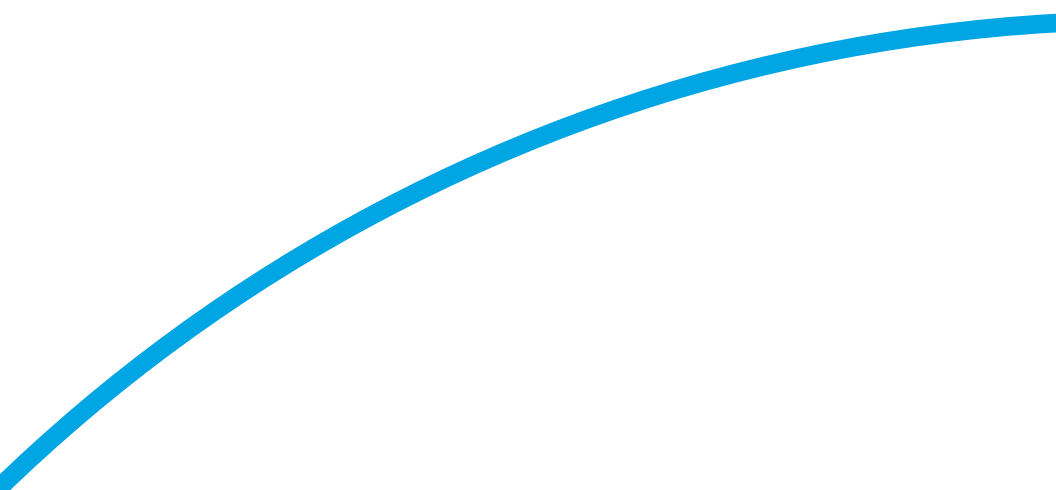




EXECUTIVE GUIDANCE FOR 2013

# Managing Misconduct During Career Moments

Reinforcing Ethics in a  
High-Change Environment





Executive teams are now managing their businesses in work environments shaped by frequent reorganization, increased knowledge work, more interdependent work, increasingly distributed global teams, and less managerial oversight. As a result, companies are at an increasing risk for employee-related misconduct. Despite heightened awareness of high-risk behavior, companies paid tens of millions of dollars in 2012 as a result of unethical behavior and misconduct on the part of their (and their vendors' and partners') employees. Notably, last year the US Securities and Exchange Commission issued its first whistleblower award in connection with a multi-million dollar fraud, previewing what may be around the corner for companies that disregard their ethical culture and/or reports of misconduct.

Successfully leading a business or team requires not just driving strong financial performance or employee productivity but also managing risk and reducing the costs associated with violations (or potential violations) of the law or company policy. The company's bottom line now must factor in costly expenditures related to managing risk—including the fines, investigations, training, and other mitigation steps associated with misconduct.

To help executives better understand risk and build stronger, more targeted risk mitigation strategies, CEB studied the effect corporate change has on employee-related misconduct, including bribery, conflicts of interest, harassment, or other violations of the law or company policy. Our research found changes in employees' work environment—dubbed “career moments”—can disrupt established patterns of workplace behavior and increase the risk of misconduct. High-change environments, where employees experience multiple career moments during a year, can have as much as three times the amount of misconduct as more stable work environments. Executives who can identify the most important career moments and adjust their management approaches and risk mitigation strategies accordingly are able to significantly reduce misconduct and its potential damage to their companies.

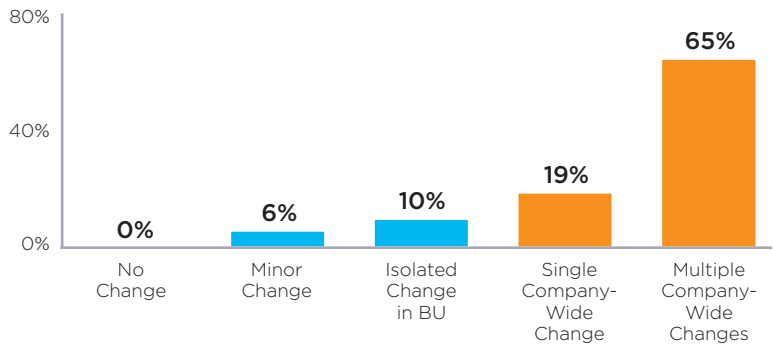
# High-Change Environments Increase Risk

Macroeconomic, market, and business uncertainty drive significant, frequent corporate change. As economic and competitive dynamics shift, so too do firm strategies, financing, products, business models, and underlying operating processes. In fact, 84% of companies experienced at least one significant company-wide change over the past two years, and more than 65% experienced multiple company-wide changes.

## Few Companies Enjoy Stability

Companies Experiencing Change in the Past Two Years

*n* = 63.



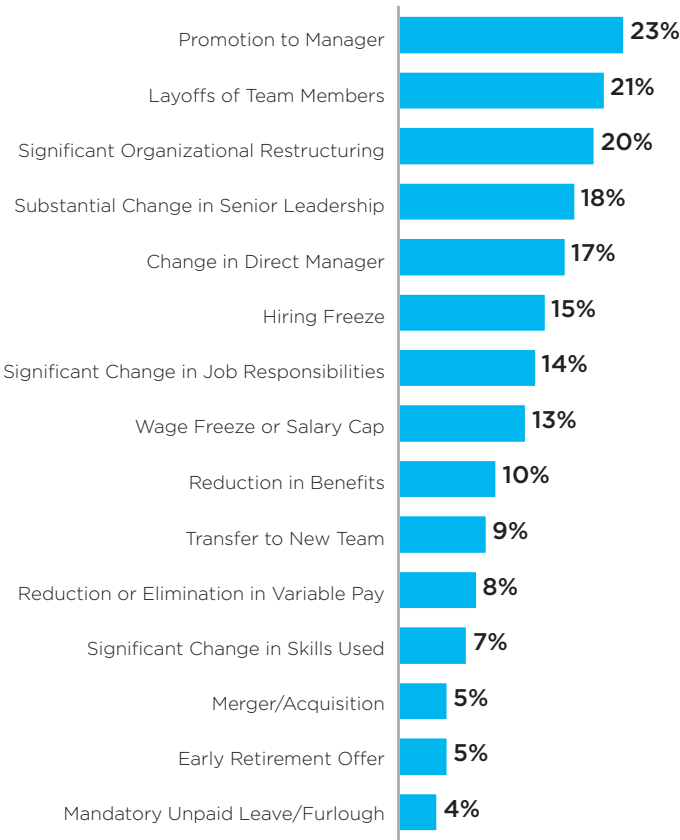
Source: CEB, CEB Communications Leadership Council Member Survey, 2012.

Clearly, frequent corporate change has an impact on the work environment and the firm's employees: CEB surveys indicate a majority of employees experienced a career moment in the past year. Although close to one-quarter of these employees experienced a positive change (e.g., promotion to manager), nearly the same percentage endured more disruptive changes, such as company-wide layoffs, major organizational restructuring, and/or a substantial change in senior leadership.

**Employees Experience a Variety of Changes**

Percentage of Employees Experiencing Given Career Moment in the Past Year

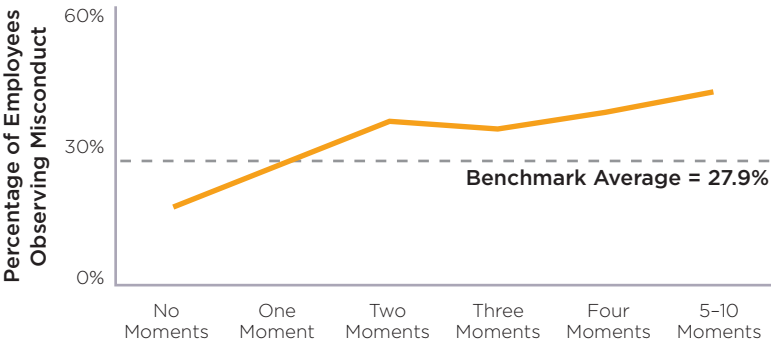
*n = 3,311.*



Source: CEB, CEB Compliance & Ethics Leadership Council Survey Data, 2012.

CEB's analysis shows that employees in high-change work environments witness more misconduct inside their work teams and organizations. In fact, employees in these environments (experiencing two career moments in a given year) observe twice as much misconduct as employees in more stable environments. Moreover, in the highest-change environments, where employees experience between 5 and 10 career moments during a year, staff observe almost three times the level of misconduct compared to their peers experiencing no career moments.

**Observed Misconduct Is Greatest in High-Change Environments**  
Impact of Career Moments on Observations of Misconduct,  
by Number of Career Moments in the Past Year (Excluding Promotions)  
*n* = 3,311.



Source: CEB, CEB Compliance & Ethics Leadership Council, 2012.

Intuitively, this increase in misconduct as employees experience additional career moments makes sense. Disruptions to employees' roles, networks, or work processes can cause predictable emotional reactions: stress, confusion, doubt, and disorientation. The personal, emotional toll taken on employees during change can have a direct negative impact on how they behave, make decisions, and execute their day-to-day jobs—often reducing collaboration, stifling problem solving, and causing less informed, undercommunicated decision making.

With less structure—or a new, less familiar structure—in place, emotionally taxed employees are at an increased risk of making a poor decision, overlooking an important control, or simply being unaware of changing rules and guidelines in their new roles or environments. As a result, the threat of misconduct rises.

## Some Career Moments Are More Important Than Others

Although a large share of the increased observed misconduct reflects the risks associated with a broad spectrum of company changes, no two career moments are created equal. Some pose a greater threat of employee misconduct than others.

Based on CEB's analysis, eight career moments pose the greatest risk to the organization; they are increasingly common and associated with relatively high observed misconduct. Executive teams committed to reducing the risk of misconduct should be on their guard and prepared to address the effects of the following:

1. Layoffs
2. Organizational Restructuring
3. Change in Senior Leadership
4. Change in Job Responsibilities
5. Reduction in Benefits
6. Change in Direct Manager
7. Wage Freeze
8. Hiring Freeze

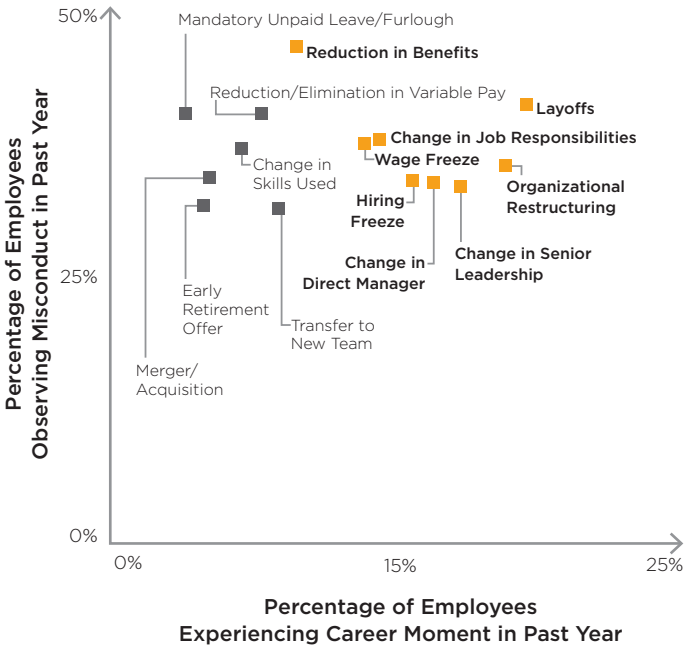
Understanding these critical career moments can help executives better anticipate, manage, and mitigate potential employee misconduct risks. That said, executives face several challenges in taking steps to improve the quality of decision making and risk management at these times.



Certain Career Moments Drive Greater Risk

Compliance Risk<sup>1</sup> of Specific Career Moments

n = 3,311.



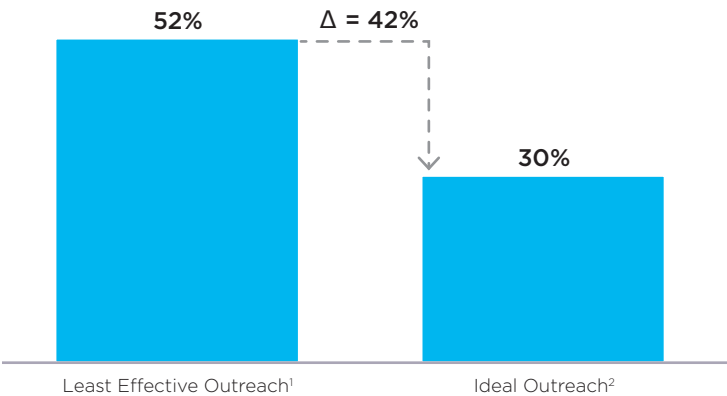
<sup>1</sup> We attempted to isolate the compliance risk of specific moments. Although some moments happen in tandem, factor analysis reveals relatively low and random relationships between specific moments.

Source: CEB, CEB Compliance & Ethics Leadership Council, 2012.

Most executive teams tend to concentrate their risk mitigation strategies on more conventional areas of concern, such as an emerging region (e.g., China and India), roles with exposure to government officials, changing regulatory landscapes, or high-risk positions with decision-making authority. However, few executive teams anticipate specific, upcoming corporate changes and implement targeted strategies to reduce the risk of misconduct and other violations prior to and during change. CEB found that proactively addressing critical career moments with “ideal outreach” (specific risk mitigation plans that include tailored, well-timed outreach and manager support) can reduce observed misconduct by as much as 42%.

**Intervening at Critical Career Moments Reduces Misconduct**  
Percentage of Employees Who Have Observed Misconduct  
in the Past Year

*n* = 2,218.



<sup>1</sup> Least effective outreach is made up of communication after the event, through corporate communication, and about the organization's response to misconduct.

<sup>2</sup> Ideal outreach is made up of communication before the event, through a direct manager, and about the importance of ethical integrity.

Note: Ideal and least effective outreach were calculated by comparing the integrity scores for the various combinations of interventions. An outreach had to have at least 10 individuals experience it for it to be included.

# Minimizing Misconduct Risk at Critical Career Moments

Targeting career moments as part of a broader risk management strategy will help protect a company from unseen risks. By stabilizing the employee environment and reducing the emotional hot spots that can lead to poor decision making, leaders can dramatically reduce the risk of employee misconduct. Executives should base their risk management efforts on three broad steps:

1. Understand, Prioritize, and Address the Highest-Risk Career Moments
2. Integrate and Reinforce Ethics in Change Management Strategies
3. Help Managers During Career Moments with Targeted Tools and Resources

# 1 Understand, Prioritize, and Address the Highest-Risk Career Moments

Starting with a full understanding of the most likely changes affecting their organization, leadership teams should create their own prioritized list of key career moments. Understanding the career moments that are likely and those that matter will help an organization—from its assurance functions to senior managers—take a focused approach to proactively mitigating the misconduct risks associated with corporate change.

Specifically, proactive organizations should consider the following questions as they determine where (and how) to focus their risk mitigation efforts:

- 1. Starting with CEB's list of critical career moments, which pose the greatest risk to your organization given its business, operating model, and culture?**
- 2. Building off your prioritized list, which career moments are likely to occur in the next 6–12 months at the company level?** Are any critical events anticipated in other areas of the company (e.g., in specific locations or with specific employee groups)?
- 3. Are there other, significant changes on the horizon that should also be considered?** Additional events to consider may be more unique to the company or the industry but are equally disruptive to employees (e.g., moving company headquarters, moving from one significant technology platform to another). Add these to the list of anticipated events.

4. **Do you anticipate clusters of career moments that are likely to occur together?** When there is a merger, for instance, chances are good that the company will also see leadership changes, manager moves, and restructuring. Companies should focus the development of mitigation strategies and specific outreach not just on the individual career moment but also the collection of associated events and career moments likely occurring within the organization.
5. **Finally, which of the possible career moments are likely to be the largest, most important, or disruptive?** Specifically, identify those that may occur with the highest frequency or on a predictable “schedule” (e.g., promotions), as these will likely require a more formal and established response. Also consider the large, one-off, or cluster events, as these will likely require more unique or tailored responses.

Answering these questions will help identify the range of career moments to address and—if done correctly—will help rank them based on likelihood and impact. With a firm sense of upcoming changes, executives should take specific steps to mitigate risk, such as targeting outreach to affected groups and enabling managers to reinforce the importance of ethical behavior.

## 2 Integrate and Reinforce Ethics in Change Management Strategies

CEB research has shown that companies can most effectively reach employees through transparent, clear, truthful, and authentic communications. However, practically speaking, supporting change efforts through more effective communication is much easier said than done. Leaders often underappreciate how different from one another their vision of change is, which can stall communication and make early messaging difficult. In addition, leaders may not feel comfortable communicating about a change before details are set in stone. The key here is to motivate leaders, and especially managers, to actively communicate in advance of change. Educating leaders and managers on the specific misconduct risks of failing to communicate about change early can provide a valuable opportunity and an urgency driver to more actively communicate with employees.

That said, the timing, focus, and source of communication is critical—especially when trying to counteract the negative effect of workplace disruption. In particular, executive teams should ensure they take the following steps when faced with change:

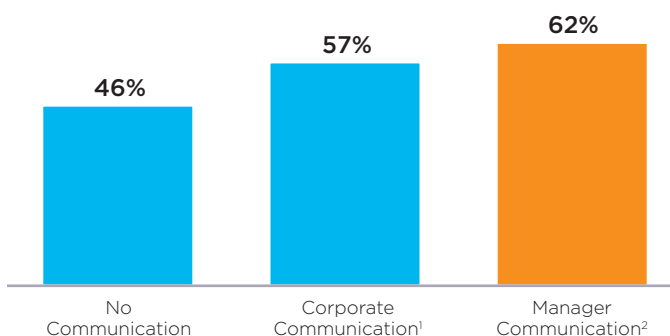
- **Anticipate and communicate in advance of change.** In work environments where employees hear about a career moment before it occurs, nearly 18% less misconduct is observed than in environments where employees are informed of a corporate change after the fact. Employees need advance notice of a career moment to absorb the information and curb anxieties and stress.
- **Regularly and consistently communicate the importance of ethical behavior.** Although reaching out to employees as early as possible in anticipation of a career moment is necessary when managing the associated risks of misconduct, it is not necessarily sufficient. Companies need to craft messaging that references ethical standards and expectations before, during, and after a specific career moment. Doing so not only lays a broad foundation that helps ensure ethical decision making overall but also reinforces for employees the importance of integrity during a career moment.

- **Use managers to communicate about ethics during change.**  
CEB research has shown that messages delivered or reinforced by direct managers are more likely to stick than those delivered by senior leaders. Managers provide the scale necessary to effectively disseminate broad corporate communications and can provide the local relevance to make the message meaningful. When managers are responsible for communicating to and supporting employees, observations of misconduct drop by as much as 21%. In addition, companies that use their managers (rather than the CEO, the head of HR, etc.) to do most of the communicating see a 5% increase in the rate at which employees report observed misconduct.

### Employees Receiving Manager-Led Outreach Have the Highest Reporting Rates

Changes in Misconduct Reporting Rates at Career Moments, by Select Channels

*n* = 2,209.



<sup>1</sup> Corporate Communication = Formal communication from a corporate function (e.g., HR, Legal, Compliance, Internal Communications) or senior leader.

<sup>2</sup> Manager Communication = Formal communication from direct manager/supervisor, and/or informal conversation with manager.

Source: CEB, CEB Compliance & Ethics Leadership Council, 2012.

- **Communicate about ethics in the context of the career moment.**

With more context and detail on the changes inherent in a career moment, employees will be better able to process information and make decisions about how they need to act. Thematically, manager-led outreach to employees about ethical behavior has to be relevant to, or clearly link to, the change.

Explaining the “why and how” of a career moment only goes so far in reducing misconduct risk. Any outreach during change must also directly reference the company’s expectations about ethical misconduct, including:

- The importance of ethical behavior,
- The importance of reporting misconduct,
- Clarity of company rules and policies, and
- The company’s commitment to organizational justice.

CEB research has shown that progressive organizations use information as a means to engage with employees during change, motivating employees to proactively solve problems on their own. By integrating ethical expectations and guidelines into change strategies and communication during career moments, companies can drive down misconduct by as much as 37%. Unfortunately, not all managers are prepared to communicate during career moments. Providing managers with tools and support is the final step in mitigating career moment risk.



# 3 Help Managers During Career Moments with Targeted Tools and Resources

Amid career moments, managers are critical, as their proximity to employees and their knowledge of the practical implications of the change allow them to not only deliver messages but also assist employees in working through the change. Managers are essential in providing a stable ethical foundation in the workplace when work processes, relationships, and objectives are changing. For executives, the practical challenge here is enabling managers to intervene effectively in support of ethical behavior on their teams.

**Clarify what is expected of managers**—outlining what they need to do (or not do) to reinforce ethical behavior during career moments. In high-change environments, make sure managers take the following steps:

- Understand how their own actions affect their employees (and review the company’s anti-retaliation policy for any questions).
- Explicitly encourage their employees to speak up and ask questions if something does not look or feel right.
- Understand their responsibilities when it comes to escalating concerns and reports of misconduct.
- Know how to properly respond in the moment when an employee raises a concern or question about possible misconduct.
- Feel empowered to prevent misconduct by, for example, talking openly and directly with their teams about ethical “gray zones” they face in their day-to-day environment.
- Explicitly demonstrate personal support for corporate initiatives and messages.

Progressive organizations have done the following to prepare and enable their managers to better lead their teams through periods of change:

- **Provide manager-specific training on how to anticipate and respond to career moments**—especially those identified as likely and risky to the firm. Concentrate training and support on the company’s high-priority teams and high-risk career moments.
- **Support managers with practical tools and resources** that will facilitate their local ethical leadership roles and reinforce the firm’s expectations in the workplace. Examples include:
  - Provide role-specific ethical scenarios to help managers prepare for a wide variety of issues and to make compliance “real” for employees.
  - Give managers decision-making rules so they can quickly clarify appropriate behavior for employees.
  - Establish annotated training materials or scripts to make it easier for managers to have a meaningful dialogue with employees.
- **Empower managers to adapt corporate communications** to increase the relevance and practicality for their team. Business and team context varies widely, even in a single organization, so managers should be encouraged to modify their “scripts” as necessary to increase their relevance.

Executives who equip and enable their managers to proactively address critical career moments can reduce misconduct by as much as 42%.

» With substantial, frequent corporate change comes dramatic shifts in the way employees work—as well as fluctuations in how they perceive their work, their employer, their peers, and the importance of ethical conduct. Not all changes have the same structural and psychological effect on employees. Anticipating and better managing employees through critical, change-induced career moments can substantially reduce the risk, and occurrence, of employee misconduct.

Executive teams who plan and act now—by prioritizing their key career moments and setting up a well-defined risk management strategy—will be more responsive and substantially mitigate the misconduct risks associated with corporate change.

## ABOUT CEB

CEB is the leading member-based advisory company. By combining the best practices of thousands of member companies with our advanced research methodologies and human capital analytics, we equip senior leaders and their teams with insight and actionable solutions to transform operations. This distinctive approach, pioneered by CEB, enables executives to harness peer perspectives and tap into breakthrough innovation without costly consulting or reinvention. The CEB member network includes more than 16,000 executives and the majority of top companies globally. For more information visit [www.executiveboard.com](http://www.executiveboard.com).

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