

2014 | **WORLD'S MOST** TM
ETHICAL
COMPANIES [®]

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Actionable Insights from the 2014 World's Most Ethical Companies[®]



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TABLE OF CONTENTS

Introduction.....	3
Executive Summary.....	5
The Role of the Compliance Office.....	9
The Role of the Board and Senior Executives.....	15
How Departments Work Together.....	21
The Role of Employees and Associates.....	30
Infographics.....	43



2015 World's Most Ethical Companies®

- Learn your scores – your Ethics Quotient™ (EQ)
- Compare your practices to those of the World's Most Ethical Companies
- Understand the gaps in your program, activities and practices vs. leading companies
- Use this knowledge to guide and shape program investment and resources
- Engage the entire organization and ecosystem

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INTRODUCTION

It's clear that just as regulatory oversight has never been more complex, public expectations about transparency, corporate culture and business behavior are part of everyday conversation. These factors, among others, have led to an expansion in the field of ethics and compliance. Leading practices of prior years have become today's standards and new best practices continually redefine the profession.

Since 2007, Ethisphere has recognized a short list of companies as the World's Most Ethical Companies®. These companies not only develop best practices but offer innovative approaches to new challenges and successfully navigate an increasingly complex and global regulatory environment. As part of the World's Most Ethical Companies process, Ethisphere gathers vast amounts of data and can compare the programs, practices and policies of those who are honored against all other companies. By providing this actionable data in a format that can be easily digested, companies can make informed decisions and develop a roadmap to improve their own performance.

This whitepaper provides information from the 2014 World's Most Ethical Companies data set in four primary areas:

- (1) **The roles played by Ethics and Compliance departments**, specifically, the steps taken by honored companies to ensure that, as required under various regulatory guidance, including that of the Department of Justice and Securities and Exchange Committee, those assigned responsibility for oversight and implementation of the ethics and compliance program have appropriate authority within the organization and adequate autonomy from management to effectively do their job.

- (2) How leading companies strive to ensure that their **executives, directors and other leaders** exercise due diligence to prevent and detect criminal conduct and promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. This includes how an organization structures its governance program, ensures the governing body is properly educated and informed and how the executives communicate the importance of an ethical culture that goes further than merely complying with applicable laws and regulations.
- (3) How the **ethics and compliance functions work together with departments** throughout the organization. Specifically, how organizations: (i) structure their compliance and ethics programs to include input and collaboration from various business units or departments; (ii) train and empower managers and supervisors to understand and convey the importance of acting ethically and complying with relevant laws and regulations; and (iii) encourage reporting of ethical and compliance concerns and handle such reports.
- (4) How the compliance and ethics function educates and interacts with **associates and employees** to foster a compliant and ethical culture. Practically speaking, the associates and employees are effectively the operational arm of the compliance and ethics function. It is their actions that the compliance function seeks to educate and influence or even control. And they are best situated to act as the compliance function's eyes and ears to identify and raise issues.



EXECUTIVE SUMMARY

World's Most Ethical Companies (WMECs) have given compliance offices far more authority than other companies:

1. Over half of World's Most Ethical Companies (WMECs) have a Chief Compliance and/or Ethics Officer
2. Compliance is far more integrated at WMECs than at others
3. Compliance reports to the Board or other governing authorities on a much broader range of issues, going deeper into root causes, investigations, and risk assessments

Although the basic purpose of a governance structure is the same for all – to protect and further the interest of the owners – different types of organizations address this goal differently. However, it's clear that WMECs operate differently:

1. Risk management is far more evident at the Board level for WMECs, with more oversight
2. Executives at WMECs more regularly and consistently communicate the expected standards of conduct throughout the organization – and use a wider variety of communication methods
3. Executives at WMECs use examples of private or business ethical decisions to personalize their ethics messages

How a corporate compliance department interacts with other departments determines how well the fundamental concepts of compliance and ethics are understood and lived out in everyday behavior:

1. Compliance department staff at WMECs are more often invited to attend and speak at functions held by other departments

How To Use This Information

Share findings with senior leadership

More tightly integrate the Ethics & Compliance role with other business roles

Compare your company to other leading companies

Help focus your investment in program and resources

Elevate compliance and integrity to a business imperative

2. Not only do WMECs more often have internal cross-functional compliance committees, but meetings cover a broader range of topics and go deeper into issues fundamental to the business
3. Managers at WMECs receive more frequent and more specific training on their special responsibilities including training on important ethics and compliance issues
4. WMECs provide tools to their middle managers to enable their understanding and communication to their teams

WMECs have shined a spotlight on practices and procedures to work more effectively with employees at all levels:

- WMECs handle suspected or actual misconduct in a far more effective way, providing a wider range of channels for reporting, more complete procedures about addressing those reports, and a more integrated approach to non-retaliation
- Codes of conduct receive more attention – they're more frequently benchmarked, distributed, trained to and monitored at WMECs
- WMECs place more attention on policies and train more completely to those policies
- Written communication and training plans, with metrics, are more common at WMECs
- WMECs use positive incentives to drive compliant behavior
- WMECs employ a far wider range of communication tactics to engage employees and associates



EMERGING TRENDS AND ETHISPHERE INSIGHTS

In the Compliance office:

- CCO independence will increase
- CCO authority must increase
- Companies are paying more attention to internal reporting but whistleblowers will become increasingly independent and there will be increased pressure to be vigilantly proactive
- Privacy, cyber-security and intellectual property issues are linked to the bottom line and are trending risks
- Boards will become increasingly involved in ethics and governance issues because of the legal and social environments, reputational fall-out and bottom line implications

Regarding Board and governance structure and operation:

- The general public and investors will put Boards under the microscope for issues surrounding corporate reputation and integrity especially because director compensation and performance metrics will continue to increase for Board members
- Boards will continue to be more diverse, reflecting the general population
- Transparency will increase, putting pressure on internal operations
- Comprehensive risk assessments will be a normal part of Board business
- Audit Chairs will increasingly be independent directors with a finance background
- Boards will bring in third parties for expert opinions more frequently
- Board compliance and ethics training will be more common and frequent

The way departments work together can have a significant impact on a culture and employee behavior:

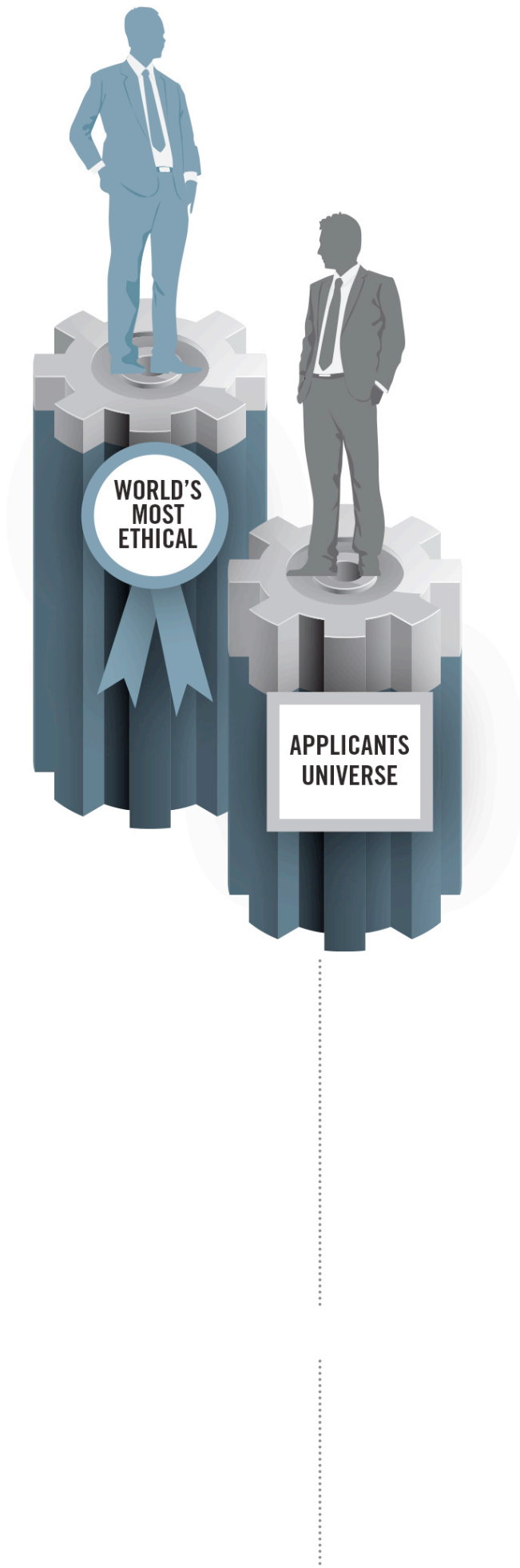
- Communicating about ethics requires a combined understanding of policies, company culture and human nature – all require increased and constant communication and training
- Compliance officers will increasingly rely on other department heads to uphold their authority, i.e. visibly cooperate in order to manage complex business issues
- Compliance must be owned throughout the business to be effective – department heads and units must explain and model compliance, ethics and integrity

Employees are on the front line of compliance, ethics, culture and integrity:

- Employees need to receive more risk-based training targeted to their job duties
- Companies must be more consistent and better coordinated in communicating with employees, and use multiple delivery techniques
- Policies should be revised to increase readability
- The fear of retaliation is high and companies must be vigilant about ensuring all anti-retaliation steps are taken
- An increased focus on investigations to increase visibility and tracking will rely on mechanisms other than a hotline

The Role of the Compliance Office





AUTHORITY

It is axiomatic that an effective ethics and compliance program requires that those tasked with its implementation and management have the necessary authority to do their jobs and have visibility into and influence over relevant functions within the organization.

This authority starts with the title and position within the company's hierarchy of the individual tasked with oversight and implementation of the ethics and compliance program. A majority of 2014 WME designees have broken out the compliance and ethics function from the legal department – 54% of the people given primary responsibility for the compliance and ethics program/initiatives at 2014 WME companies carry the title of Chief Compliance Officer and/or Chief Ethics Officer compared to 18% carrying the title of General Counsel and 6% that of CEO or President.

But it's not merely the title that empowers the person tasked with managing the ethics and compliance function. WME companies have also granted the compliance function a breadth of specific authorities. Consider these impressive metrics of WME designees:

- **98%** have the ability to author and/or recommend new business conduct policies
- **96%** have the ability to revise the Code of Ethics and Business Conduct (compared to 90% non-WME)
- **94 %** Primary budget responsibility for all compliance and ethics programs
- **89%** Primary hiring authority for all ethics- and compliance-related positions
- **80%** Input on other hiring/firing decisions regarding positions of authority which may affect compliance functions (e.g Audit, Finance, HR)
- **73%** Final approval authority for field compliance operations/initiatives

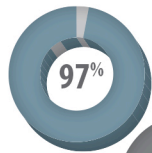
- **76%** Significant input/role in strategic business development decisions such as new market entry, expansion, business partnerships/alliances, joint ventures, mergers and acquisitions, and divestments, including related due diligence

Notably, WME designees grant their ethics and compliance officials more authority than non-WME applicants. For instance, 6% fewer non-WME companies grant authority to the ethics and compliance team to revise the Code of Ethics and Business Conduct, 8% fewer grant budget responsibility, 7% fewer have primary hiring authority for ethics and compliance positions and 15% fewer have input on hiring/firing decisions regarding positions of authority which may affect compliance functions (e.g Audit, Finance, HR).

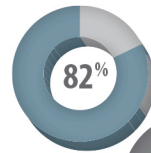
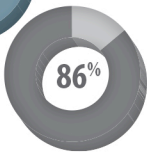
It is not just the authority granted to compliance teams that sets WME designees apart, but also how integrated, or involved, the team is in the company's various business functions. While the compliance function at WME designees predictably is involved in areas obviously directly related to the compliance function, e.g. 89% of them allow the team to attend audits, it is the less obvious functions that stand out. As demonstrated below, the compliance function at WME companies is involved in numerous areas of their enterprises, from HR to marketing and business strategy.



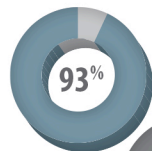
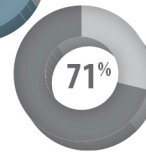
World's Most Ethical Companies vs. Non-World's Most Ethical Companies



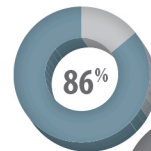
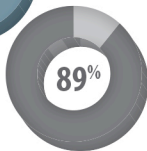
Invited/allowed to attend HR training events



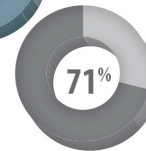
Invited/allowed time on sales/marketing agendas



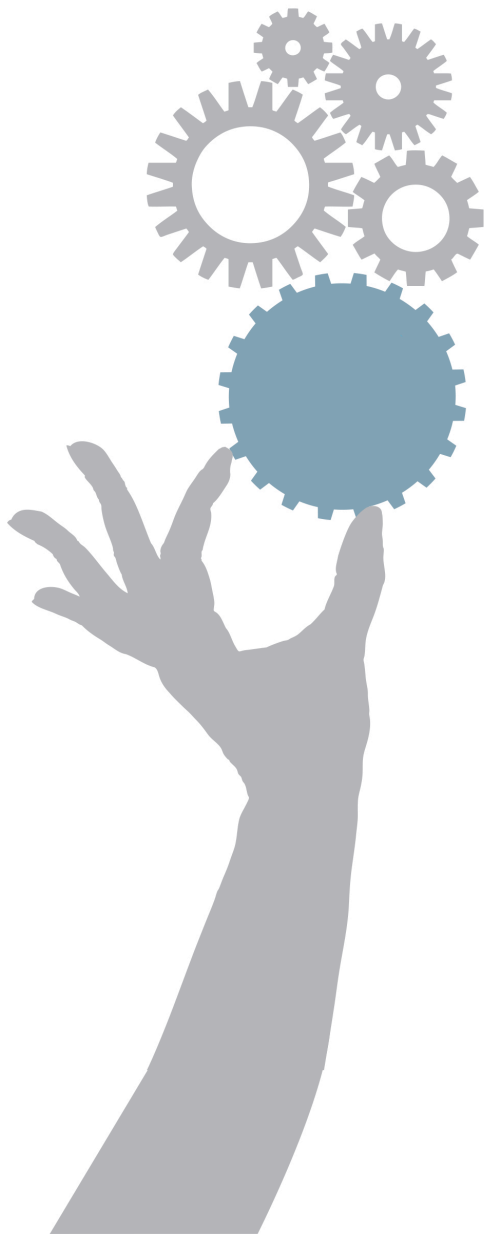
Invited/allowed to add compliance/ethics questions to employee surveys



Invited/allowed to provide formal input on corporate business strategy



Finally, 64% of WME companies foster an integrated compliance approach through a cross functional internal committee dedicated to compliance and ethics (e.g. a compliance and ethics steering committee).



AUTONOMY -- ACCESS TO GOVERNING AUTHORITY

“Adequate autonomy generally includes direct access to an organization’s governing authority, such as the board of directors and committees of the board of directors.”¹ It is no surprise, therefore, that 91% of the individuals with primary responsibility for the compliance and ethics programs at WME companies have a direct reporting line to the Board, a Committee or other governing authority. This percentage is not statistically different from non-WME applicants. We at Ethisphere would like to see that number be higher as the ability to raise issues to the board or the relevant governing authority is essential to an effective compliance program.

While the percentage of WME and non-WME companies providing a direct line of reporting to the board (or equivalent) is similar, WME companies generally report to the board more regularly and on a more diverse set of topics. For instance, the person with responsibility for the ethics and compliance program at 88% of the WME designees has regularly scheduled reports to the Board of Directors, a Board Committee or other governing authority at least quarterly, compared to 73% of non-WME applicants. And, as shown below, WME companies discuss a wide breadth of topics with their boards.

¹ DOJ/SEC FCPA Guidance p. 58

When asked to indicate which information (if any) their organization reports to the Board and/or Board Committee or other governing authority, applicants responded:

World’s Most Ethical Companies vs. Non-World’s Most Ethical Companies: Reporting Statistics



“Tone from the Top is key. For me, it's key. Compliance is a people business, nothing else. It's not a legal business. It's a people business. We are talking about how to lead the globally operating organization. That's the key question behind (compliance). What do we expect from our leaders? From our executives? How should they communicate and engage? Communicate to the middle management and engage the middle management? How do we get the tone from the top down, and be able to convince our people in difficult countries how to behave and conduct business? For me, that's behind compliance.”

– Andreas Pohlmann, Chief Compliance Officer, SNC-Lavalin

The Role of the Board and Senior Executives



INFRASTRUCTURE TO ENSURE KNOWLEDGE OF PROGRAM AND EXERCISE OVERSIGHT

As set forth in the U.S. Federal Sentencing Guidelines, a company's governance structure should be organized to ensure that its governing authority is knowledgeable about the content and operation of the compliance program and exercises reasonable oversight with respect to its implementation and effectiveness.

To begin, almost all WME designees have a formalized governing authority, such as a board of directors (99% for designees vs. 93% for others), that meets more often than annually (99% for designees compared to 91% for others). The real question, however, is how informed and involved are these governing authorities. For WME companies, the answer is **"very"**.

As discussed in Ethisphere's first whitepaper in this Insights series (*The Role of the Compliance Function*):



The governing authorities at WME companies do much more than get updates from the person charged with running the compliance function. It is a best practice to have some kind of “red flag” or other alert process to bring critical issues to the governing authority's attention. And 97% of WME companies do. While this seems like a basic practice, by contrast, only 91% of non-WME companies have such a process in place.

And rather than sit in their ivory tower in the board room, the governing authorities at WME companies get out into their organizations to see the operations first-hand.



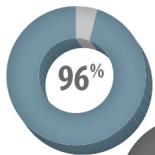
The governing authorities at **72%** of WME¹ companies rotate the physical location of their board (or other governing body) meetings to locations of various business units and/or field operations. This is a best practice as it not only educates the directors, but it also allows the employees to see them and makes them more approachable.

By contrast, only **59%** of the governing authorities at non-WME companies rotate the locations of their meetings.

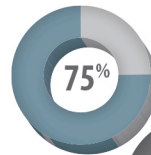
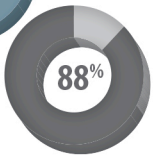
2014 World's Most Ethical Companies vs. Others



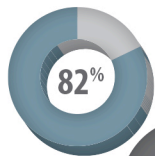
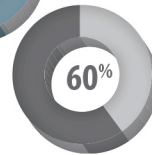
With much of the ethics and compliance strategy being risk based, WME companies have dedicated high level resources to owning the risk function and regularly reporting to the governing authority.



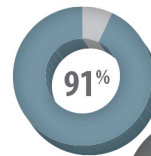
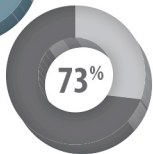
The primary oversight of risk management within the organization has been assigned to a specific member of the Board, a Committee or other governing authority



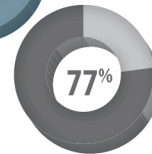
Dedicated risk management functions



Formal communication between the individual responsible for risk and the board or other governing authority at least quarterly



Risk management responsibility resides with a senior level executive such as a Chief Risk Officer, or Senior or other Vice President



Other best practices:

- The governing authorities at WME companies gather more information than that reported to them by their compliance and risk functions.
- These authorities receive formal training on their responsibilities as board members, training from outside consultants on specific risk areas and best practices, speak with key stakeholders to understand their operations (i.e., key suppliers, institutional shareholders, key customers) and training on their organization's code of conduct.

With the code of conduct being the “foundation upon which an effective compliance program is built”¹, we at Ethisphere are surprised that it is not standard practice for governing authorities to take their organization's code of conduct training – both for WME designees and for others.

- Only **64%** of the governing authorities at WME companies took code training in the last two years.
- And of the remaining WME companies, only **35%** provided the code of conduct to their governing authority, despite **99%** of WME companies distributing it to all or some of their employees.



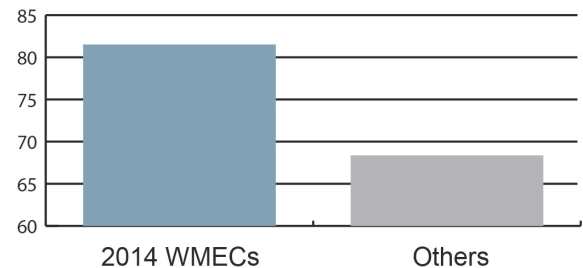
While WME companies are doing better than non-WME companies (**53%** train the governing authority on the code), this should be a standard practice. It makes sense for the entity ultimately responsible for the oversight of the compliance and ethics program to be familiar with the document and training that serves as its foundation. And from a symbolic point of view, not distributing and training the governing authority on the code is the ultimate “do as I say, not as I do” and sends the absolutely wrong tone from the top.



EXECUTIVE COMMUNICATION

“Compliance begins with the board of directors and senior executives setting the proper tone for the rest of the company.”² There is a significant difference between how WME companies view the sufficiency of their executive communications regarding ethics and compliance compared to non-WME companies -- **81%** of WME companies and only **69%** of non-WME companies strongly agree that their “organization’s senior executives regularly and consistently communicate with employees regarding the proper standards of conduct, ethics and compliance.”

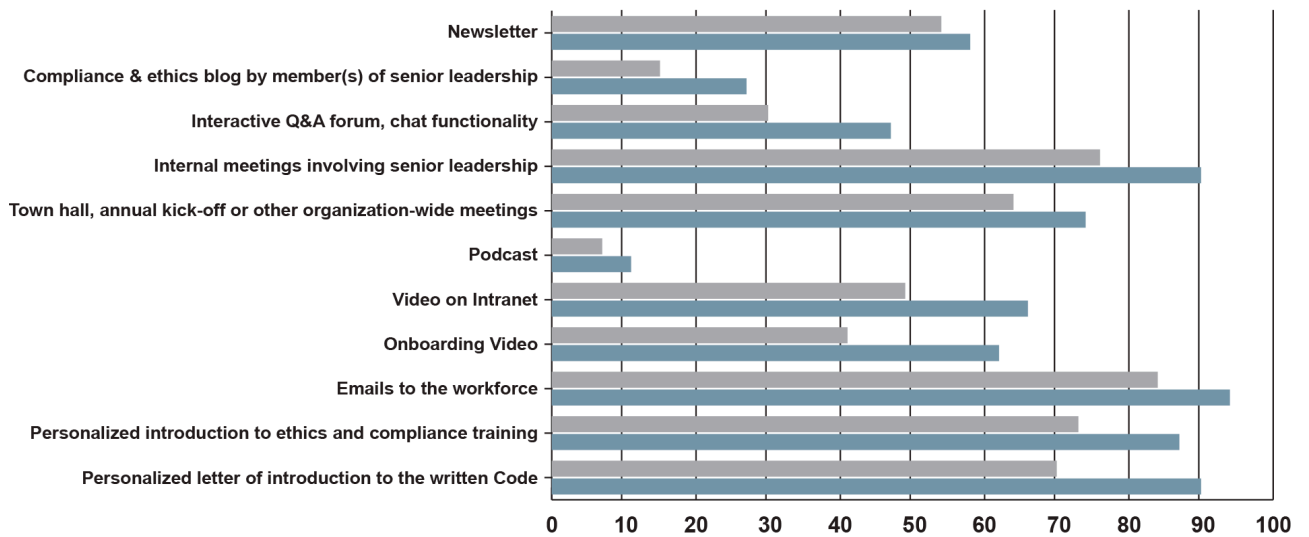
Regular and Consistent Communication



This difference is borne out by how many different channels senior executives at WME companies use to communicate the importance of ethical conduct and complying with applicable laws and regulation compared to non-WME companies. When asked to select which types of communication involving senior executives (e.g. CEO, Chief Compliance Officer, other C-suite member) are used within their organization to discuss ethics and compliance, applicants responded as follows:

² *A Resource Guide to the U.S. Foreign Corrupt Practices Act*, page 57. Available at <http://www.justice.gov/criminal/fraud/fcpa/guidance/>

Communication Methods Used by Senior Execs

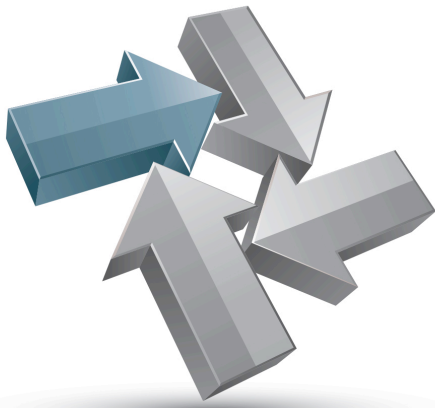


In addition to using diverse mediums, WME companies also were more likely to include examples of personal (private or business related) ethical decisions by the senior executives in these communications – 73% of WME companies did so compared to 62% of non-WME companies. This technique puts the communication in context that employees may better understand than a senior executive merely telling them how important being ethical is or passing along a requirement. It also helps to humanize the senior executive if done effectively.

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How Departments Work Together





STRUCTURE TO FACILITATE CROSS-FUNCTIONAL AND CROSS-ORGANIZATIONAL COORDINATION

*"The most important thing about compliance in my opinion is that it is everybody's business. It's not the Chief Compliance Officer's business only. **To me, the critical way that you get the business [units] to understand and to appreciate compliance is to get them deeply involved in compliance.** I insist that the job of the business units is to make money in an ethical and legal fashion, not just to make money. In order for society to be prepared to have us we have to live up to the highest ethical standards and be someone not only people want to do business with, but want to have exist."*

-- Randal S. Milch
EVP, Public Policy and
General Counsel, Verizon
at the 2014 Global Ethics
Summit

Whether an organization spans the globe or merely a single building, those in ethics and compliance functions face the daunting challenge of ensuring they understand whatever is happening in the entire business. To be effective, the compliance function must be integrated throughout the organization. It must leverage expertise and coordinate with departments ranging from IT to finance and human resources. So how are companies creating a structure that achieves this?

First of all, effective ethics and compliance functions have extensive interactions with functional groups throughout the organization -- at over 90% of WME companies compliance and ethics professionals are invited or allowed to attend audits and HR training events and to add compliance/ethics questions to employee surveys. But they should also be involved in strategic business decisions. WME companies understand this with 82% of them allowing or inviting ethics professionals time on their sales/marketing agendas, compared to 71% of other companies. And 86% of WME companies invite or allow the compliance function to provide formal input on corporate business strategy, compared to 71% of other companies. Indeed, many of the WME companies include ethics and compliance staff in sales/marketing and product development because they understand not only the need to mitigate risks, but the effectiveness of leveraging an effective ethics and compliance program as a way to competitively distinguish their products or services.

Organizations are also employing various strategies to integrate ethics and compliance throughout various business units and geographic locations. Ethisphere is seeing companies embed compliance and ethics points of contact within business regions or units for reports or other compliance related needs. While these employees have other job responsibilities, they also serve as ethics and compliance points of contact.

In addition to embedding the compliance and ethics function throughout the organization, 89% of WME companies support the function by maintaining an internal committee dedicated to compliance and ethics, e.g. a compliance and ethics steering committee. While such a committee comes in various forms, 77% of WME companies have executive level committees, 33% are manager level, 64% of them are cross-functional and 52% of the committees have a charter or formal guidelines. Whether it be compliance and ethics coordinating with IT security or procurement, or one of many other departments, these committees are useful and indeed often essential in coordinating efforts and leveraging expertise. Recognizing this, the committees at 72% of WME companies meet at least quarterly compared to just 63% of other companies.

In addition to meeting more often, the committees at WME companies address a broad range of topics including:



In sum, World's Most Ethical Companies are leveraging cross-functional, high level committees to foster and ensure cooperation and coordination and to leverage expertise from throughout the organization to support the ethics and compliance function.



TRAINING AND EMPOWERING MANAGERS

Setting a strong tone at the top of an organization is a good start, but crucial is emphasizing that tone at all levels of the organization. This necessarily requires the ethics and compliance function to work with employees in departments and business units throughout the company. An effective starting point for this is to educate and empower managers and supervisors to assist in the effort.

It goes without saying that employees follow the lead of their direct supervisors or managers. These are the people truly setting the day to day tone for employees at a company. We at Ethisphere recognize the importance of training managers regarding their unique role in emphasizing the importance of acting ethically and complying with relevant laws and regulations. And WME companies get it as well with 84% of them providing targeted training to managers/supervisors on their special responsibilities with regards to ethic and compliance.





As demonstrated below, this training is taken more seriously and is more robust at WME companies than at other companies:

- Conducted as a part of new manager orientation (upon hire or promotion) – **67% vs 51%**
- Conducted on a periodic basis, at least every two years on average – **62% vs 47%**
- Content is reviewed and refreshed periodically, at least every two years – **69% vs 59%**
- Includes an acknowledgment/certification form that must be completed, collected and maintained – **55% vs 38%**
- Tracked for completion – **67% vs 53%**
- Includes testing – **51% vs 38%**
- Testing results are tracked and maintained – **34% vs 30%**
- Completion of training is a part of a manager performance evaluation – **29% vs 26%**

Importantly, the training at issue is not limited to that designed to mitigate risk based on manager misconduct, but rather to educate the managers to help support the ethics and compliance function. WME companies far outpace other companies in training managers on topics specific to communicating the proper tone, acting ethically and encouraging/supporting employees to share concerns. Again, World's Most Ethical companies take a much different approach to this as seen in this data:

- Tone from the middle: how to communicate ethics to one's subordinates and promote the culture of ethics and compliance – **71% vs 56%**
- How to incorporate ethics in business decision making – **69% vs 60%**
- How to encourage employees to speak up, express concerns and report misconduct – **73% vs 69%**
- How to handle employee concerns or reports of misconduct – **77% vs 70%**
- Non-retaliation – **78% vs 62%**
- Manager's accountability for misconduct by subordinates – **52% vs 40%**

Finally, effective ethics and compliance programs do not stop with training their managers and supervisors, but also provide them with tools and further information to enlist them in the ethics and compliance effort. For instance: 49% of WME companies provide their managers or supervisors with ethics tool kits (e.g., suggestions or requirements of topics to discuss, speaking guides) compared to 28% of other companies; 59% of WME companies have regular communication from the ethics and compliance function specifically directed at managers that can be disseminated among employees compared to 39% of other companies; 55% of WME companies have meetings or seminars with managers or supervisors and ethics and compliance personnel (e.g. brown bag lunches) compared to 34% of other companies; 59% of WME companies have intranet resources on ethics and compliance directed at managers; and 66% of WME companies have ethics and compliance subjects periodically raised at manager level business meetings.

As demonstrated by WME companies, it is a best practice to involve management and supervisors in the ethics and compliance effort. Otherwise, it is very difficult, if not impossible, to communicate the proper tone throughout the company.

REPORTING AND INVESTIGATION

The ethics and compliance function relies on employees throughout the various departments and business units to act as its eyes and ears – employees must feel comfortable reporting concerns and have an easy and effective method for doing so. And companies need to have a proper method to investigate and address concerns once reported by employees. As cogently explained by the Department of Justice and SEC:

"[a]n effective compliance program should include a mechanism for an organization's employees and others to report suspected or actual misconduct or violations on a confidential basis and without fear of retaliation. . . once an allegation is made, companies should have in place an efficient, reliable and properly funded process for investigating the allegation and documenting the company's response. . ."³

Taking this guidance to heart, WME companies make numerous channels available to employees and others wishing to report suspected or actual misconduct violations.

³ *A Resource Guide to the U.S. Foreign Corrupt Practices Act*, page 61. Available at <http://www.justice.gov/criminal/fraud/fcpa/guidance/>



Methods or channels for reporting misconduct and raising concerns:

- Open door/in-person: Supervisor – **97% vs 90%**
- Open door/in-person: Skip level supervisor – **93% vs 84%**
- Open door/in-person: Senior/executive management – **92% vs 89%**
- Board of Directors or a Committee – **76% vs 76%**
- Ombudsman – 24% vs 11%
- Legal, compliance or ethics department/function – **97% vs 87%**
- Human Resources – **97% vs 84%**
- Ability to remain anonymous where allowed by applicable laws – **96% vs 87%**
- Third party-maintained hotline – **82% vs 74%**
- In-house hotline – **47% vs 32%**
- Multiple-language reporting capability – **77% vs 61%**
- Web reporting: intranet access – **73% vs 60%**
- Web reporting: internet/public access – **70% vs 63%**
- Live chat functionality – **18% vs 19%**

Once a report is made, WME companies have more organized and effective processes in place to investigate and respond. While 94% of WME companies have a written investigation process (compared to 78% of other companies), it is how the WME companies address reports that really sets them apart.



94% of WME companies
have a written investigation
process compared to
78% of other companies

57%
of WMEs track cases
through hotlines AND
reports to HR and
managers

First of all, 57% of WME companies have their compliance and ethics function routinely track reports and related cases regardless of how they are received (compared to 51% of other companies). This is a best practice as a majority of reports are made to managers, supervisors or HR, NOT to the hotline reporting tool.⁴ By contrast, just 20% of WME companies have their compliance and ethics function track reports received through the hotline but not open door reports and 23% of other companies do so. Effective tracking requires the compliance and ethics function to have visibility into all reports, not just those coming through the hotline.

While more difficult to institute, we are seeing more and more companies stepping up to provide a solution to this problem. The ethics and compliance function should be tracking reports no matter how received. Otherwise it is likely missing the majority of actionable reports. While non-WME companies forward all reports to the field (or appropriate HR manager) for follow up (50% of other companies do so compared to 48% of WME companies), 83% of WME companies have senior corporate officers review and prioritize reports based on the severity of the allegation (compared to 77% of other companies). This allows the company to dedicate the proper resources to the report based on risk. WME companies prioritize reports based on various types of risk such as the type of allegation received (93%) and the role of the party within the organization (78%). WME companies also realize that an effective investigation is fluid, with 81% of them consistently re-prioritizing during the course of each investigation and changing case ownership as warranted by the investigation (compared to 66% of other companies).

83% of WMEs have
senior corporate officers
review and prioritize
reports based on
allegation severity

81% of WMEs
consistently re-prioritize
during the investigation

85% of WMEs keep
the Board of Directors,
Audit Committee or
other governing body
updated on cases

⁴ See The Ethics Resource Center's 2013 *National Business Ethics Survey*, at page 30.



In addition to prioritizing reports, WME companies understand that investigations are most effective if they coordinate across business units or departments -- 87% of WME companies use a cross-departmental approach by senior level managers of various disciplines in order to ensure checks and balances are met compared to just 58% of other companies. Indeed, 71% of WME companies have tracking and reporting management systems that allow for internal collaboration, compared to 64% of others.

Moreover, these investigations at WME companies are enough of a focus that their boards of directors or other governing authorities want to follow their progress -- 85% of WME companies keep the Board of Directors and/or Audit Committee or other governing body updated on the case status compared to 71% of other companies.

.....

The Role of Employees and Associates





“To me, the critical way that you get the business [units] to understand and to appreciate compliance is to get them deeply involved in compliance.”

Standards

A logical starting point for working with associates and employees to foster compliant and ethical conduct begins with setting out clear company expectations. Standards concerning ethical and compliance policies are often addressed in a company's code of conduct. As demonstrated below, companies also have specific stand-alone policies to address various risk areas.

As aptly explained by the DOJ and SEC, “[a] company's code of conduct is often the foundation upon which an effective compliance program is built.”⁵ It is not surprising, therefore, that 100% of World's Most Ethical companies have an organizational code of conduct. But merely having a code is not enough. The code needs to clearly communicate at an appropriate reading level the organization's expectations for associates and employees. WME companies review and benchmark their codes regularly, with 53% doing so annually, and 34% doing so every two to three years. While 87% of WME companies review or benchmark their codes of conduct at least every three years, only 75% of other companies do so. Companies and regulations are ever changing. It is essential that companies periodically review their codes of conduct to ensure that they adequately address all of their areas of risk.

⁵ A Resource Guide to the U.S. Foreign Corrupt Practices Act, page 57. Available at <http://www.justice.gov/criminal/fraud/fcpa/guidance/>



In addition, WME companies take steps to have their employees review the contents of the code – **92%** of WME companies formally distribute the code to all employees and 80% of the distributions include an acknowledgement form that must be completed, collected and maintained.

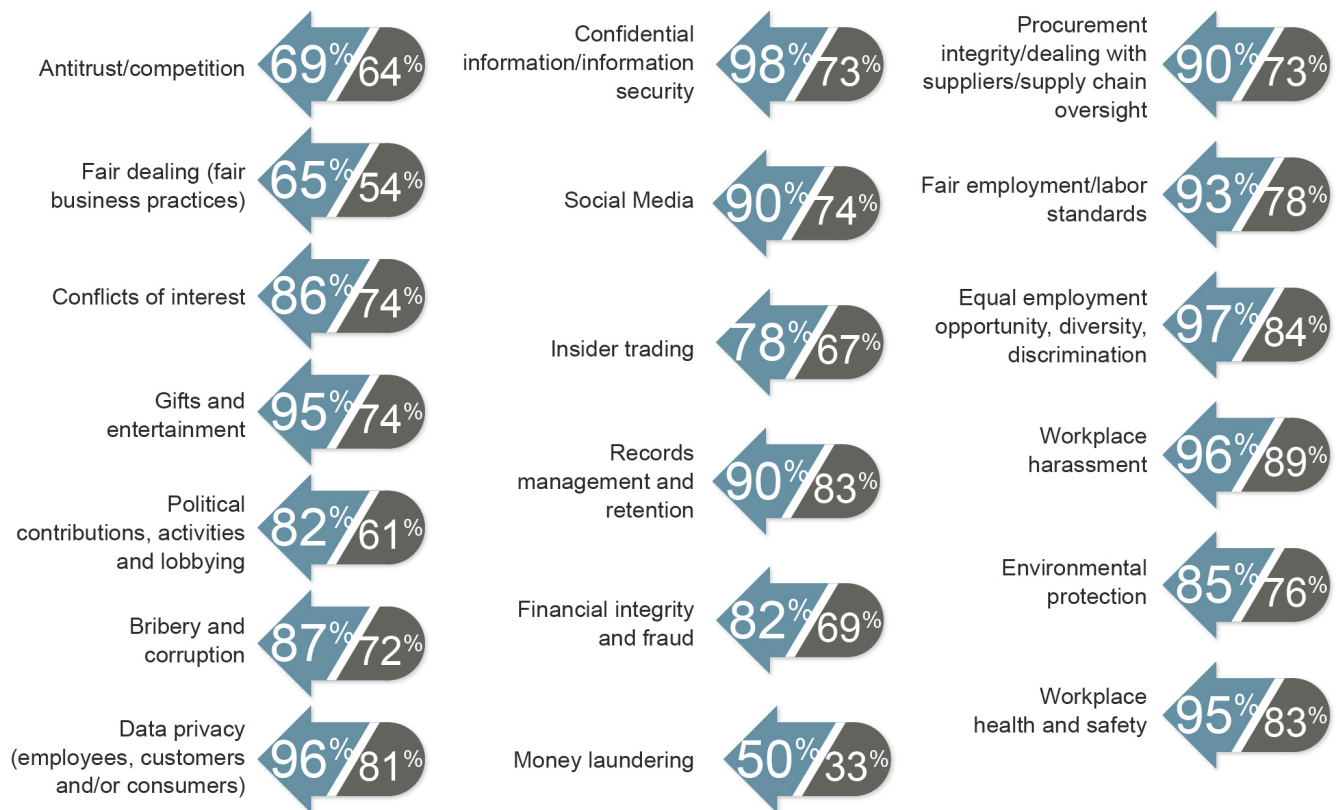
In addition to their codes of conduct, World's Most Ethical companies maintain written standalone policies to address specific risks.

While each company must determine for itself which standalone policies are appropriate, honored companies have policies addressing more risks than do other companies.

Put differently, companies with the World's Most Ethical Company designation have set forth more standards addressing various areas of risk than have others.



More World's Most Ethical organizations maintain written standalone policies (in addition to or in lieu of the Code) that address the following issues as compared to others:





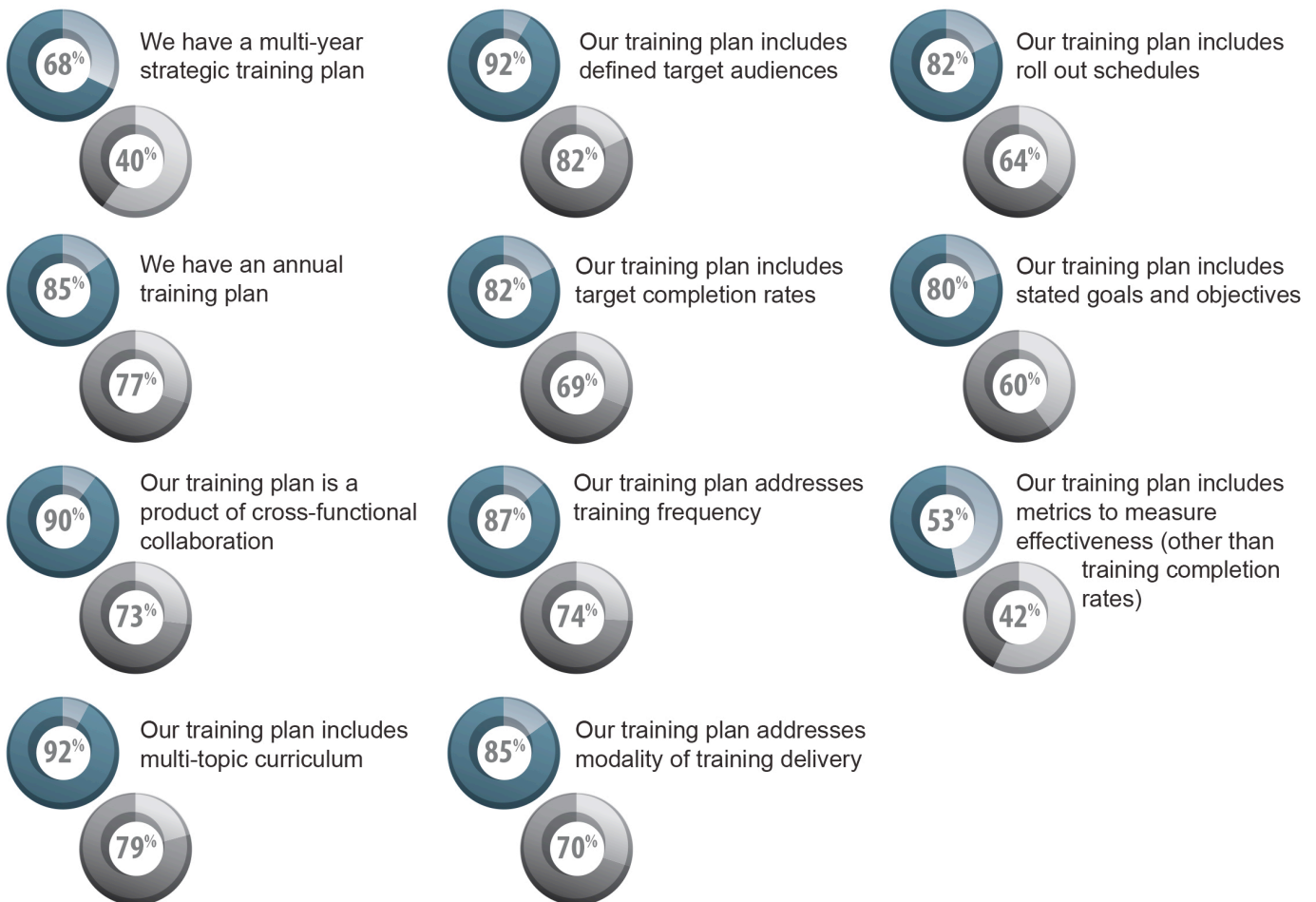
Training and Communications

Standards are essentially useless, if not potentially harmful, if not properly communicated to associates and employees. At the end of the day, associates and employees must understand how to act within the applicable laws and regulations and that the company really does expect and require ethical behavior.

World's Most Ethical honorees address their training challenges in an organized manner with 96% of them having a written training plan, compared to 84% of other companies. It is a complex balance to determine how much and what type of training is effective. As demonstrated below, these training plans are multi-faceted, including coordination from business units across the company, defining and targeting audiences and how often and how to deliver the training.



Differing Approaches to An Organization's Training Plan – Comparing World's Most Ethical





With the code acting as the foundation of the compliance and ethics program, 80% of honored companies require training on their code for all employees and 18% require such training for some but not all employees.

While many companies strive to train all employees, 75% of World's Most Ethical companies succeeded in training 90-100% of their workforce on the code in the past two years, compared to 64% of other companies.



As demonstrated below, WME companies share a commitment to training their associates and employees on the code of conduct upon hire and periodically thereafter:



Specifics About Code Training Programs – World's Most Ethical Companies vs. Others

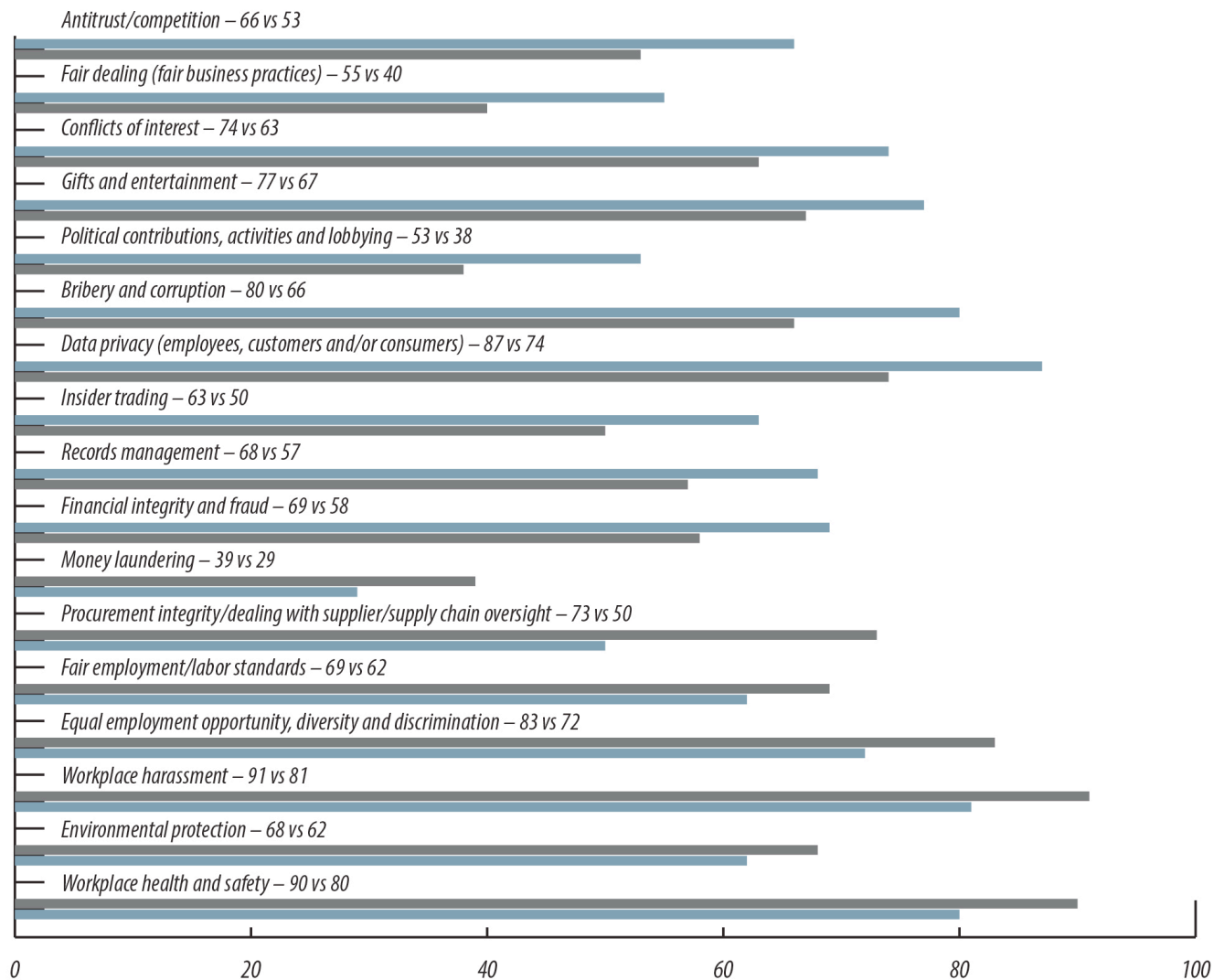
- Part of new employee orientation process – **99 vs 90**
- Conducted on a periodic basis, at least every two years on average – **82 vs 73**
- Content is reviewed and refreshed periodically, at least every two years – **85 vs 80**
- Includes an acknowledgment/certification from that must be completed, collected and maintained – **81 vs 79**
- Tracked for completion – **92 vs 78**
- Includes testing – **79 vs 56**
- Testing results are tracked and maintained – **56 vs 46**
- Completion of training is a part of an employee performance evaluation – **47 vs 37**



In addition to training on the code of conduct, WME companies train their workforce on various other risk areas as well:



How do WMECs vs. Other Companies target their training in addition to or instead of the dedicated Code of Conduct training?



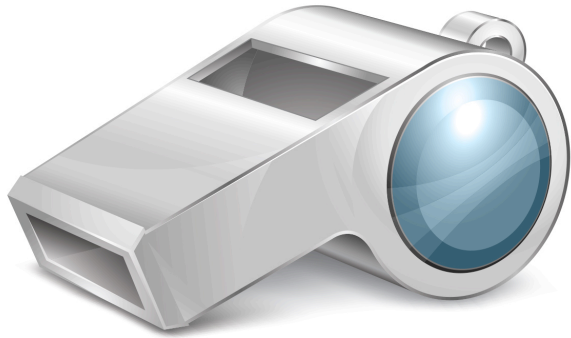


Communications

Not only are WME companies training their associates and employees on compliance and ethics issues and standards, but they are constantly communicating with them on the topics as well. Indeed, 83% of WME companies maintain a written ethics communication plan, compared to just 66% of other companies.

Methods WMECs and Other Companies use to communicate with their workforce and how they differ:

- Company e-Bulletin/newsletter – **86 vs 72**
- Printed and/or electronic information materials (such as brochures, guidebooks, posters, wallet cards, table tents and/or checklists) – **93 vs 89**
- Video/DVDs – **75 vs 60**
- Emails – **95 vs 87**
- Podcasts – **12 vs 6**
- Town hall meetings – **66 vs 59**
- Corporate kick-off meetings – **52 vs 36**
- Senior executives meetings – **85 vs 70**
- Intranet portal dedicated to ethics and compliance – **82 vs 71**
- Ethics blog or intranet forum – **39 vs 22**
- Interactive scenarios, games, quizzes and/or vignettes – **62 vs 48**
- Periodic compliance "road show" or retreat – **58 vs 42**
- Ethics-related promotional/merchandising items – **54 vs 37**
- Signature/branded integrated communication programs (e.g. "Compliance Month," "Ethics Everywhere") – **57 vs 46**



How Employees Report to and Communicate About Ethical Concerns

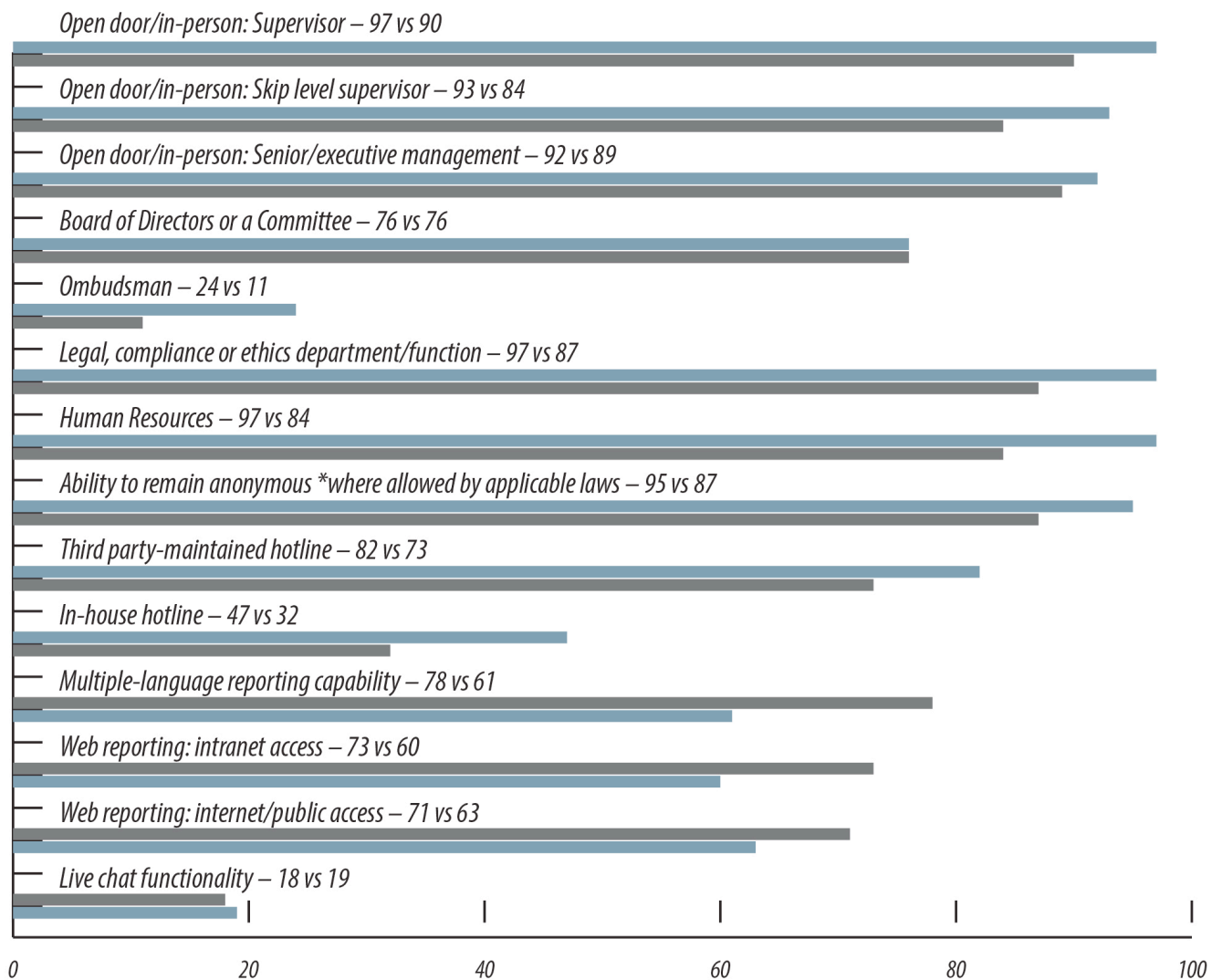
An effective compliance program not only educates the company's workforce regarding expectations and standards, but it then provides an effective mechanism to hear to concerns on a confidential basis without fear of retaliation.

It is not surprising that 100% of WME companies have a misconduct reporting or "whistleblower" system that allows for reporting actual or suspected criminal misconduct, reporting actual or suspected violation of code of conduct or policy, and expressing concerns and 99% permit questions seeking guidance regarding compliance and ethics issues. What is surprising is that 7% of non-WME companies do not even have a misconduct reporting system.

In addition, WME companies provide more avenues for reporting. This is crucial as surveys have shown that most actionable reports are made to a manager or supervisor, not a hotline.



Available resources, methods or channels WME and other companies provide for reporting misconduct and raising concerns:





How non-retaliation policies compare

As important as providing a channel to report misconduct and raise concerns is creating a culture that encourages associates and employees to do so. Accordingly, 96% of WME companies maintain a non-retaliation policy, compared to 87% of other companies. Various aspects of non-retaliation policies are set forth below:

- Specifies that report must be made in good faith – **86 vs 77**
- Communicated in our Business Code of Conduct – **94 vs 79**
- Communicated as a stand-alone policy – **52 vs 31**
- Included in misconduct reporting messaging (e.g. in hotline info) – **83 vs 63**
- Management is required to receive non-retaliation training – **48 vs 34**
- Specifies that retaliation is against the law – **55 vs 42**
- Non-retaliation statement is present in executive communications – **59 vs 43**

Jumping out of this data is that only 48% of WME companies require managers to receive non-retaliation training. This number is shockingly low and needs to become more common practice.

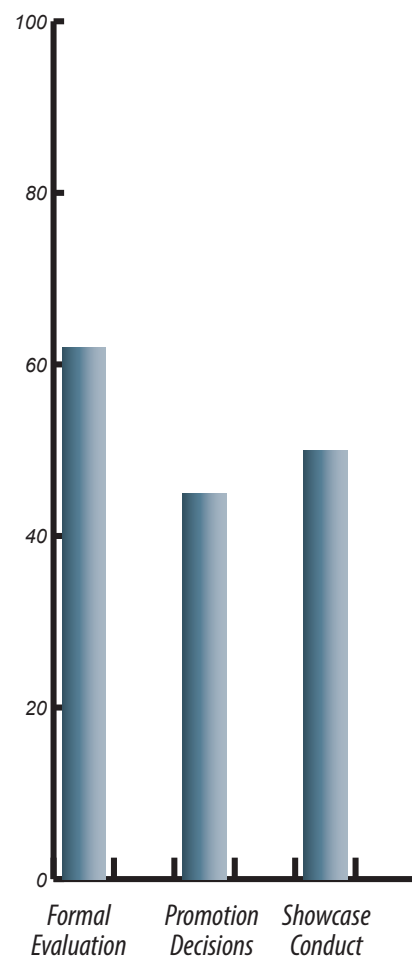
Overall, Ethisphere would like to see companies making a more concerted effort to educate employees on their non-retaliation policies and to actually create a culture that encourages reporting of misconduct and inquiries.



Positive Incentives

As recognized by the DOJ and SEC, and consistent with common sense – positive incentives can drive compliant behavior. Companies have struggled with this issue, which often goes to the heart of a company's culture. A common response we hear is that a company requires ethical conduct, and will not reward an employee for satisfying a base requirement.

While this is a tricky issue, many companies are stepping up to address it. For example, 62% of WME companies include a formal evaluation of ethical conduct as part of annual performance reviews, 45% include such an evaluation as part of promotion decisions and 50% provide awards and recognitions showcasing business conduct.





Statistics About the 2014 World's Most Ethical Companies

Authority: 54% of the people given primary responsibility for the compliance and ethics program/initiatives carry the title of Chief Compliance Officer and or Chief Ethics Officer

76% of those responsible for compliance and ethics have **significant input or a role in strategic business development decisions** such as new market entry, expansion, business partnerships/alliances, joint ventures, mergers and acquisitions and divestments, including related due diligence

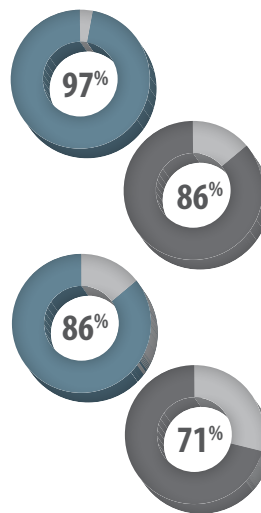


Autonomy: 91%

of the individuals with primary responsibility for compliance and ethics programs have a **direct reporting line to the Board, a Committee or other governing authority**



While the percentage of the World's Most Ethical companies and All Other Applicants providing a direct line of reporting to the board (or equivalent) is similar, **World's Most Ethical Companies companies generally report to the board more regularly and on a more diverse set of topics**

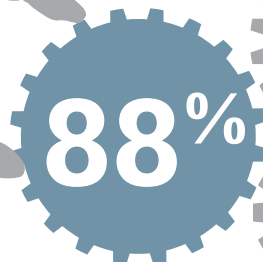


97% World's Most Ethical Companies vs 86% All Other Applicants participate in HR training events

86% World's Most Ethical Companies vs 71% All Other Applicants provide formal input on corporate business strategy



88% have regularly scheduled reports to the board of directors, a board committee or other governing authority at least quarterly, compared to **73%** of All Other Applicants



Board Reporting Topics:



87% of World's Most Ethical Companies vs 76% of All Other Applicants report compliance risk assessment findings

81% of World's Most Ethical Companies vs 65% of All Other Applicants report culture of ethics assessment or survey findings

Statistics About the 2014 World's Most Ethical Companies

➔ **Accessibility: 72%** of World's Most Ethical Company boards rotate the physical location of their meetings to various business units and/or field operation locations



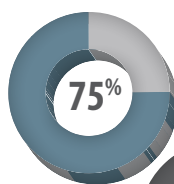
91% of World's Most Ethical Companies have some kind of 'red flag' process to allow the person responsible for the function to bring critical issues to the attention of governing authorities



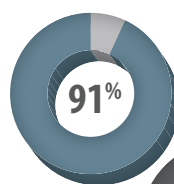
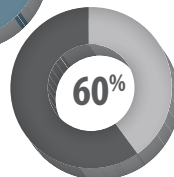
Risk Oversight: **96%**

of World's Most Ethical companies have assigned the primary oversight of risk management to a **specific member** of the board, a committee, or other governing authority

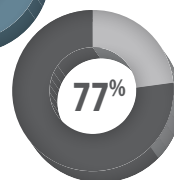
While more World's Most Ethical Companies train governing authorities on the Code of Conduct compared to All Other Applicants, the number is still low at 64%.



75% World's Most Ethical Companies vs. **60% All Other Applicants** have a dedicated risk management function



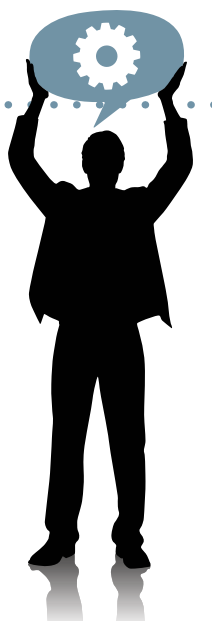
91% World's Most Ethical Companies vs. **77% All Other Applicants** have a senior level executive such as a Chief Risk Officer, Senior or other Vice President with risk management responsibility



Diverse Communication Channels:

More than 50% of senior executives at World's Most Ethical companies communicate using newsletters, town hall meetings, videos on the intranet, and onboarding videos – and 73% use examples of personal ethical decisions in these communications, improving and personalizing ethics communications.

81% agree that their organization's senior executives regularly and consistently communicate with employees regarding the proper standards of conduct, ethics and compliance



How Departments Work Together

Insights from the World's Most Ethical Companies[®]

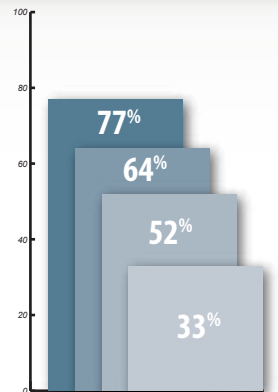


Statistics About the 2014 World's Most Ethical Companies

➔ **Structure:** **87%** of WME companies use a cross-departmental approach, compared to just **58%** of other companies



77% of WME companies have executive level committees, **64%** of them are cross-functional, **52%** have a charter or formal guidelines and **33%** have manager level committees

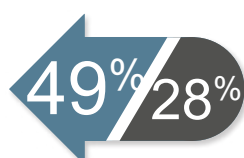


- 72%** of WME companies meet quarterly compared to just 63% of other companies
- 71%** of WME companies have tracking and reporting management systems, compared to 64% of others
- 85%** of WME companies keep the Board of Directors and/or Audit Committee or other governing body updated on the case status compared to 71% of other companies

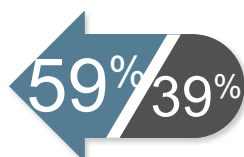
World's Most Ethical Companies Other Companies

Training and Empowering Managers

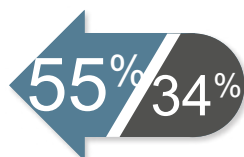
84% of WME's provide targeted training to managers/supervisors. Training is taken more seriously and is more robust at WME companies than at other companies



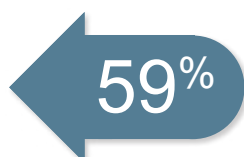
Provide their managers or supervisors with ethics tool kits (e.g., suggestions/requirements of topics to discuss, speaking guides)



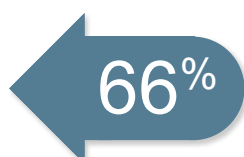
Regularly communicate ethics and compliance matters to managers to be shared with employees



Host meetings or seminars for managers/supervisors and ethics and compliance personnel (e.g. Brown bag lunches)

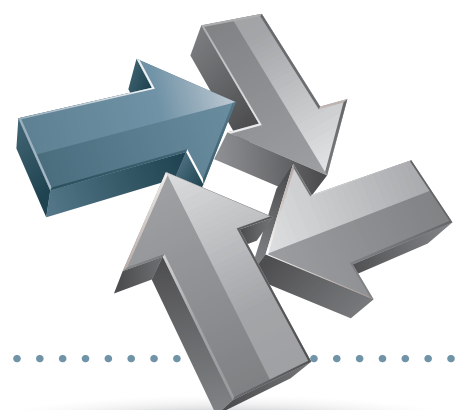


Use the corporate intranet to provide ethics and compliance resources to managers



Raise ethics and compliance subjects at manager level business meetings

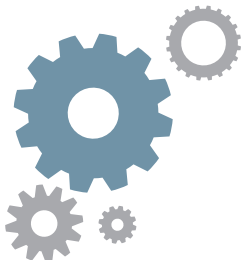
World's Most Ethical Companies
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Reporting and Investigation:



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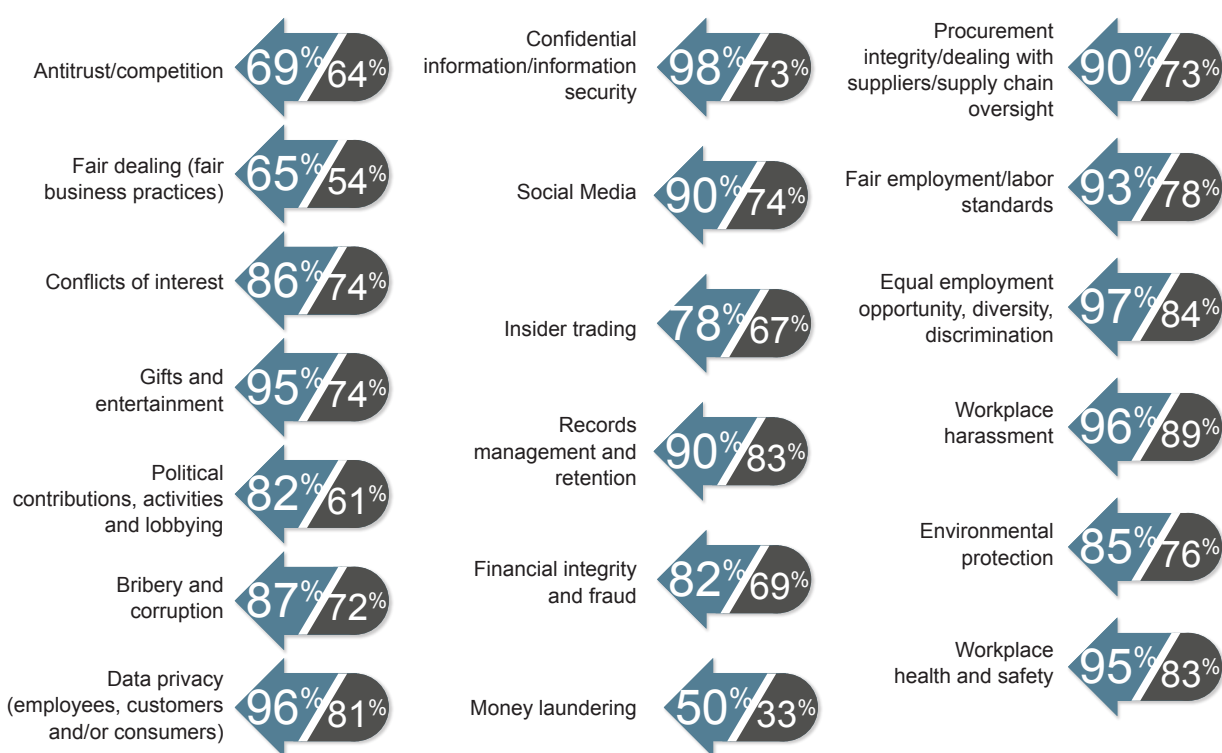


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Communication: 83% of WME companies maintain a written ethics communication plan, compared to just 66% of other companies.



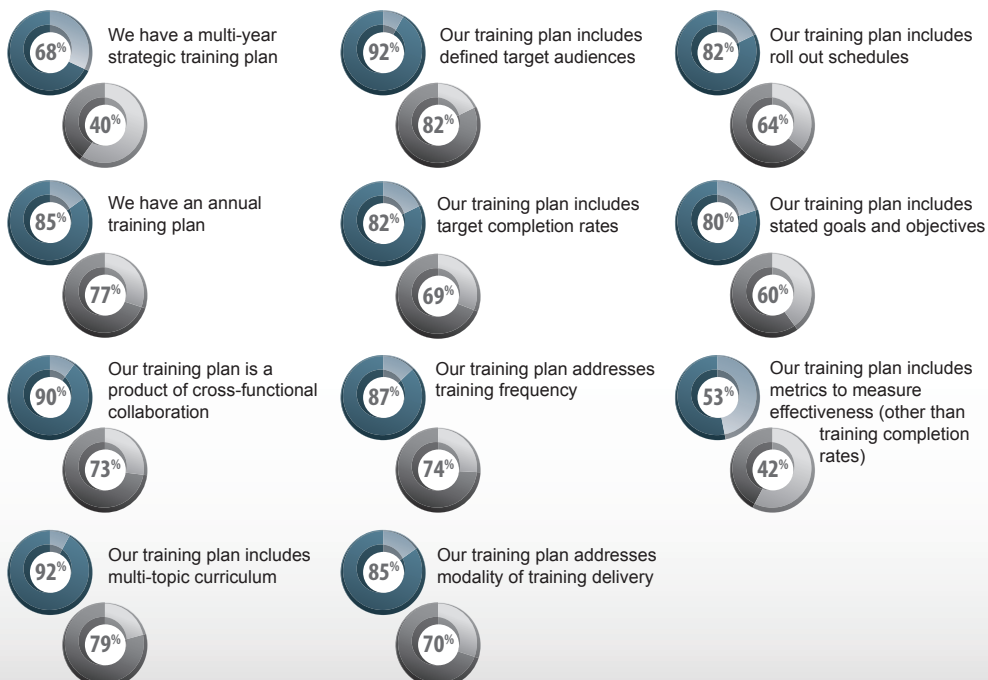
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Differing Approaches to An Organization's Training Plan – Comparing World's Most Ethical Companies to Others



Communications



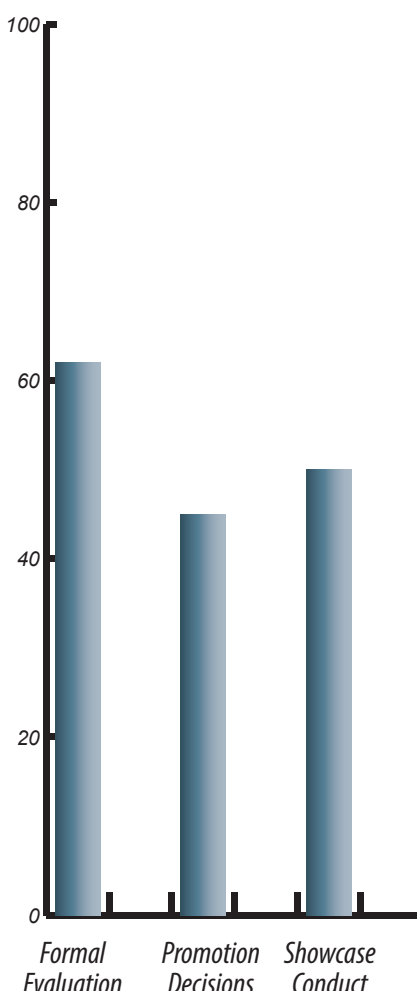
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ABOUT THE ETHISPHERE® INSTITUTE

The Ethisphere® Institute is the global leader in defining and advancing the standards of ethical business practices that fuel corporate character, marketplace trust and business success. Ethisphere has deep expertise in measuring and defining core ethics standards using data-driven insights that help companies enhance corporate character. Ethisphere honors superior achievement through its World's Most Ethical Companies® recognition program, provides a community of industry experts with the Business Ethics Leadership Alliance (BELA) and showcases trends and best practices in ethics with the Ethisphere Magazine. Ethisphere is also the leading provider of independent verification of corporate ethics and compliance programs that include: Ethics Inside® Certification, Compliance Leader Verification™ and Anti-Corruption Program Verification™. More information about Ethisphere can be found at: <http://www.ethisphere.com>.

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www.ethisphere.com
p: 888.229.3207
info@ethisphere.com
6263 N. Scottsdale Rd. Ste. 205
Scottsdale, AZ 85250