed here 5%

42% White or Caucasian

Hispanic or Latino/a 8%

South Asian 9%

18% East Asian

Gender identity

Male	63%
Female	33%
Non-binary	2%
Prefer not to answer	2%

Tenure

1-3 years	22%
3-5 years	26%
5-10 years	26%
More than 10 years	26%

Participants were drawn from the following industries, with each representing 5-6% of the overall sample: Aerospace and Defense; Automotive, Marine, and Transportation Products and Services; Business Services and Consulting; Chemicals, Coatings, Fibers, and Plastics; Consumer Products and Services; Education, Research, and Not-For-Profit; Electronics, Connectivity, Controls, and Diagnostics; Energy, Mining, and Utilities; Engineering and Environmental; Entertainment, Leisure, and Hospitality; Financial, Real Estate, and Insurance; Food, Beverage, and Tobacco; Information Technology Products and Services; Manufacturing; Marketing, Media, Broadcasting, and Digital Commerce; Medical Technology, Healthcare, and Biotech; and Pharmaceuticals.

Data reporting & Model development

Structural Equation Modeling

Initial items were constructed to fit conceptually into a number of scales. These items underwent several rounds of revision before being administered to a sample of over 7,500 individuals. These data were then used to further refine these scales into focused scales with a reduced number of items while maintaining the psychometric properties of these scales. Cronbach's alpha reliability is reported in *Table 1* for each scale containing three or more items. Analysis of these data also indicated strong correlations between scales, which are presented in *Table 2*.

A model was developed to test the higher-order structure of these scales, as well as how this structure was fit by these data. This higher-order structure was also chosen due to the strong correlations between items and scales and the resulting challenges of model convergence on a full measurement model.

Conceptually, this model clustered scales into five higher-order factors as follows:

Core architecture

Corporate Ethics, Formal Rewards, E&C Program Resonance, Transparency

Ethical performance

Values-based Conduct, Performance Under Pressure, Speaking Out About Misconduct

Leadership

Leadership Modeling, Recognition

Business performance

Growth, Employee Loyalty, Customer Satisfaction, Adaptability, Innovation

Work atmosphere

Trust, Diversity, Equity, and Inclusion (DEI), Organizational Justice, Freedom of Expression

This structural equation model tested the framework in which Core Architecture and Leadership was a driver of Work Atmosphere, Work Atmosphere was a driver of Ethical Performance, and Ethical Performance was a driver of Business Performance. This model was estimated using ML estimation in lavaan 0.6-8 in R version 4.0.3, and was found to fit the data well (RMSEA = .061, CFI = .975, TLI = .970).

In addition, individual regressions were run to determine the share of variance in each of the outcomes that could be explained by the variance of the prior element of the model. This resulted in an R2 of .889 for the regression of Work Atmosphere onto Core Architecture and Leadership, an R2 of .809 for the regression of Ethical Performance onto Work Atmosphere, and an R2 of .658 for the regression of Business Performance onto Ethical Performance.

Table 1: Scale reliabilities

Scale	Cronbach's Alpha
Corporate Ethics	.766
DEI	.784
E&C Program Resonance	.918
Formal Rewards	.790
Freedom of Expression	.767
Leadership Modeling	.860
Organizational Justice	.831
Performance Under Pressure	.812
Speaking Out	.805
Transparency	.793
Trust	.875
Values-Based Performance	.801

Table 2: Scale correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Corporate Ethics													
2 E&C Program Resonance	.811												
3 Formal Rewards	.757	.803											
4 Leadership Modeling	.794	.840	.801										
5 Recognition	.720	.765	.728	.765									
6 Transparency	.761	.837	.783	.811	.729								
7 Trust	.773	.863	.806	.861	.763	.818							
8 DEI	.704	.766	.695	.718	.644	.704	.736						
9 Organizational Justice	.766	.821	.756	.836	.720	.766	.811	.690					
10 Freedom of Expression	.719	.832	.745	.759	.697	.764	.816	.690	.725				
11 Values-based Conduct	.757	.848	.759	.801	.717	.769	.813	.708	.780	.790			
12 Performance Under Pressure	.765	.816	.756	.809	.716	.760	.817	.713	.794	.771	.787		
13 Speaking Out About Misconduct	.725	.799	.704	.750	.673	.728	.757	.657	.749	.715	.744	.730	

This report was authored by the LRN Advisory Services team. The members of LRN Advisory bring decades of subject matter expertise in ethics and compliance to LRN client partners globally. If you are interested in this calibre of work applied to your own organization's needs, visit lrn.com/advisory for details.

Since 1994, LRN has worked to propel organizations forward with the partnership, knowledge, and tools to build ethical culture. More than 1,000 companies worldwide—including some of the world's most beloved brands—utilize LRN advisory services and leverage LRN e-learning courses to help navigate complex regulatory environments and foster ethical, responsible, and inclusive cultures. In partnership with LRN, companies translate their values into concrete corporate practices, training materials, and leadership behaviors that create sustainable competitive advantage. By acting upon shared values, companies and their people find the means to outbehave and outperform. Find us online at https://lrn.com and follow on Twitter, LinkedIn, and Facebook.

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