

PEEKING THROUGH THE WINDOWS



A Glimpse Into Microsoft's Culture of Trust

Written by Aarti Maharaj // Art by Marc Aspinall



Twentieth century philosopher Albert Schweitzer said: “The first step in the evolution of ethics is a sense of solidarity with other human beings.” As evidenced by the notorious actions of Enron and Bernie Madoff in the decades at the beginning of the current century, his words ring truer today than ever before. Gone are the days where culture was just an element of a company’s compliance program or seen as nice to have. It’s a new age and this necessity has been redefined by the demands of the consumer.

Against this background, employees, customers, suppliers and strategic partners are demanding more. Not only are they expecting quality products and services to be delivered in a timely manner, but they also want to know that the company they work for or do business with embraces strong ethics and empowers its people to behave with integrity.

While many companies on *Ethisphere's World's Most Ethical Companies*® list continue to serve the public to achieve a greater good, the technology industry has made particular strides on this front by working to champion innovation and helping others through the power of technology. One standout example of a company that continues to evolve and break through barriers in complex areas such as data analytics is Microsoft, a seven-time honoree.

As it continues to iterate and improve its approach to compliance, the company recently offered Ethisphere a peek through the windows at three innovative strategies that drive integrity and compliance in their business practices. All spring from a cultural and controls perspective: a unique *Microsoft Runs on Trust* campaign tailored to reach all areas of its business; a breakthrough approach to data science; and the management of a robust ecosystem of third parties in more than one hundred countries.

For the Redmond, Washington-based software giant, it all starts with encouraging a growth mindset fueled by long-term sustainable business practices. This is something Microsoft's Chief Executive Officer Satya Nadella often emphasizes to cultivate future leaders and maintain trust among stakeholders.

"Growth mindset as well as integrity and honesty are among the pillars of our overall culture under Satya," said David Howard, Microsoft's Corporate Vice President and Deputy General Counsel, Litigation, Competition Law and Compliance. "It means we are willing to experiment even if it means we sometimes fail. But we approach things from a learning perspective, always trying to learn from our failures as well as our successes and thinking about ways to innovate and improve. We've tried hard to apply these principles to our approach to compliance." How that works in practice at Microsoft no doubt rings true for many ethics and compliance professionals at large multinationals.

An important part of Howard's role at Microsoft is to ensure that Nadella's message as it relates to issues of ethics and integrity resonates among employees and is consistently reinforced around the world. In an effort to ensure that all employees understand their responsibility to make the right decision, Microsoft's compliance program takes a unique approach to ensuring that the company's employees and partners are able to understand and live the company's core values. The company's program has embraced traditional as well as innovative compliance measures to keep up with the ever-changing digital and regulatory landscape.

"Our approach to compliance is always evolving and when one works at a global company like Microsoft with over a hundred thousand employees and people in about a hundred and ninety countries, you have to approach it with a certain amount of humility," said Howard. "The truth is that it's impossible for a company of our size with the number of employees that we have in all countries where we do business to be perfect. We just have to keep working at it and so when Brad Smith (the company's President, Chief Legal Officer and Chief Compliance Officer) challenged us to come up with some fresh ideas, we went to work."

Even the strongest compliance program will still not prevent or detect every violation. Indeed, Microsoft has publicly disclosed an FCPA investigation relating to activities in various countries. But the strength of applying a growth mindset to this issue is that when problems arise, a company can learn quickly and pivot its program to mitigate the risk of recurrence. "We try to step back frequently and see whether there are any patterns in the issues that have been coming up," says Howard. "One thing we recently realized is that Microsoft has the technology to



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Microsoft Runs on Trust

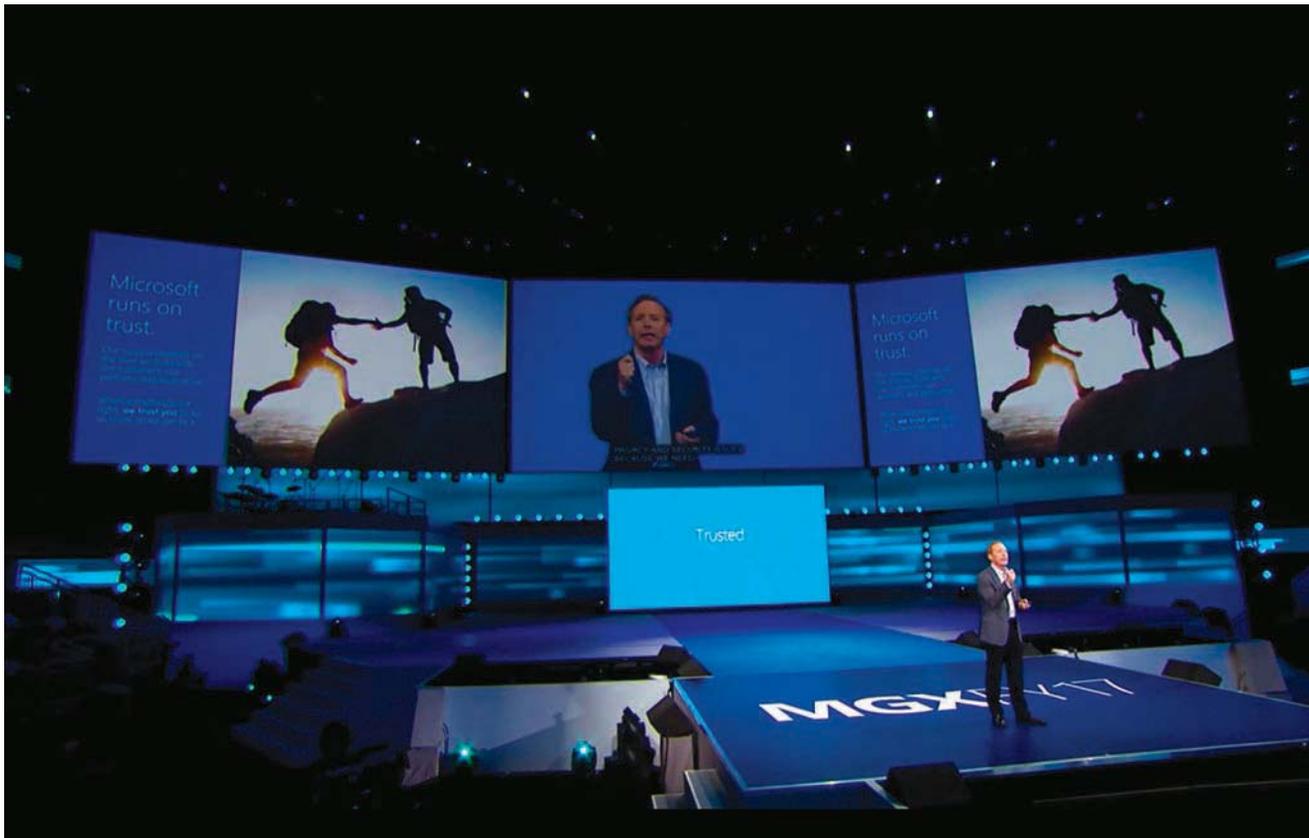
Embedding and promoting a culture of trust and transparency is never easy. It requires an unwavering commitment that runs through all levels of an organization. Too often companies are unable to reach their full potential because of the lack of trust. Once trust is in place, employees feel empowered, customers feel connected and the industry progresses. The *Microsoft Runs on Trust* campaign was designed to do just that by ensuring employees understand the fundamental values that should guide their decision and empowering them to make the right choices.

Launched in 2016, the company-wide initiative was developed to facilitate a shift from a rules based approach to a values based approach where employees feel inspired to make the right decisions in all corners of the globe. To that end, Microsoft embarked on a massive project to eliminate unnecessary and duplicative corporate policies and simplify the rest. As a result, Microsoft has eliminated roughly ninety percent of its policies and made those remaining easy to find, simple to understand and grounded on key values and principles to guide employees' day-to-day decision making. Microsoft also launched its *Microsoft Runs on Trust* campaign to emphasize that maintaining and enhancing trust with customers and other stakeholders is crucial to the company's business success.

"Trust is about having the fluency to move between cultures and generational differences and it's something that resonates with Microsoft's mission," said Jeannine D'Amico Lemker, Assistant General Counsel, Office of Legal Compliance. "As employees come to work everyday and they think about trust and how they are going to do their job—that matters—it matters to their business success and to tie that so deeply to something they often think about means that we are on the right path."

According to Lemker, equally important to the tone at the top is what many have called the echo from the bottom. To ensure the message from the top is received at all levels, Microsoft's compliance team prepared toolkits for stewards of the program to help move the message throughout the organization. And it does not end there. To amplify the message, the compliance group has also designed training programs geared towards middle managers to encourage them to talk about ethics and compliance with their teams so that when a situation arises, they have the tools to navigate ethical dilemmas.

"Our hope is that doing good, smart work to measure and think carefully how our tone at the top and echo at the bottom are



sounding similar themes means we can feel confident the message is truly landing,” added Lemker.

The Science Behind Data Science

Now more than ever, compliance is a comparative exercise. As companies are seeing an evolution of change in practices, a real thirst exists for data and information to measure success and anticipate risky areas. Chief compliance officers work in an ever-changing legal, regulatory, social and economic environment. And while their roles continue to expand, their focus must remain on identifying and responding to emerging risks. According to Alan Gibson, Senior Attorney, Office of Legal Compliance at Microsoft, a new approach to help manage an effective compliance program is to “build an early warning and monitoring system for compliance risks by using data science.”

An example of the software giant’s growth mindset can be seen in Microsoft’s Compliance Analytics Program, which employs data science to unlock actionable insights by following a simple three-step approach of gathering, analyzing and reporting. “If you look at the separate skills and disciplines that contribute to data science it’s overwhelming, but it’s really how you use the data. Often there’s data that you may have access to but it’s not being used as effectively as it could be in the program,” added Gibson.

One of Microsoft’s core strengths is using business intelligence to see, manage and ultimately prevent unwanted events. While implementing a program that provides prioritized, risk-based analytics may sound complex, there are a variety of readily available software and online tools, including Microsoft Win-

dows Azure, SQL Server and PowerBI that can consolidate data stored in separate systems. Microsoft applied its own data analytics capabilities to the challenge of managing compliance risks and created new data based tools to help the company detect potential issues.

This is an approach that can be extended to other organizations and industries. For example, the CCO at another company can start by framing their compliance risks as business problems that can be answered through better analysis of their own data.

“The starting point is getting an idea of what problems you are trying to solve. Then there are specific questions that analytics can answer for you,” Gibson said. “It won’t tell you how to fix a problem but it can provide numbers and names allowing you to identify or rank different risks and spot where you may have issues.”

A Trusted Source: Microsoft’s High Risk Deal Dashboard

Imagine being able to have all the *right* data about a potentially risky transaction at your fingertips. Instead of waiting for a call, an email or seeing a public post reporting misconduct, Microsoft’s *High Risk Deal Dashboard* quantifies and produces the data in real time to flag an issue before it spirals out of control.

This innovative and highly integrated dashboard allows the software giant to break down data silos by providing a snapshot of the riskiest transactions—identified through data attributes—along with the status of their corresponding review from compliance and business groups across the company. From a productivity standpoint, the data is presented



Microsoft's Worldwide Partner Conference annually draws close to sixteen thousand partners to one location and, together with Microsoft regional leaders, helps to serve as a catalyst to inspire integrity and responsible business performance.

in an easily digestible format through charts, graphs and associated text to prioritize and isolate areas of risk or potential misconduct.

With the launch of the *High Risk Deal Dashboard* six months ago, the company started flagging deals for additional review shortly after they were finalized. The company is moving towards using the analytics proactively in the sales pipeline to flag their riskiest deals for additional compliance oversight before they are finalized.

The dashboard reveals how interconnected and interdependent the organization is by promoting awareness of the end-to-end process of how data can be used and aggregated across the enterprise. The information collected is supported by detailed workflows and training is targeted to the groups accountable for reviewing the transactions. The reviews are used to update the analytics to ensure that the compliance team continues to prioritize the riskiest transactions. "Our *High Risk Deal Dashboard* connects the compliance department not just with the data scientists but also with the finance and business people who are held accountable and responsible for preventing misconduct."

Anti-Bribery Standards – The ISO Journey

Microsoft is the first US company and the first multinational to announce it will certify its anti-corruption program to ISO 37001. This international anti-bribery standard, released in late 2016, specifies requirements and provides guidance for establishing, measuring, maintaining, reviewing and improving an anti-bribery management system. Certification will require the scrutiny of an independent third party. Microsoft led the U.S. Technical Advisory Group of subject matter experts who authored this standard and hopes its decision to move forward with certification will lead others to do the same.

"There's tremendous value in having a consistent approach to anti-corruption across different countries, different industries, and different segments of the supply chain," said Howard. "Currently, for instance, our distributors, resellers and suppliers have to address the anti-corruption requirements of all the companies with whom they do business, including Microsoft. The standard creates a common set of requirements that will provide clarity and consistency."

"That subject matter experts from more than sixty countries participated in the development and drafting of ISO 37001 over a multi-year period is key to ensuring the standard is useful

and relevant to organizations of all sizes, structures and geographies. This is an important bridge that enables organizations, regardless of jurisdiction, to speak the same anti-bribery program language," said Judd Hesselroth, Chair of the U.S. Technical Advisory Group and Director in Microsoft's Office of Legal Compliance.

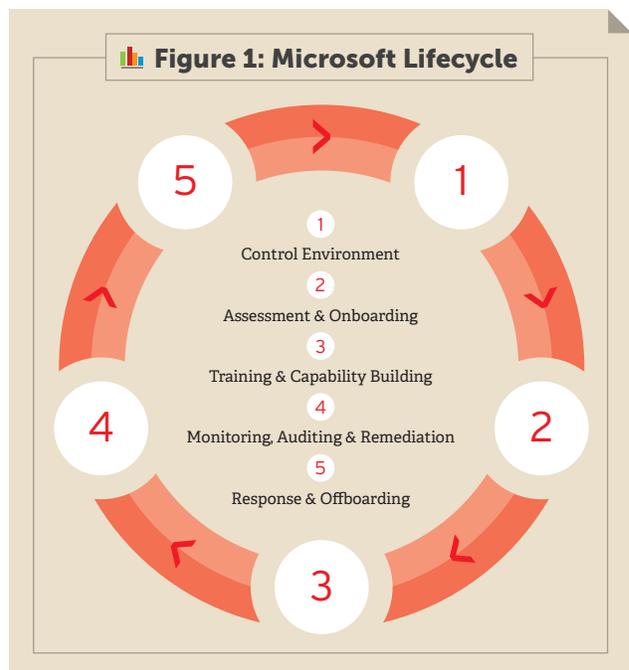
Partner Compliance: No Risky Business

The list of companies tripped up over misconduct by third parties is long indeed. In today's complex business environment almost every multinational depends on a third party, vendor or a partner to help meet the evolving needs of its business. While this tactic may have many commercial benefits, the associated challenge is taming the risk exposure associated with hiring outside third parties. Even though some companies are tackling this issue head on by establishing vendor governance committees, others rely on existing functions such as a second line of defense—the various risk control and compliance oversight functions established by management—to oversee third parties.

Like many leading technology companies, Microsoft depends on partner companies to provide solutions and achieve a wide range of business objectives. One of the largest companies in the world, Microsoft partners with a diverse set of businesses around the globe. As one of the largest companies in the world, Microsoft partners include a diverse set of businesses around the world such as distributors, licensing sales and services partners, manufacturers and resellers. In this vast and complex environment, Microsoft launched a sophisticated Partner Compliance Program which the Office of Legal Compliance took the lead in developing.

Microsoft has deemed greater channel transparency a high priority. The company has piloted an initiative in five countries to transparently disclose the additional percentage discount Microsoft granted to the partner and identifying the Estimated Retail Price (ERP) for the products sold. The eventual goal is to allow the ultimate customers to use this information as part of their negotiations with the partner. Using what they've learned from the pilot, Microsoft launched the program for their enterprise agreements worldwide for government and state-owned customers.

"We view this initiative as a journey with the goal of integrating compliance within our end to end partner management lifecycle-



le,” said Kumar Vijayaraghavan, Director, Office of Legal Compliance. (See Figure 1.) “The variety of partners exploded within the last three to five years and we are seeing a transformation of the channel not just for Microsoft but for many technology companies.”

The objective of the program is to transform discrete partner compliance-related activities into a fully optimized program operating within a coordinated framework. Microsoft sees an opportunity to work together with partners and help them build their compliance capabilities. The initiative establishes a strong foundation for a multi-year program that allows partners within Microsoft’s ecosystem to reach their full potential.

Partner Capability Building

Implementing a best in class global partner compliance program requires clearly defined ownership and the ability to sustain, scale and adapt to the ever-changing needs of third parties. With effective and consistent training and partner capability building, companies such as Microsoft could immediately address their most difficult links.

“Given our large number of partners, we know that it will be difficult to reach each one for a routine audit or assessment,” said Vijayaraghavan. “What we’ve found to work is providing our partners with the opportunity to benchmark their practices against their peers using an independent third party methodology. In turn, we use this comparative data to evaluate areas for improvement, which are worked into our third-party training programs.”

Connecting the dots is the *Microsoft Runs on Trust* campaign, a common thread that runs through the key tenets of the company’s compliance program. In the case of partner compliance, countries such as India, China and Brazil have organized partner roundtables, bringing together some of the brightest minds across the technology giant to discuss why trust is important. In addition, Microsoft’s Worldwide Partner Conference annually draws close to sixteen thousand partners to one location and, together with Microsoft regional leaders, helps to serve as a catalyst to inspire integrity and responsible business performance.

“While this is still a work in progress, our goal is to create a platform where partners and Microsoft leaders from their respective countries can engage, share best practices and learn from each other,” added Vijayaraghavan.

It’s not surprising that Microsoft is on the cutting edge of compliance and ethical innovation. It’s also no shock that their earnings reports continue to lead their industry. They have always been on the front end of business evolution, building Schweitzer’s sense of solidarity with people.

Microsoft knows it’s impossible to be perfect. Even if a company does everything right, it can still have issues. But by tying compliance directly to the success of achieving their mission and in an age where trust is as important as the products produced, Microsoft is a best in class model for how large multinationals can run their compliance operations.

Author Biography

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Follow @Microsoft on Twitter to learn more about how the company uses data to drive integrity.



THE POWER OF NARRATIVE

By Aaron Thiese, Senior Program Manager, Office of Legal Compliance

Like many companies, we ask all employees to take an annual Standards of Business Conduct training. At Microsoft, these videos serve as a powerful medium to take our employees through an ethical dilemma. Whenever we script a video, we try to make it as realistic to an employee experience as possible. Here are a few best practices that we employ:

- **A Cross-Functional Approach:** We work with subject matter experts across the company to gain a deeper understanding of the issues and real life scenarios they face. We ask questions. Does this scenario accurately depict the business drivers of the behavior? Is this what it’s really like in the field? Do employees and managers feel this model is effective? It’s about us talking to managers and employees in their own setting.
- **Microsoft Runs on Trust and Leadership’s Voice:** This has tremendous impact because when employees see the leader at the top of their organizational chart talking about what it means to foster trust, they see it as a business priority. It’s not just the legal, finance and human resources departments that employees need to hear this message from. It also needs to come from business development, research, engineering and marketing and sales.
- **Shifting from a rules based approach to one of values:** People can find reasons that a specific rule doesn’t apply in a situation, but values are different. Values are enduring and help us move beyond asking the questions about whether one can to those about whether one should. Focusing on values shifts attention to how it will impact your personal integrity. This is something each of us should work hard to protect.