

A photograph of two people holding hands on a beach. The person on the left is wearing a white long-sleeved shirt and a brown skirt. The person on the right is wearing a grey pinstriped shirt and blue jeans. They are both wearing fingerless gloves. The background shows a body of water and mountains under a cloudy sky.

Spotlight on the CCO

Employees' loyalty –
performance or risk driver?



Building a better
working world



Loyalty – the pros and cons from a compliance perspective

In a time when compliance programs are relentlessly under attack from regulators and being heavily scrutinized for effectiveness, chief compliance officers (CCOs) are increasingly seeking innovative ways to improve the compliance perception throughout their companies and to leverage existing policies, procedures and controls to embed compliance effectively. A key component of a successful compliance program is knowledgeable professionals delivering exceptional services – only the “human factor” influences the effectiveness of state-of-the-art compliance programs.

Today’s compliance officer is seeking new solutions to make the compliance program more sustainable. But how can the corporate culture and loyalty influence the effectiveness of the program? Does “corporate love” reduce fraud and compliance risk?

Are employees loyal? What current research tells us

MetLife’s 10th annual survey of employee benefits, trends and attitudes released in March 2012 puts employee loyalty at a seven-year low. One in three employees, the survey says, plans to leave his or her job by the end of the year. According to a 2011 Careerbuilder.com report, 76% of full-time workers, while not actively looking for a new job, would leave their current workplace if the right opportunity came along.¹ According to Bain & Company, each year the average company loses 20–50% of its employee base. And based on research conducted by Columbia University, the cost of replacing a lost employee is 150% of that person’s annual salary.

What makes employees loyal?

As an employer, you need to understand why your employees are emotionally connected to your business – and it’s generally much more than salaries, training or benefits. Research shows that emotionally connected employees are the best employees because they are engaged and productive, and they feel validated and appreciated. Research further shows that employers typically do just enough to retain the majority of employees; they train just enough, they offer just enough benefits and they give just enough positive reinforcement.

C-suite executives are asking:

- ▶ How can a company hire or cultivate emotionally connected employees?
- ▶ From a corporate compliance perspective, can a company mitigate risks such as fraud by having their employees fall in love with their organization?

For starters, as the Beatles say, “money can’t buy me love.” Employers cannot just buy off unhappy employees or expect to get away with abusive behavior and poor management skills because they pay so well. If money isn’t buying love, then companies can integrate other variables into their corporate compliance framework that can make their employees more loyal.

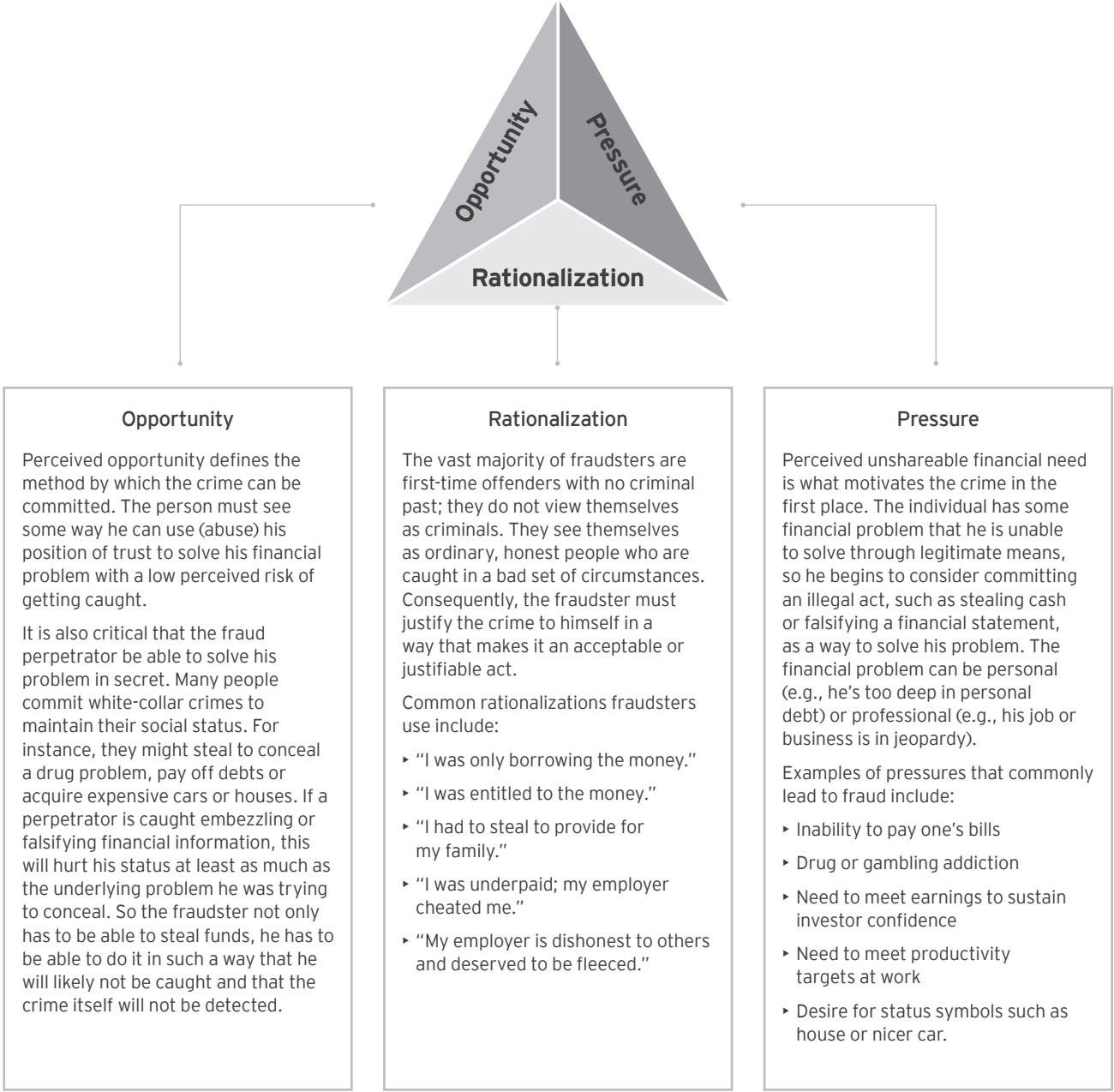
¹“Declining Employee Loyalty: A Casualty of the New Workplace,” Knowledge@Wharton, <http://knowledge.wharton.upenn.edu/article/declining-employee-loyalty-a-casualty-of-the-new-workplace>, 9 May 2012.

Below are the pillars of loyalty that should be embedded into every company’s corporate compliance program

Pillars of loyalty	Representative illustrations
Embedded at work	<ul style="list-style-type: none">▶ Employees feel the sense of community when their work matches their personality.▶ Employees feel a sense of interdependence with their co-workers or within their communities.▶ An employer must give its employees a positive connection to the company and make them understand the sacrifice they would make if they were to move on.
Creative outlet	<ul style="list-style-type: none">▶ People want to do work they care about.▶ Many people choose jobs they love over well-paying jobs they hate – even if they can barely survive on the pay.▶ Employers can create an atmosphere where employees can be themselves and cultivate the sense that their work fits in with the type of people the employees see themselves as.▶ Employers can conduct surveys to find out what makes individual employees excited and giving them those kinds of challenges and creative outlets.
Respect	<ul style="list-style-type: none">▶ Employees don't want to feel expendable or replaceable.▶ Employees want to feel secure in their jobs and to know that, barring any major catastrophe, they'll have a job tomorrow.▶ If employers want loyalty from their employees, they have to be loyal to their employees.▶ Employers must find a way to recognize and acknowledge each employee's individuality and value to the team.▶ A few ways employers can respect employees and make them feel safe include noticing improvements, giving regular encouragement, being on a first-name basis and regularly thanking their employees.
Community	<ul style="list-style-type: none">▶ The sense of connection with co-workers and managers and the feeling of being a part of a greater good are powerful motivators for employees to want to stay.▶ Employees feel committed to a job when they enjoy the company of those they work around and feel as if they are part of a valuable network.▶ Employers need to remember that employees are also people and that meaningful human interactions are healthy and necessary for everyone.
Pay	<ul style="list-style-type: none">▶ While motivators like community and emotional health have an effect on employee loyalty, employers cannot overlook the fact that just as they are in business to make money, so are their employees.▶ One of the best ways to inspire loyalty is to give employees the type of compensation, including pay and benefits, that they can't easily find anywhere else.

Loyalty and how it fits in with the fraud triangle

The fraud triangle is a model for explaining the factors that cause someone to commit occupational fraud. It consists of three components that together lead to fraudulent behavior:²



²Donald R. Cressey; credited with the theory of the “fraud triangle.”

So how can an employer utilize the fraud triangle to garner the “love” and loyalty of its employees?

Let’s consider those employees who feel like they’re not in the position that they deserve, or they got passed over for that promotion that they felt was earned or that raise they felt was justified. These employees would have an easier time **rationalizing** any theft or fraud, since they felt entitled to the money that their employers cheated them out of. Let’s now add an element of those same employees feeling bogged down with mortgages and other debts. Now, in addition to being able to explain away and justify their actions, they are also feeling **pressure** to commit an illegal act because they have financial problems. All these employees need now is the **opportunity** to manipulate the system – for example, if they are an accounts payable clerk and circumvent the vendor and invoice approval process, raise false invoices, and pocket the cash because they feel they deserve it.

According to a study conducted by the Association of Certified Fraud Examiners (ACFE), approximately 77% of frauds were committed by individuals working in one of seven departments: accounting, operations, sales, executive/upper management, customer service, purchasing and finance.³ In this hypothetical situation, these employees would now have the sufficient pressure, opportunity and rationalization to commit occupational fraud.

Aside from using the fraud triangle to explain how fraud can occur in a corporation, employers can use the fraud triangle proactively in their corporate compliance framework. In addition to confirming there are adequate internal controls and monitoring of those controls in place to prevent, detect and respond to risks of fraud, a company can now also win their employees’ love to reduce the pressure and rationalization of committing fraud. The answer is simple: the employees that “love their company” are the least likely to commit fraud and theft.

The risk of being too loyal

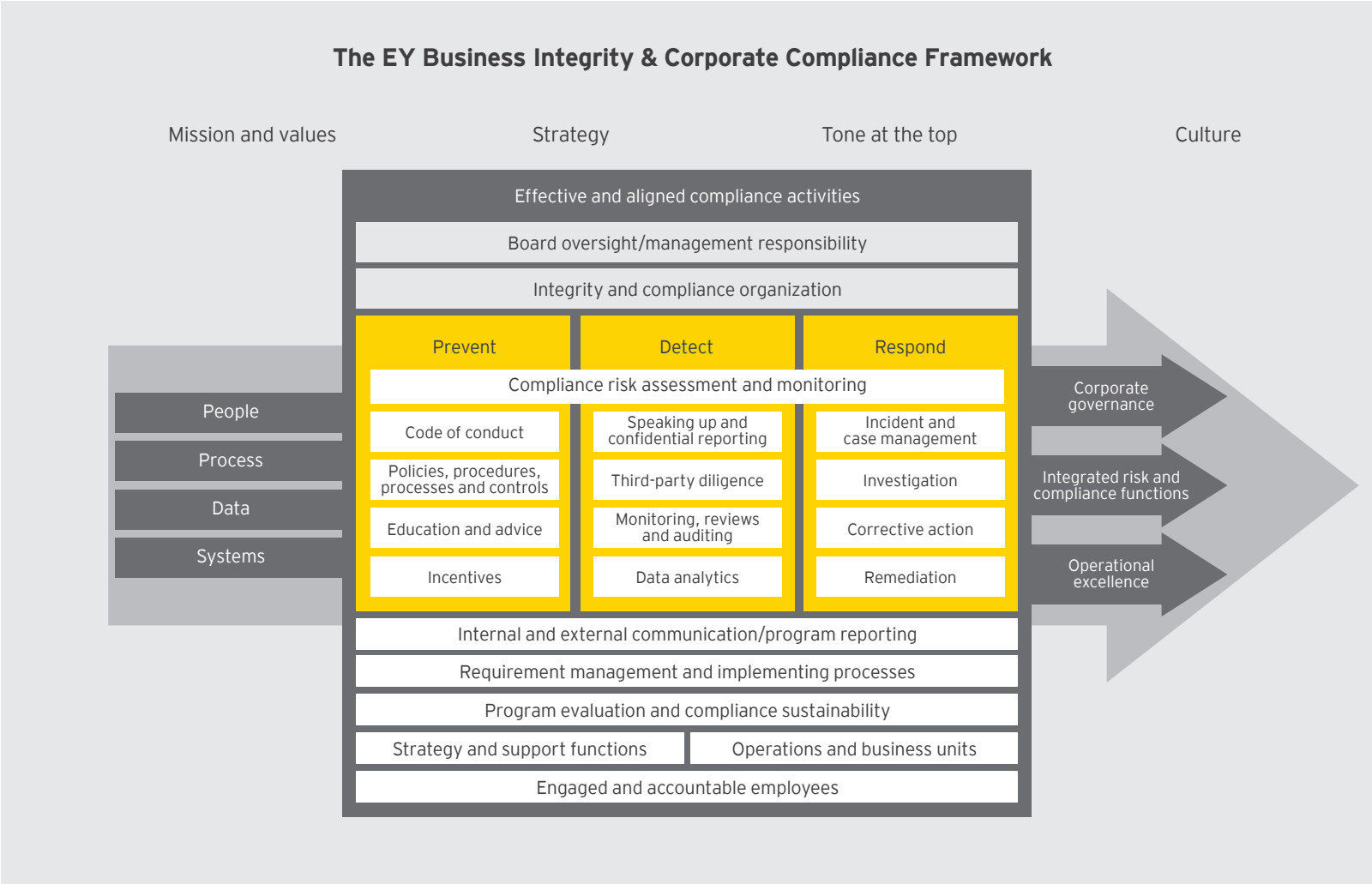
Can an employee misunderstand their dedication to an organization and commit “corporate misconduct” because they want to help their company? How loyal is too loyal?

Humans often act solely in their self-interest, and too often they ignore rules and regulations, and even basic standards of human decency. But organizations have norms – they have rules, regulations, policies and procedures, and most have core values. They have legal, compliance and risk management staff. Why aren't these enough to make unethical or illegal organizational behavior rare? The answer: it’s the culture. Many organizations have environments that foster improper behavior. These environments are usually created over many years, often resulting from who leads the organization, what they value and how they act. There are several specific organizational qualities that, at minimum, increase the chance of illegal or unethical behavior and may even cause it.

In some cases, the organization becomes more than a place to work. It becomes the center of life itself, with employees becoming blindly loyal to the organization or, more commonly, to specific people within it. These people can tend to behave like cult members. They blindly follow the direction of others, regardless of whether the direction is appropriate. Questioning is frowned upon and is seen as disloyalty that must be punished by expulsion from the group. Cult-like organizations are devoid of any self-critical review or improvement. The mantra is: “Of course whatever management directs us to do is proper; if it weren't, we wouldn't have been asked to do it!”⁴

Where do the pillars of loyalty fit into the corporate compliance framework?

A Wharton management professor, Matthew Bidwell, divides the term “employee loyalty” into two parts: “One piece is having the employer’s best interests at heart. The other piece is remaining with the same employer rather than moving on.”⁵ Employers can strive for cultivating employee loyalty by integrating the five pillars of loyalty into a corporate compliance framework. Organizations should consider updating their Business Integrity & Corporate Compliance (BI&CC) framework models to start accounting for employee loyalty.



³Summary of Findings: 2014 Global Fraud Survey, Association of Certified Fraud Examiners, www.acfe.com/rtnn-summary.aspx, accessed July 2015.

⁴“The seven deadly sins of unethical organizations,” Compliance & Ethics Professional, www.corporatecompliance.org/Portals/1/PDF/Resources/Compliance_Ethics_Professional/0414/scce-cep-2014-04-Cross.pdf, April 2014.

⁵“Declining Employee Loyalty: A Casualty of the New Workplace,” Knowledge@Wharton, <http://knowledge.wharton.upenn.edu/article/declining-employee-loyalty-a-casualty-of-the-new-workplace>, 9 May 2012.

How EY can help

Our Business Integrity & Corporate Compliance offering provides a practical way approaching improvements in your effectiveness and sustainability of your integrity and compliance program – from limited engagements involving a focused assessment of a single component, to those where we provide a full range of advisory services. Specifically, we provide:

- ▶ **Compliance risk assessments** that help management identify and prioritize the company's significant integrity and compliance risks, including emerging "frontier" issues.
- ▶ **Integrity and compliance performance assessments** that independently consider the design of the company's compliance infrastructure, including the compliance function, structures, people, processes and entity-level controls; compare compliance infrastructure to leading practices, and identify improvement opportunities. EY uses the Business Integrity and Corporate Compliance maturity model tailored to address the needs of your organization.
- ▶ **Integrity and compliance program implementation and improvement** services that assist you in developing and implementing a plan, as well as core elements and initiatives to mitigate specific compliance risks or to strengthen a company's integrity compliance infrastructure. These services also include integrity diligence services (compliance due diligence and transaction support), proactive data analytics services and fraud investigations/investigation readiness services.
- ▶ **Compliance sustainability and monitoring** help management develop and execute a plan to evaluate and monitor the operation of the company's controls to manage compliance risks as well as integrating integrity and compliance in the day-to-day business operations.

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