

The Unsolvable Problem: Performance, Pay, Pressure, and Misconduct

Richard T. Bistrong, CEO, Front-Line Anti-Bribery

Mark Hodak, Adjunct Professor, NYU-Stern

Michael Weisman, CECO, Kraft Heinz Company

Alexander Proels, Compliance Officer Americas, Siemens

Why Talk About It?

Richard Bistrong
CEO
Front-Line Anti-Bribery

R|Front-Line
B|Anti-Bribery



@richardbistrong

How important are compensation and incentives to employee ethical behavior?

1. Very important
2. Somewhat important
3. Not very important

How important are compensation and incentives to employee ethical behavior?

147
Votes

1. Very important



46%

2. Somewhat important



49%

3. Not very important



5%

How much of a role do you have in the development of compensation and incentives plans?

1. A big role
2. A small role
3. None at all – that's handled by other functions

How much of a role do you have in the development of compensation and incentives plans?

162

Votes

1. A big role



7%

2. A small role



27%

3. None at all – that's handled by other functions



66%



Mark Hodak
Adjunct Professor
NYU-Stern
Managing Director
HVA



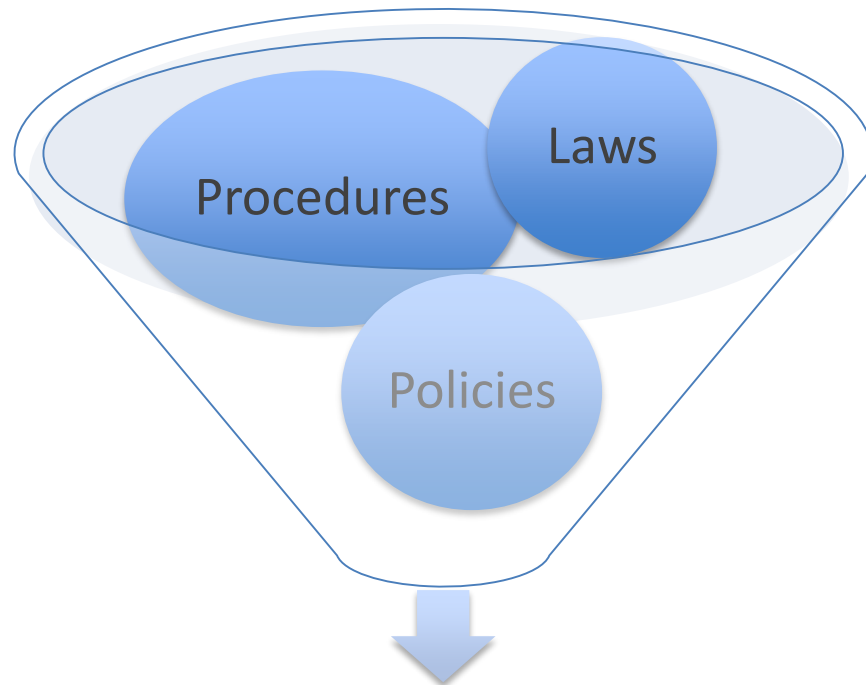
Michael Weisman
CECO
Kraft Heinz Company



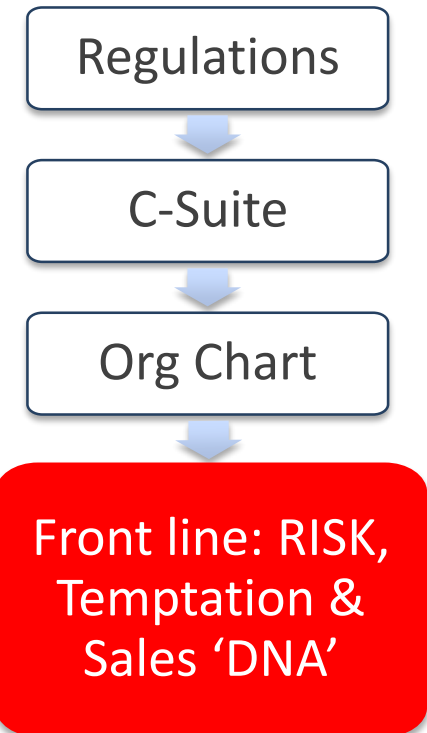
Alexander Proels
Compliance Officer Americas
Siemens



The Distance Between Compliance & the Front-Line



Goal: drive & execute compliant, legal & ethical behavior at the front-lines of business **while growing the business & getting the job done (how can you pay for both?)**



What Does Management Really Want?



If You Want Great Performance How Do You Pay For It?

Can you bake risk into compensation planning?

- The percentage of variable comp relative to risk
- How does it get indexed relative to risk:
 - Corporation
 - Group
 - Eat What You Kill
 - Combination?
- The perils of ratcheting quotas & stretch goals
- What is the frequency of measurement? (HBR)

Pay, Performance, & Pressure

Marc Hodak

Adjunct Professor, NYU
Managing Director, HVA



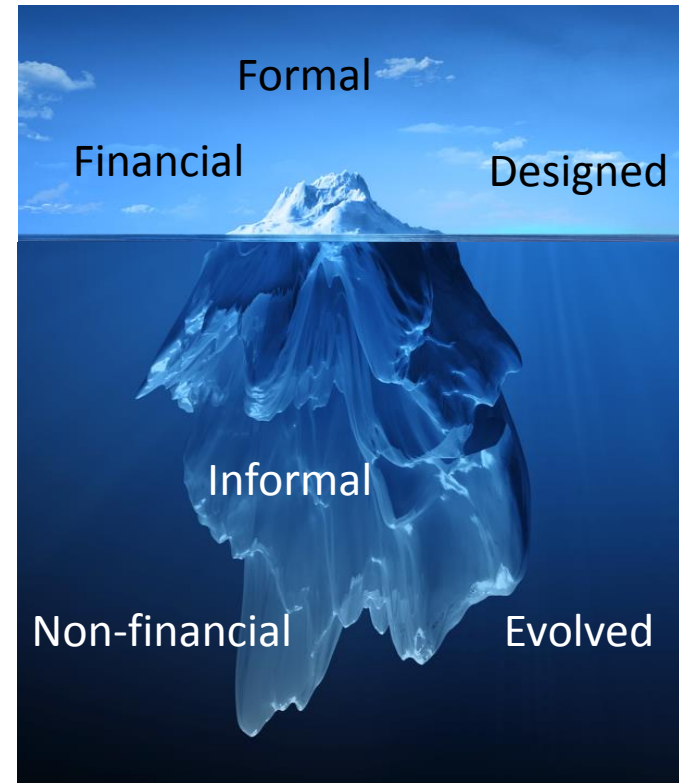
Distinction #1

An incentive to
perform is
indistinguishable from
an incentive to **cheat**



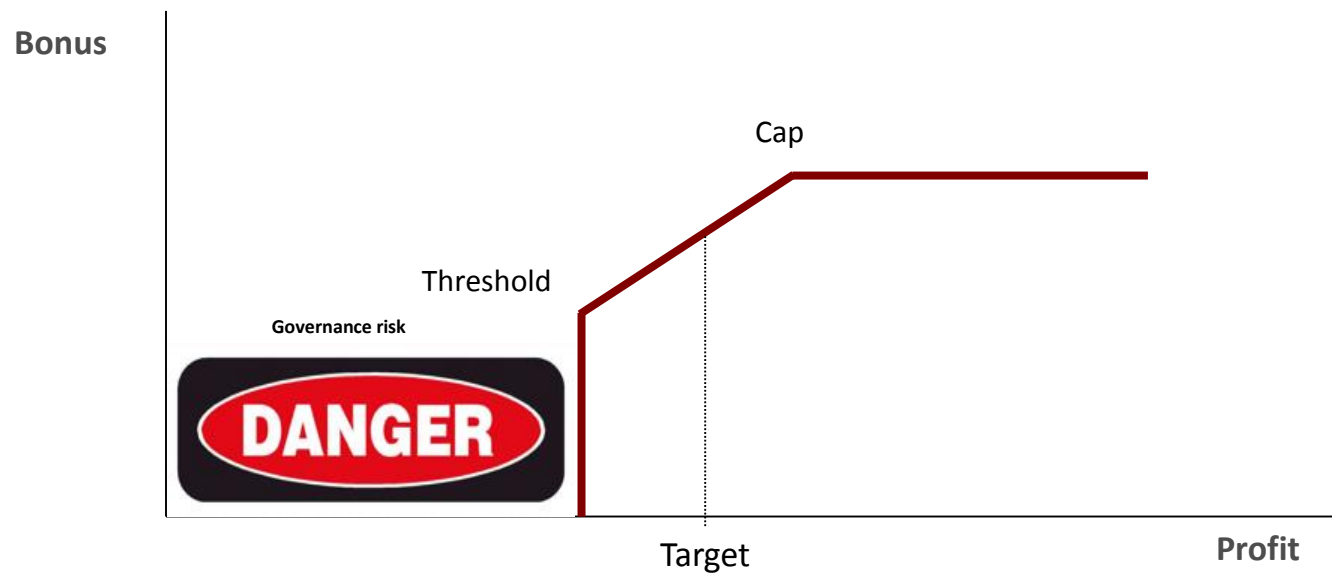
Distinction #2

Most incentives are
invisible to
management



Example of hidden incentives

Bonus Plan

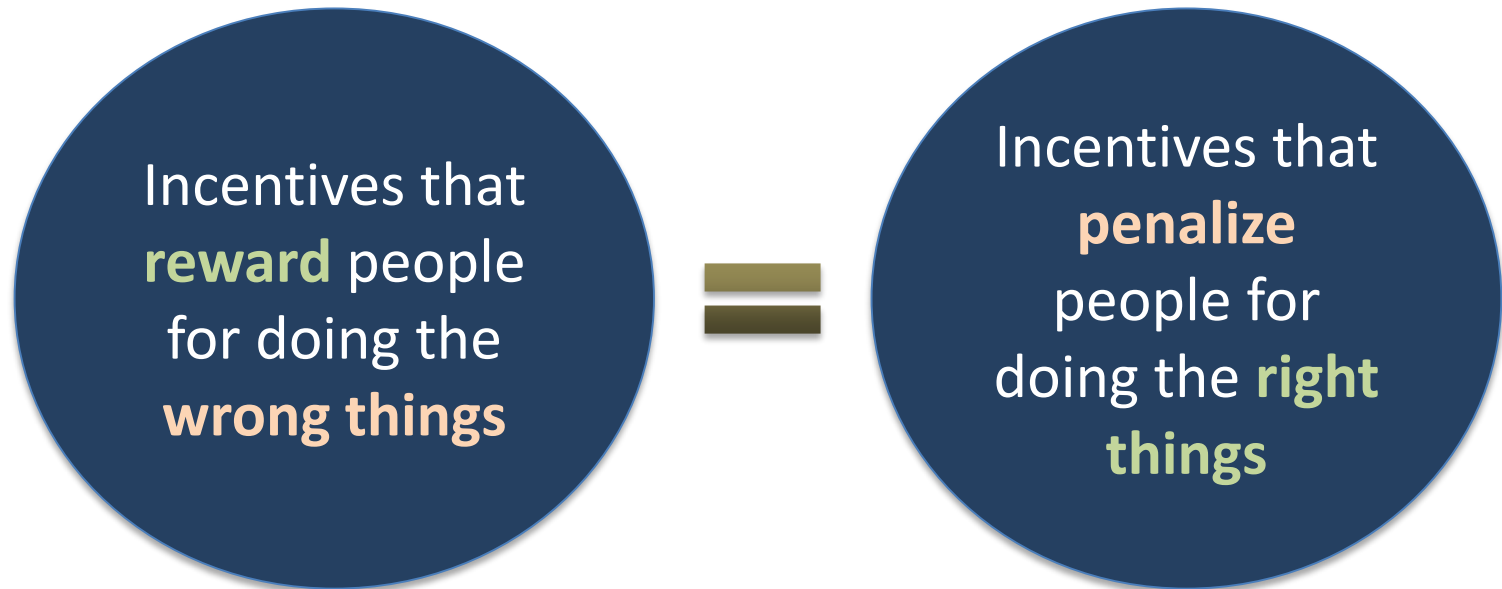


Distinction #3



Bad behavior is
unobservable

It's not just about “good” people



Practical tips

Look holistically at your incentives

- Look for the ticking bombs

Look beyond 'performance'

- Bad behavior hides behind good performance

Remember why we're in business

- Ships are safe in harbor...

Oldest problem in commerce



The Unsolvable Problem

Michael Weisman

CECO, Kraft Heinz Company

Unsolvable? Maybe. Predictable? Absolutely.

- Lofty targets, but little direction on how to get there



Unsolvable? Maybe. Predictable? Absolutely.

- Fear of telling the boss bad news
- Supervisors who don't want to hear it



Unsolvable? Maybe. Predictable? Absolutely.

- Singular focus on numbers



Incentives “hiding in plain sight”

“What gets measured gets done”

Incentives “hiding in plain sight”

“What gets measured gets ~~done~~ *manipulated*”

Incentives “hiding in plain sight”

Compliance needs to understand how the business operates

- Sales plans and targets
- Operations
 - Productivity requirements
 - Output
 - Safety

The Compliance Playbook

- The Code, policies and rules
- The consequences of getting caught
- Training managers, starting at the top
 - Unintended messages
 - The “consequences” of doing the right thing

The Compliance Playbook

- Employee surveys and focus groups

Do you believe the Company would support employees faced with choosing between ethical business practices and meeting business plans or financial results? For instance, are you aware of employees feeling uncomfortable with a business decision because they felt it crossed an ethical line?

Do you believe your BU/Function's business targets/goals are realistic and that employees have the resources and directions to attain those targets/goals in an ethical manner? For instance, are you aware of employees feeling pressure to maintain/achieve numbers in *any* manner (e.g., exaggerating results)?

Do you believe the Company puts the appropriate emphasis on financial results in judging employees' performance? For instance, do employees feel they will suffer job-related consequences if they don't meet BU/Function's financial goals?

The Unsolvable Problem

Alexander Proels

Compliance Officer Americas, Siemens

Disaster Struck – November 2006



Possible scenarios

- Debarment from public tenders
- Penalties up to €10 billion
- Long-term damage to reputation and business
- Break-up of the company

Swift and Sustained Reaction

Immediate actions

2006-2007

- Exchange of Leadership Team
- Tone from the top
- Independent investigation
- Centralization of bank accounts

Implementation

2008

- **Settlement with authorities in Germany and in the U.S.**
- Compliance program
- Compliance organization
- Compliance training
- Compliance tools

Support sustainable business

2009

- **Settlement with World Bank**
- Continuous improvement
- Values & integrity
- Collective Action

Active development of Compliance System/external recognition

2010-2012

- Integrity Initiative: 1st funding round
- End of monitorship (Dec. 15, 2012); full implementation of all recommendations

2013 -

- Start “Integrity Dialog”
- Integrity Initiative: 2nd funding round
- Dow Jones Sustainability Index: Highest rating in the Compliance category for 5th time in a row

2015

- External compliance review and certification by law firm Gibson Dunn

Incentivizing Compliant Behavior

Incentives for executives to lead with compliance

- Establish tone from the top efficiently
- Drive compliance to the forefront

What comes next...

- How do you *measure* compliant behavior?
- How do you *stop incentivizing* compliant behavior?



Right Level of Targets for the Right Target Audience

Incentive structure drive results...

- How strongly can an individual impact their targets?
- What side effects and risks are created through “the best of intentions”?



What Can Compliance Do?

Now that we understand how incentive plans create risk for our companies...



We can actively mitigate the risks:

- Know your business
- Be a trusted business partner
- Support the design of incentive plans
- Monitor cases to identify underlying link to incentive plans

Stay vigilant

How To Avoid Dangerous Outcomes & Promote Good Ones

How to motivate the right behaviors?

- The consequences of short term goals & targets (IBE).
- What are the invisible “ticking bombs”?
- Do targets and goals need to come with the direction of “we care how....”
- What needs to get measured & incentivized?
- Can we make this a **solvable** problem?

What role **should** compliance have in the development of compensation and incentives plans?

1. A big role
2. A small role
3. None at all – that should be handled by other functions

What role should compliance have in the development of compensation and incentives plans?

138
Votes

1. A big role



36%

2. A small role



57%

3. None at all – that should be handled by other functions



7%

How do we get there?



Continue the conversation!

Breakfast: tomorrow at 7:30 am – see the Registration Desk
(limited space)

Thank You

We want your feedback! Use the conference app or visit the Registration desk.