



ETHISPHERE
GOOD. SMART. BUSINESS. PROFIT.®

Leading Practices and Trends from the 2019 World's Most Ethical Companies®

An Ethisphere Insight Report Series

Volume 2: Structuring and Resourcing Your Ethics and Compliance Program Effectively

Preface

As noted in volume 1 of our Insights report series, 2018 saw a tremendous focus on the role of ethics and culture in business, from the annual letter from Larry Fink, CEO of Black Rock, to the recent announcement by State Street that it will put an increasing focus on culture. The U.S. Department of Justice's Fraud Division has also recently weighed in, releasing more detailed guidance on how DOJ prosecutors will analyze compliance programs. Many of the elements highlighted by the DOJ will be familiar to our community.

Here at Ethisphere, of course, we have long been proponents of the idea that it is possible to do well by doing good, and our World's Most Ethical Companies (WMEC) process is built on that foundation. Our own research demonstrates this principle in clear terms. Once again, our WMEC honorees outperformed the market, as they consistently have since we began tracking performance years ago. This year's cohort of publicly traded honorees outperformed a U.S. Large Cap Index by more than 10 percent over three years, and by almost 15 percent over five years. This "Ethics Premium" data draws a strong correlation between culture, community engagement, governance practices, and financial performance.

Ethisphere's Ethics Quotient® Survey (EQ) framework is designed to capture information that leads to practical decision-making. Those who complete the survey are often surprised by not only what they learn just by gathering the information needed to respond, but also how their practices compare to those of organizations recognized as the World's Most Ethical Companies. This benchmarking exercise leads to serious, fact-based conversations that inform resource planning, professional development, and executive interaction with the compliance and ethics team. Some of the most common questions we get are around program structure and resources: who does the ethics lead report to, how many people are on their staff, what kinds of authority is the program granted—all of which are cornerstone issues. This report is based upon responses to the 2019 EQ, focusing on the program structure and resources section of the questionnaire. To help identify developing trends, we've also included year-over-year comparisons for certain data points, focusing on interesting developments in the fundamental area of how companies structure their programs. We hope this information is useful to you and your team. At the conclusion of this report, we've outlined additional ways you can engage with the Ethisphere team and our data as you look at your own program and ways in which you can continue to improve.

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SECTION ONE: OVERALL PROGRAM STRUCTURE: TITLES, REPORTING LINES, AND AUTHORITIES GRANTED

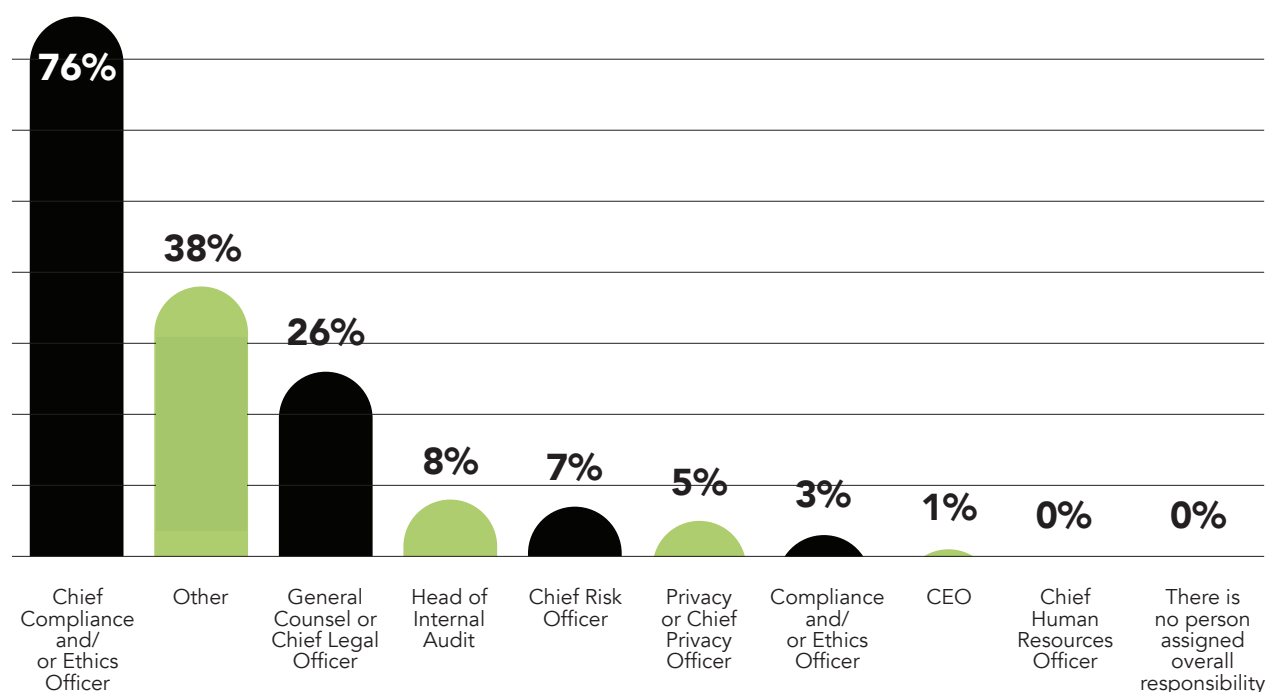
When it comes to ethics and compliance, there are no hard-and-fast rules on program structure. This is something that regulators around the globe have long recognized—the most recent example of this can be found in the April 2019 DOJ Guidance issued by the Fraud Division, which asks as a threshold question, “Is the program well designed?” but does not specifically define what this entails, leaving room for each organization’s interpretation based on its assessment of risk. Global companies have to manage many different considerations—both internally and with external shareholders and stakeholders—when deciding how to structure their programs.

At Ethisphere, when we think about program structure and resource levels, we first look at overall structure and how responsibility for compliance oversight is assigned to high-level personnel. The regulators have indicated, and we agree, that organizational charts send a message about company priorities. Do those running the ethics and compliance program have a “seat at the

table”? We also assess how resources and authority have been allocated to those individuals. Is the program appropriately staffed for the size and complexity of the business? In DOJ parlance, is it “well designed” and “being applied earnestly and in good faith”?

Ethics and compliance programs have been growing in scope and authority. This development is most clearly reflected in the percentage of this year’s honoree companies that give the individual assigned overall ownership of the ethics and compliance program the title of “Chief Compliance and/or Ethics Officer.” A full 76 percent of the 2019 honorees designate a “chief,” and only 26 percent maintain the familiar “dual-hatted” structure of giving the program owner both “General Counsel” and “Chief Compliance and/or Ethics Officer” titles. This decrease is, we think, a reflection of the growing recognition that running an ethics and compliance program is a full-time job and one that is worthy of the appropriate title.

Specify all job titles held by the person assigned overall ownership of the ethics and compliance program. Please select all that apply.

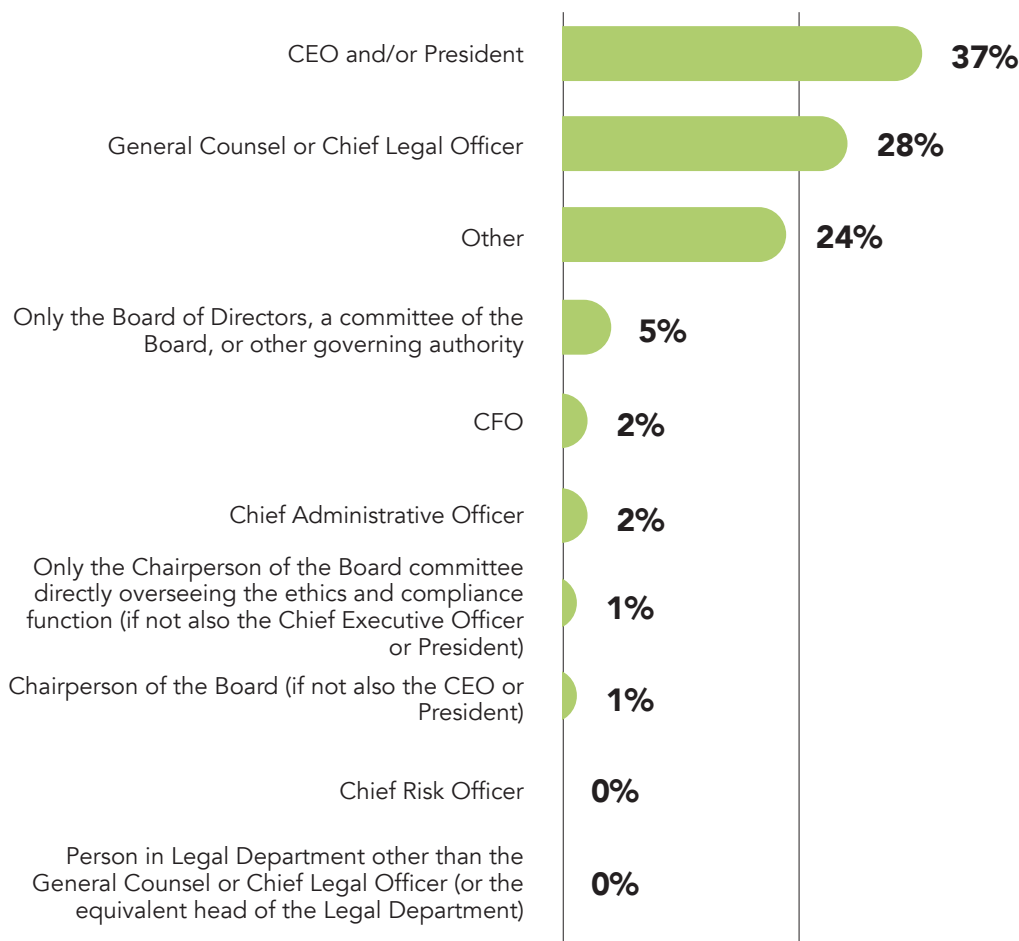


SECTION ONE: OVERALL PROGRAM STRUCTURE: TITLES, REPORTING LINES, AND AUTHORITIES GRANTED

Among honorees, the reporting line for the CCO/CCEO varies. Over a quarter report to the CEO, a little more than a quarter report to the General Counsel,

and another quarter chose "other," which commonly reflected a dual reporting line to the CEO or GC and the relevant committee of the Board.

To whom does the person with overall responsibility for the ethics and compliance program administratively report? Please note that this does not include reporting on the ethics and compliance program to the Board or a committee of the Board, but rather who is managing the person's employment.

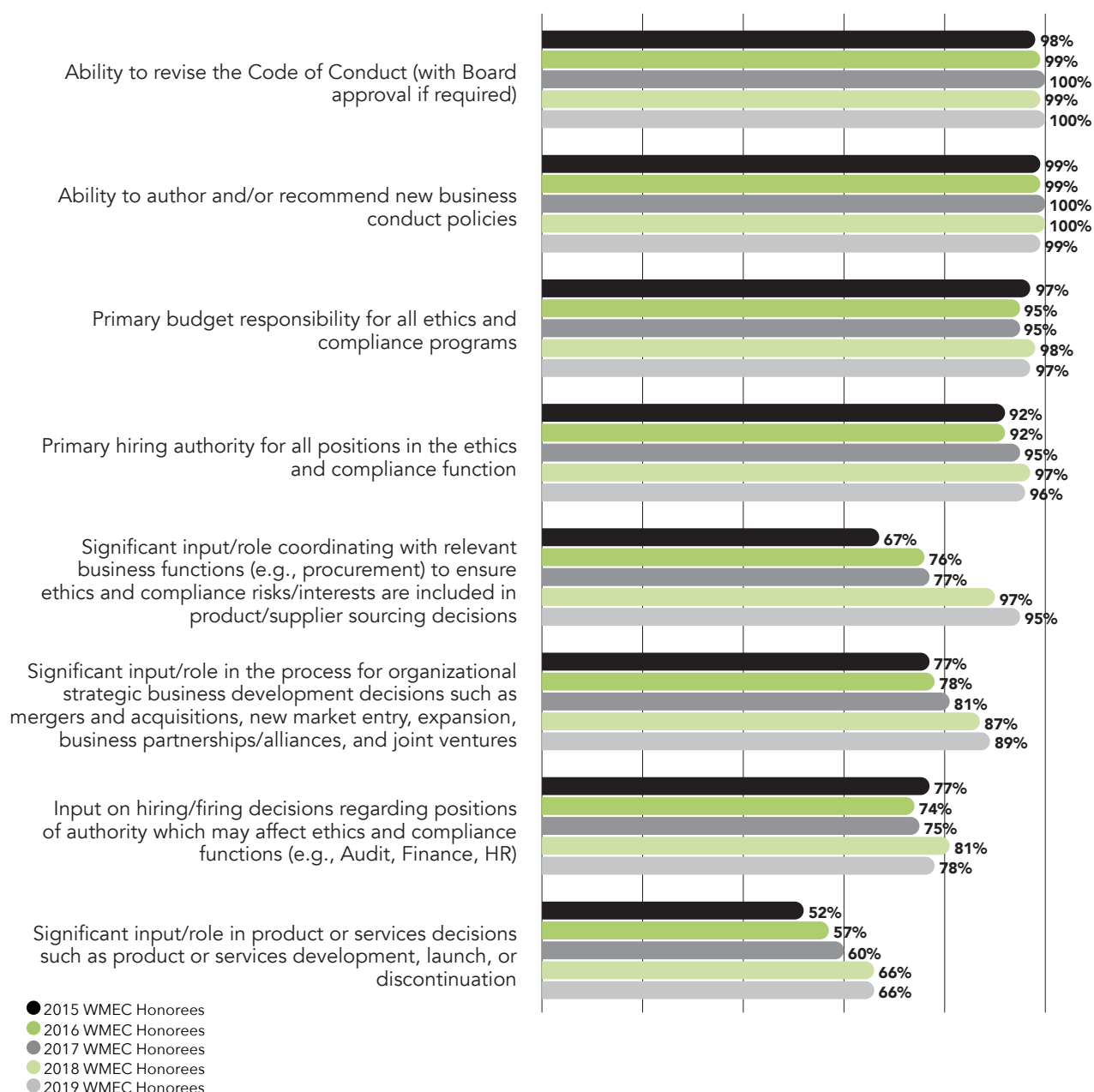


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Over the last few years, we have seen a growing set of authorities granted to the ethics and compliance program. While most honorees expect their program to engage in compliance-related activities such as drafting new code or policy language, developing or deploying training or communications, and coordinating relevant audit work, many companies have moved to garnering more strategic input from the ethics and compliance program. Of particular note is the change in the

number of companies that give the function significant input into supplier/procurement processes (95 percent in 2019 compared to 67 percent in 2015), strategic decision-making such as mergers and acquisitions or new market activity (89 percent in 2019 versus 77 percent in 2015), and input into product or services launched (66 percent in 2019, up from 52 percent in 2015).

Identify which of the following authorities, if any, are granted to the ethics and compliance function.

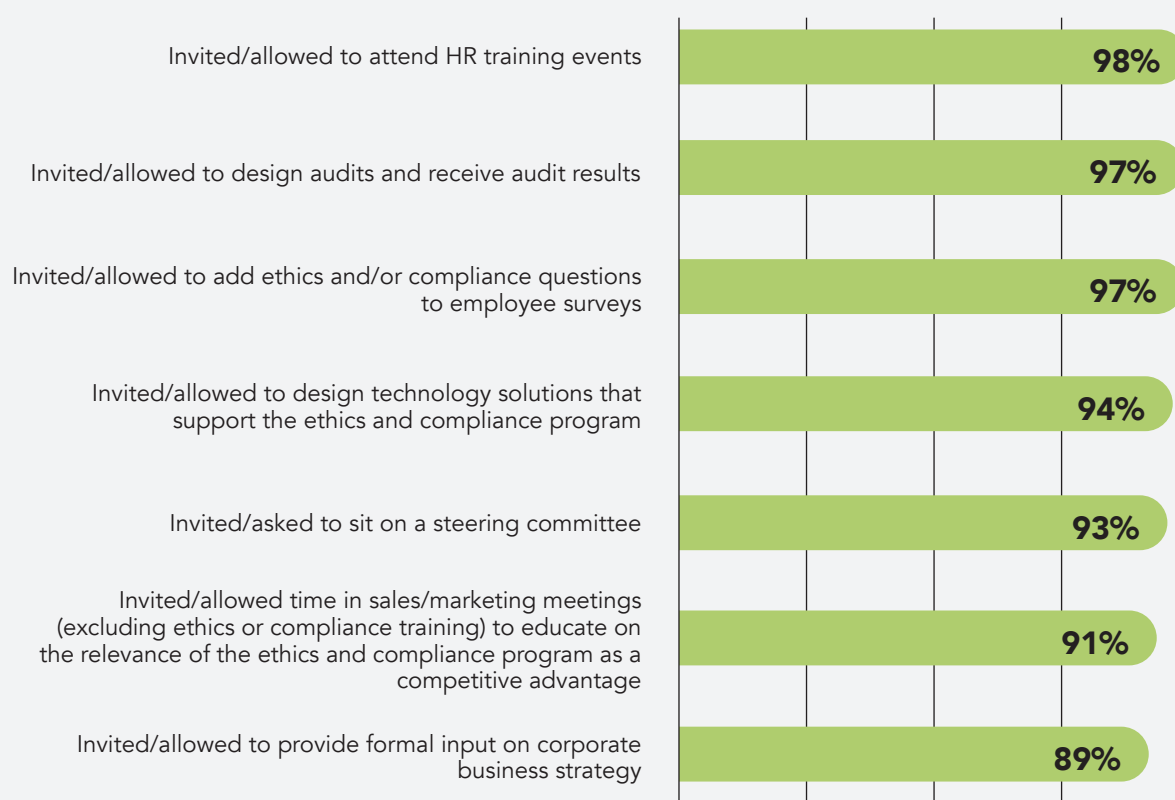


SECTION ONE: OVERALL PROGRAM STRUCTURE: TITLES, REPORTING LINES, AND AUTHORITIES GRANTED

In almost every organization, the ethics and compliance function is invited to HR training events, has input into audit plans, and can add ethics-related questions to employee surveys. In addition, in 91 percent of honoree companies, the function is included in sales and marketing meetings outside of purely deploying training, and in 89 percent they have formal input into

corporate business strategy. Taken together, a picture emerges of a growing recognition that the position of CCO/CCEO is a senior one with significant insights into strategic decisions and the ability to influence business operations on par with other, more traditional control functions like Audit.

Select the types of interactions the ethics and compliance function has with other functional groups in your company.

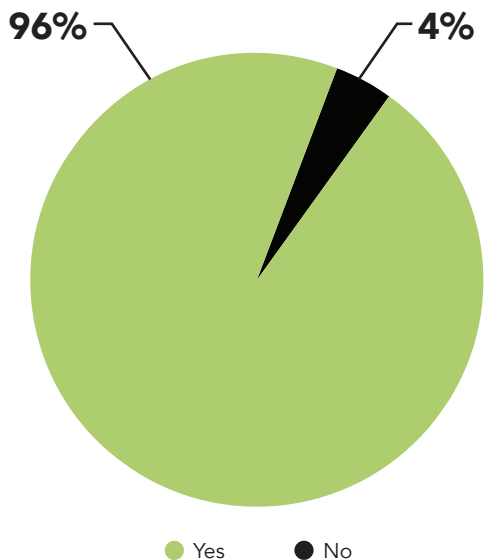


SECTION TWO: INFORMING THE GOVERNING AUTHORITY: BOARD REPORTING

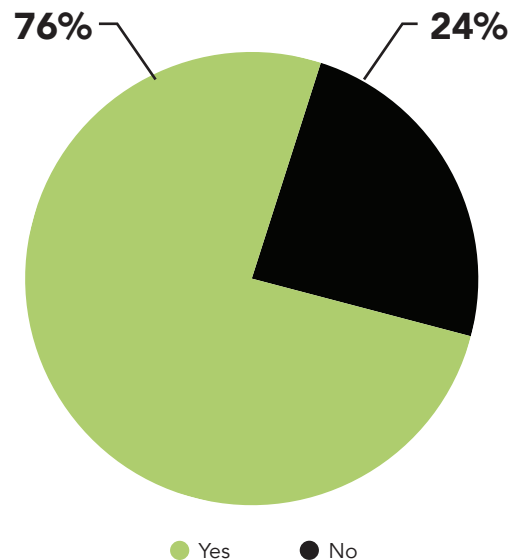
Effective program design by itself, however, is not enough. Organizations must also examine whether members of the governing authority are actively engaged in the ethics and compliance program, whether they are knowledgeable about its content and operations, and whether they exercise reasonable oversight of that program.

In those companies where the individual overseeing the program is either the CEO or the GC, or dedicates less than three-quarters of their time to their ethics and compliance role, almost all companies have given another individual responsibility for the day-to-day operations of the program. And of those companies, three-quarters include that day-to-day person in board reporting. This is wise; after all, in the 2010 Organizational Sentencing Guidelines revisions, one of the major changes was to recommend this practice. This guidance was specifically put in place to make sure those individuals had a good working relationship with the members of the governing authority responsible for oversight and would feel comfortable going to them with questions or concerns.

Given the person assigned overall responsibility for the ethics and compliance program is also the CEO or General Counsel, and/or dedicates less than 76 percent of their time to the ethics and compliance role, is there a person in addition to the person with overall authority who is assigned day-to-day operational responsibility for the ethics and compliance program?



When the person with overall responsibility for the ethics and compliance program communicates with the Board, a Board committee, or other governing authority regarding the ethics and compliance program, is the person who is assigned day-to-day operational responsibility for the ethics and compliance program generally present?

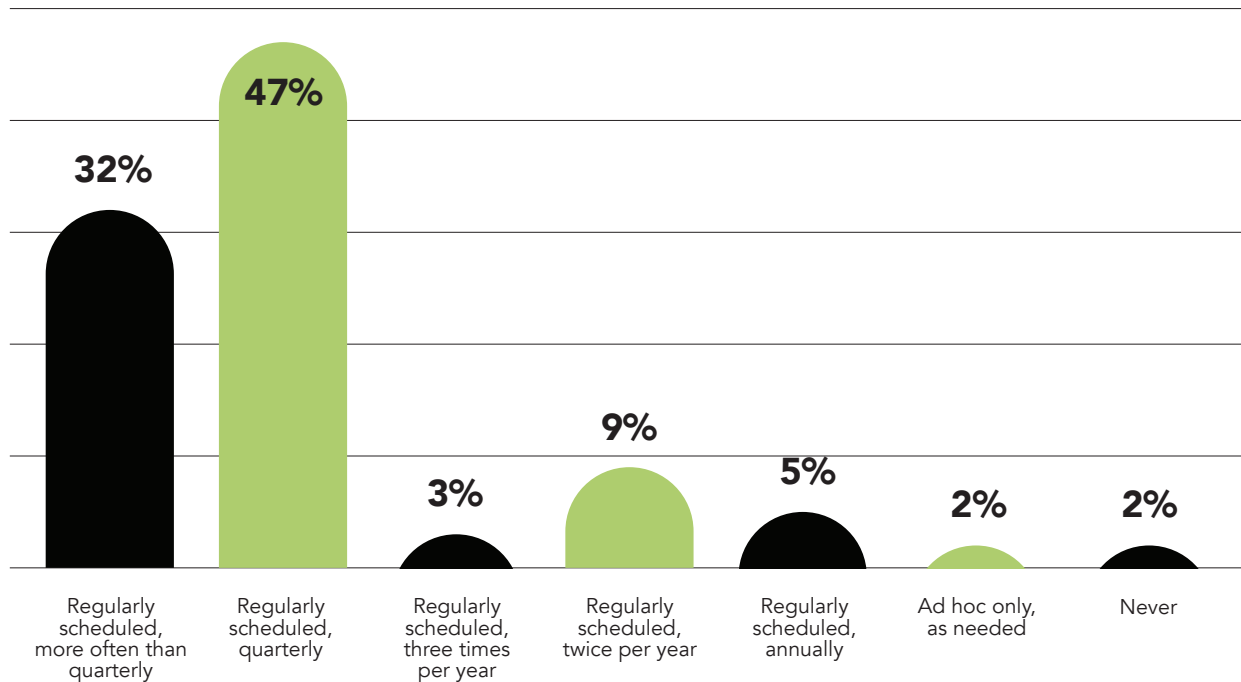


SECTION TWO: INFORMING THE GOVERNING AUTHORITY: BOARD REPORTING

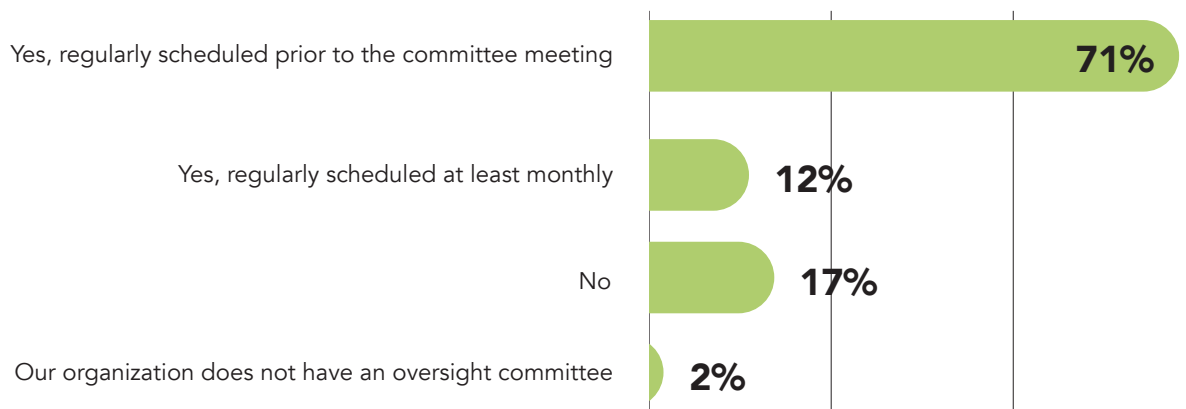
Almost 80 percent of honorees indicate their program head is talking to the relevant board committee whenever they gather, either quarterly (47 percent) or

more often than quarterly (32 percent). Seventy-one percent are talking to their committee chair before meetings, and 12 percent do so on a monthly basis.

How often does the person with overall responsibility for the ethics and compliance program conduct scheduled presentations regarding that program to the committee of the Board or other governing authority with oversight of the ethics and compliance function?



Does the person with overall responsibility for the ethics and compliance program have regularly scheduled meetings in person or telephonically with the individual chairing the committee tasked with oversight of the program? Please select all that apply.

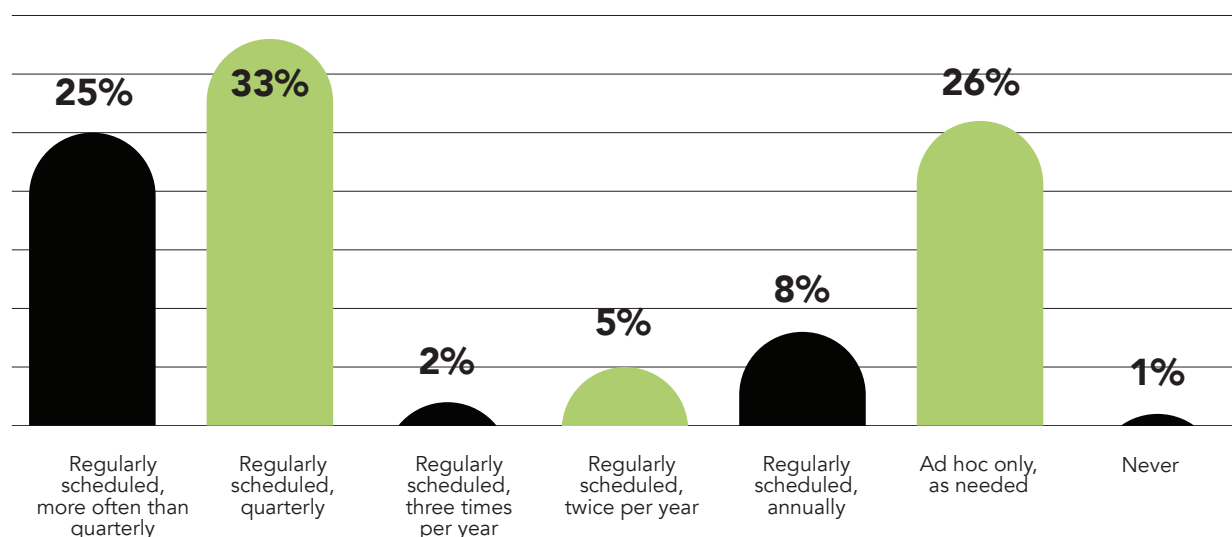


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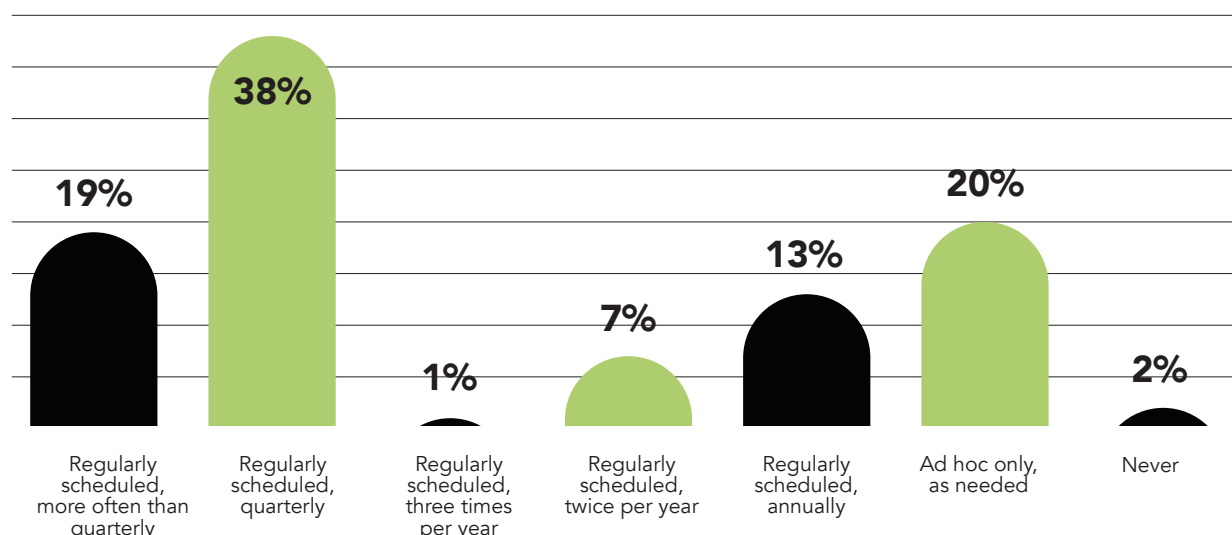
Meeting in executive sessions is a regular practice, with 33 percent indicating they do on a quarterly basis, and 25 percent indicating they meet more often than quarterly. A quarter indicate they do so on an ad hoc basis. Similar figures are reflected below regarding

meetings with external auditors. Given the emphasis on executive sessions in the DOJ guidance as an indication of the function's independence, we anticipate this figure will rise rapidly.

How often does the person with overall responsibility for the ethics and compliance program normally meet in closed or executive session to discuss the ethics and compliance program with the Board, a Board committee, or other governing authority without management present?



How often does the person with overall responsibility for the ethics and compliance program normally communicate with your company's outside auditors regarding the ethics and compliance program without management present?

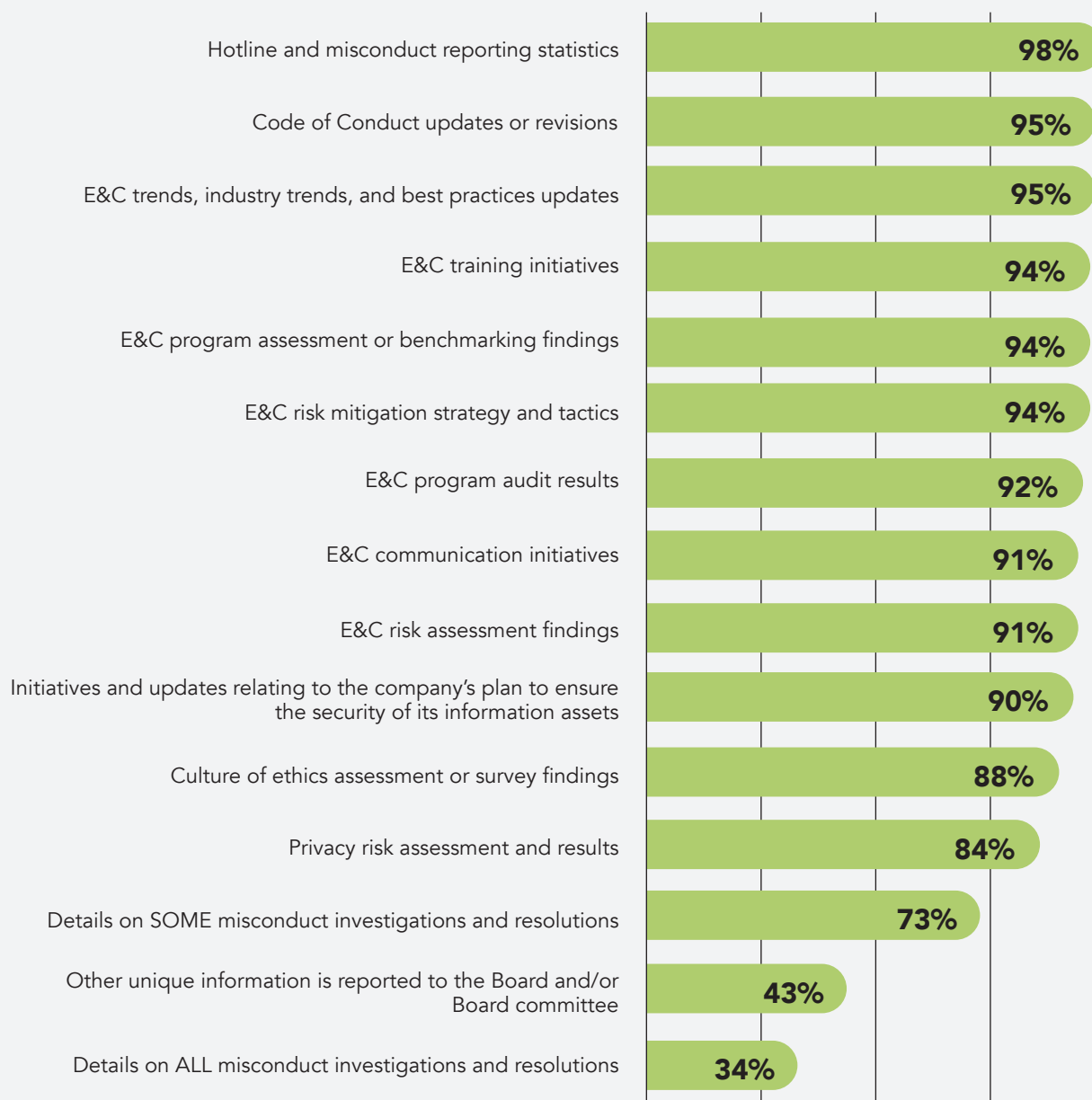


SECTION TWO: INFORMING THE GOVERNING AUTHORITY: BOARD REPORTING

We have also seen a rapid evolution in the types of information shared with the board and/or the relevant board committee. Several years ago, information shared with the board relied heavily on hotline metrics. Since then, many companies and outside directors have recognized the merit in providing a more robust slate of information.

As the chart below reflects, it is more interesting to evaluate what companies are not reporting to the committee. There's been a decrease in reporting details on all misconduct, replaced instead with a "sampling" approach, with many companies including overall reporting statistics along with details on significant investigations or investigations of interest.

Indicate which information, if any, your company reports to the Board and/or Board committee or other governing authority. Please select all that apply.

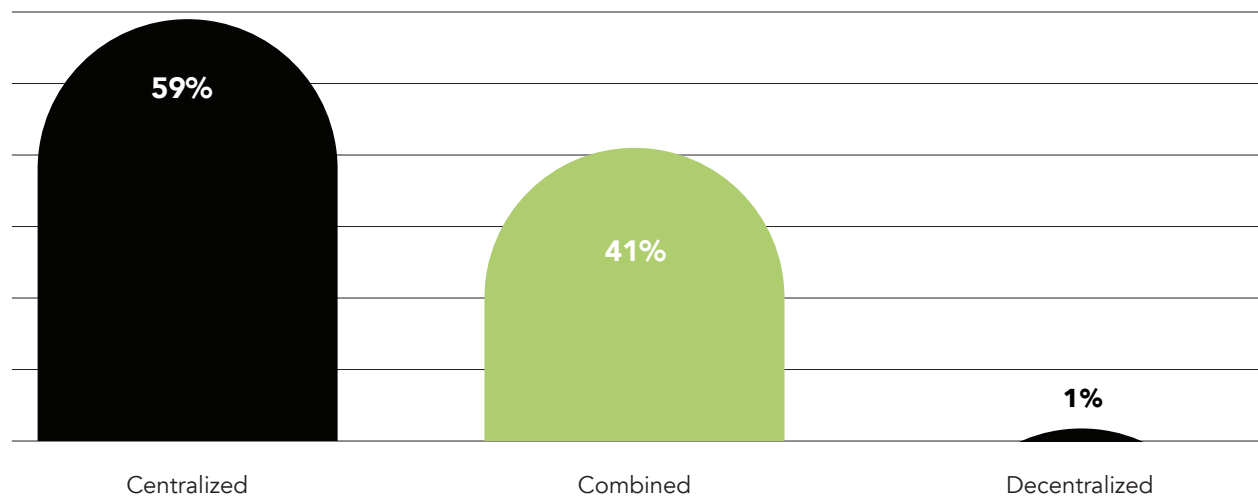


SECTION THREE: THE RESOURCES NEEDED AND WHERE TO PLACE THEM: STAFFING, CENTRALIZING PROGRAMS, AND EVOLVING BACKGROUNDS FOR E&C STAFF

The most common question organizations ask us is about staffing: whether they're staffed like their peers, with the right mix of backgrounds and in the right locations. While a majority of this year's honorees (59 percent) maintain a centralized program, with the majority of ethics and compliance staff located at headquarters, a significant number (41 percent) are implementing a "combined" ethics and compliance function.

In this approach, ethics and compliance personnel are located within business units but report into an ethics and compliance function at headquarters. Regardless of structure, an overwhelming majority of honorees (92 percent) maintain a "liaison" network, tasking non-ethics and compliance staff in their regions with serving as points of contact for the program. These liaisons are provided with a variety of resources to support that work.

Is your company's ethics and compliance function centralized, decentralized, or combined?

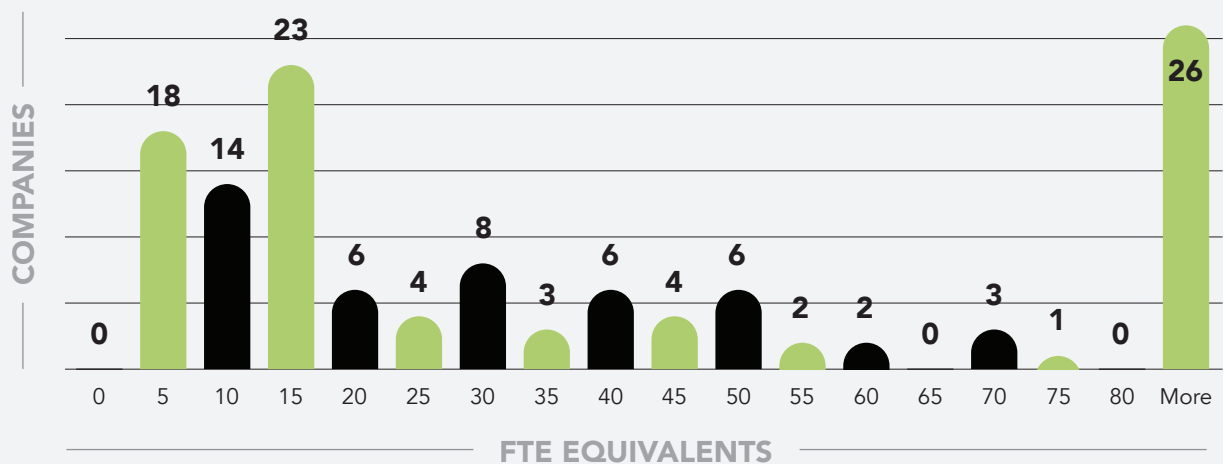


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Staffing levels depend dramatically on the nature of the organization. Not surprisingly, highly regulated organizations such as pharmaceutical companies, medical device companies, and those in the financial services space maintain larger staffs than companies in other industries. The median number of FTEs reported at honorees in highly regulated industries is 92.0, as

compared to 14.8 at non-highly regulated companies. Similarly, we found a difference between publicly traded organizations versus privately held or non-profit organizations, with a median 26.0 FTEs reported for public companies and just 15.0 for privately held or non-profit organizations.

What is the approximate number of full-time employee ("FTE") equivalents dedicated to ethics and compliance function/activities throughout your company?



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In 2019, for the first time, we also asked about the background of the ethics and compliance team. At 91 percent, "attorney" was the most common background for team members, but we were struck by the diversity of staff backgrounds reported, with "investigator," "auditor," "finance," "IT," "HR," and

"operations" all found at a majority of honorees. Fifty-five percent of honorees also reported a staff person with a background in data analytics on their team. As more companies seek to unlock the power of their aggregated data, we expect to see this number grow rapidly.

Please indicate the type of background(s) individuals in the ethics and compliance function possess. Please select all that apply.



Ways to Access Additional EQ Data

Since 2007, Ethisphere has been measuring companies using our Ethics Quotient® Survey (EQ). Our EQ, the foundation of all that we do, has evolved into a tool that global organizations depend upon as an independent, objective, third-party assessment of their programs, policies, and procedures and as a critical element of resource planning. The data we collect is included in our proprietary database, upon which all resulting comparisons, benchmarking reports, consultations, and recognitions are based.

For companies interested in learning more, Ethisphere provides several ways in which companies can leverage our EQ data and insights for practical program improvements:

Compliance Program Assessment

Deep Insight into Your Compliance & Ethics Program Effectiveness

Ethisphere's deepest evaluation offering—its Compliance Program Assessment—offers a comprehensive review, evaluation, and validation of your current programs and practices while fulfilling the Federal Sentencing Guidelines' element of "Periodic Review" of the program.

EQ Benchmarking and Road Map*

A Robust View into Your Program, Policies, and Procedures

Get a more complete understanding of your current program and practices with a robust view into your responses vs. leading and peer companies and present key findings to leadership with the EQ Peer Benchmarking Presentation.

Ethics & Compliance Program Maturity Index

Gauge the Temperature of Your Program

An efficient, self-driven assessment for identifying strengths and gaps of key program elements and benchmark practices against the World's Most Ethical Companies® in the areas of program structure, training and communications, and monitoring, auditing, and risk assessment.

Focused Facts*

Bespoke, Data-Driven Mini-Reports to Tackle Your Most Pressing Compliance Concerns

Focused Facts reports leverage all of Ethisphere's data sets to address your topical questions and concerns. Ethisphere's team of analysts will build a concise report customized to your most pressing compliance, ethics, and cultural concerns.

Measuring and Assessing Culture

Gain Insights into Your Most Critical Asset—Your Employees

Evaluate the effectiveness of your communication, training, and compliance efforts and the willingness of your people to raise concerns against our Eight Pillars of Ethical Culture. Using a proprietary library of survey questions, Ethisphere manages the complete administration of the survey, provides a qualitative analysis of your assessment findings, and gives you the tools to segment and explore areas of strength and opportunity across your enterprise.

*Indicates a service that is included with Ethisphere's Business Ethics Leadership Alliance (BELA) membership

For more information, contact Jonathan Whitacre at +1 (615) 210-2876 or jonathan.whitacre@ethisphere.com.

ABOUT ETHISPHERE

Ethisphere is the global leader in defining and codifying the standards of ethical business practices that fuel corporate character, marketplace trust, and business success. Ethisphere has deep expertise in advancing business performance through data-driven assessments, benchmarking, and guidance.

Our Ethics Quotient data set enables the ability to benchmark against the ethics and compliance practices of leading companies across sectors and industries. We also work with the world's largest companies to assess and enhance ethical culture capital with the insights from our culture assessment data set, which represents the views of millions of employees worldwide and is grounded in our Eight Pillars of Ethical Culture.

Ethisphere honors superior achievement through its World's Most Ethical Companies recognition program and by showcasing best practices in *Ethisphere Magazine* and at global events. We also facilitate the Business Ethics Leadership Alliance (BELA), a global community committed to solving the big challenges of business integrity together. More information about Ethisphere can be found at <https://ethisphere.com>.



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