ETHISPHERE®

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

An Ethisphere Insight Report Series

Volume 3: Maximizing the Effectiveness of Managers

Preface

As noted in both of the prior volumes in 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 BlackRock, 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 weighed in earlier this spring as it released additional 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.

In addition, for the last two years we have been doing a tremendous amount of work helping companies measure employee perceptions of their organization's ethical culture, focusing on the questions that matter most to an ethics and compliance team: will their people raise their hand when something goes wrong, to whom, and how do they feel about that process? Do they feel pressure to compromise company standards to achieve business objectives? Where does that pressure come from?

This report is based upon responses to the 2019 EQ and on our global Culture Quotient (CQ) dataset, which currently includes the responses of over 475,000 employees from over 50 companies, representing the views of over three million employees. For the first time, we are crossing our EQ data with our CQ data to discuss the linchpin of culture— managers—and how companies are working to reach managers and help them support an ethical culture. 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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Culture has been a growing topic of discussion over the last year. Large asset managers such as State Street have put boards and senior management teams on notice that they are interested in the topic, and regulators from the NY Federal Reserve to the UK Financial Reporting Council have indicated an increased focus on it. And culture was mentioned over a half-dozen times in the U.S. Department of Justice's guidance issued in April. In every case, though, those bodies also acknowledged that culture is intangible and thus a challenging area to measure, with State Street noting "oversight of corporate culture is inherently complicated in that, as an intangible, culture can be difficult to articulate or change. Further, changing corporate culture takes time and is often a multi-year exercise, the results of which are difficult to monitor."
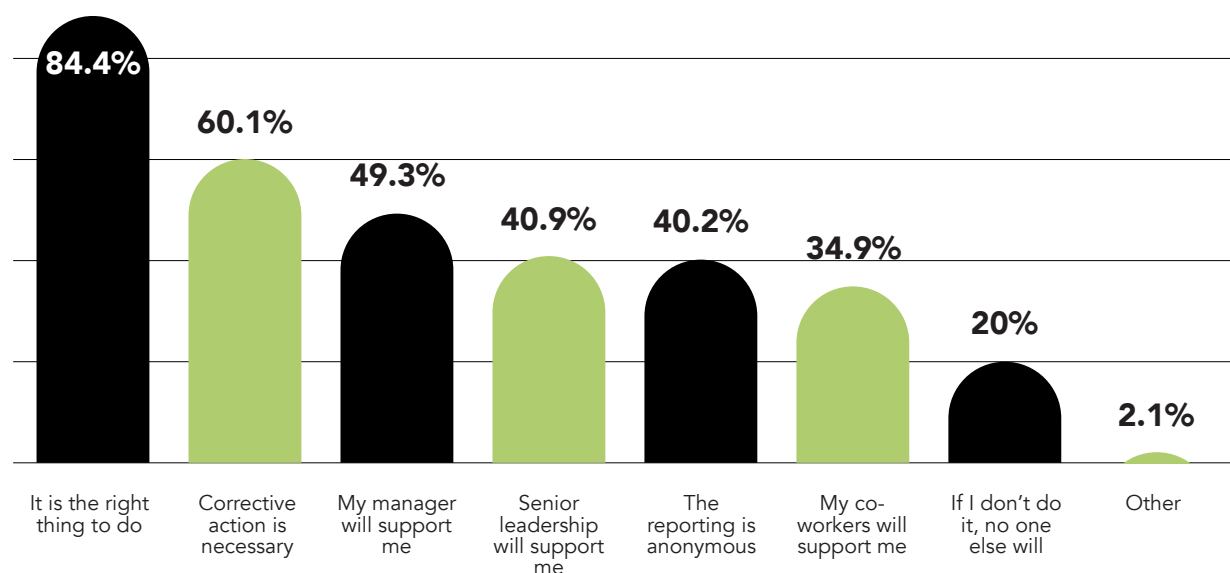
At Ethisphere, we look at culture through the lens of ethical culture. Our CQ survey is comprised of questions addressing our Eight Pillars of Culture that are designed to get at critical measures of ethical culture. The survey's themes include employee perceptions of the ethics and compliance program and its resources, the extent to which employees feel pressure to compromise company standards to achieve business objectives and where that pressure originates, and how employees feel about the leadership of senior executives. At its heart, the survey aims at the central question of whether the company has a speak up culture, one where employees have faith that the company will investigate concerns they raise. A speak up culture is one that empowers employees to raise concerns, and that kind of culture yields benefits that reach far beyond ethics. If an employee is comfortable asking a question about going to a game with a vendor, they are probably comfortable pointing out a flaw in a process or passing along a customer's comment about the company's product. All of those contribute considerably to the company's profitability and smooth operations. And the key to all of that—pressure to compromise company standards, perceptions of the behavior of senior leadership, and willingness to speak up—rests with one single role: an individual employee's manager.
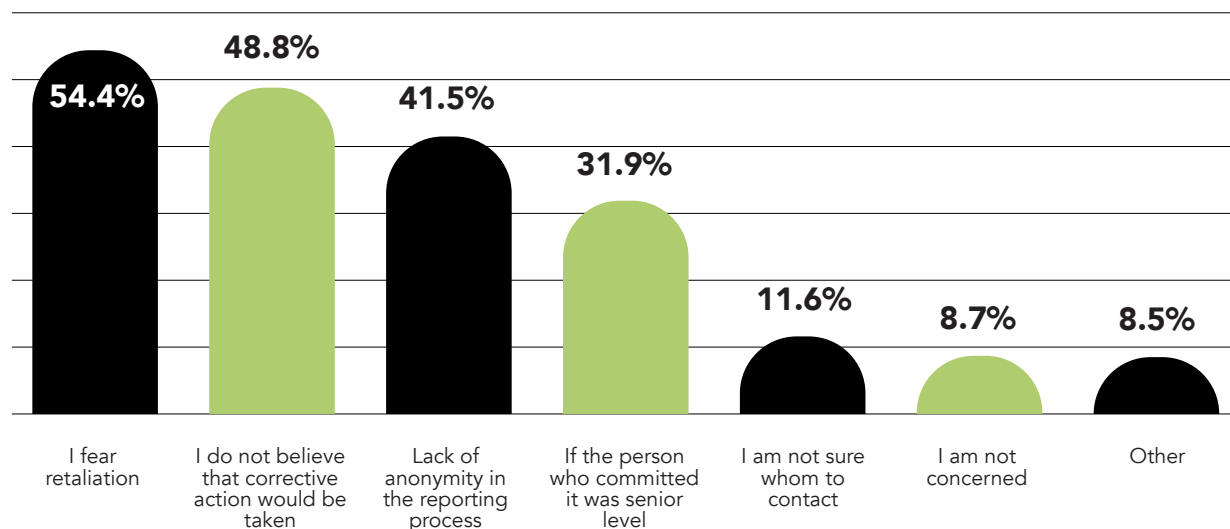
Why Managers Matter

When asked whether they would raise a concern if they witnessed misconduct, the vast majority of employees—92 percent—respond in the affirmative. The leading reason cited for that strong willingness to hypothetically report is that "it is the right thing to do," followed by "corrective action is necessary" and "my manager would support me." Conversely, for those employees who said they would not hypothetically report observed misconduct, a fear of retaliation was the most commonly cited reason, followed by a perception that the company would not investigate an issue.

"I would be willing to report the observed misconduct for the following reason(s)"

It is the right thing to do	Corrective action is necessary	My manager will support me	Senior leadership will support me	The reporting is anonymous	My co-workers will support me	If I don't do it, no one else will	Other
84.4%	60.1%	49.3%	40.9%	40.2%	34.9%	20%	2.1%

"I would not be willing to report the observed misconduct for the following reason(s)"

54.4% I fear retaliation	
48.8% I do not believe that corrective action would be taken	
41.5% Lack of anonymity in the reporting process	
31.9% If the person who committed it was senior level	
11.6% I am not sure whom to contact	
8.7% I am not concerned	
8.5% Other	

However, there is a stark difference between hypothetical willingness to report misconduct and actual reporting numbers. Only 55 percent of those who actually witnessed misconduct did in fact raise their hand to report it. And when they did so, the vast majority went to a person—their manager, their manager's manager, or a HR or compliance and ethics professional—rather than the hotline. In spite of all the efforts made by companies to promote alternative reporting channels, direct managers remain by far the most common reporting channel, with 61.1 percent of those employees who raised a concern doing so with their manager, as compared to only 11.1 percent who utilized the hotline. This preference for a person transcends generational differences as well; when sorted by tenure at the organization, the newest employees exhibit the same trend towards raising a concern to a person.

Respondents who used more than one reporting modality were asked to report their perceived satisfaction with how the process was handled for each modality. We often see a correlation between poor reporting channel satisfaction and reporting individuals leveraging multiple channels, a phenomenon we refer to as escalation creep in reporting. It is exactly what it sounds like: an individual raises a concern, does not feel like it was adequately addressed, and continues to raise it until they are satisfied the company looked into it adequately. Managers with effective skills, knowledge, and support can mitigate this issue. This becomes important, of course, because for every issue where an individual is motivated to escalate, there are usually many where the individual is not, and instead believes the company simply does not care about the issue they have raised. Understandably, this has a corresponding negative impact on their faith in the organization's commitment to an ethical culture.

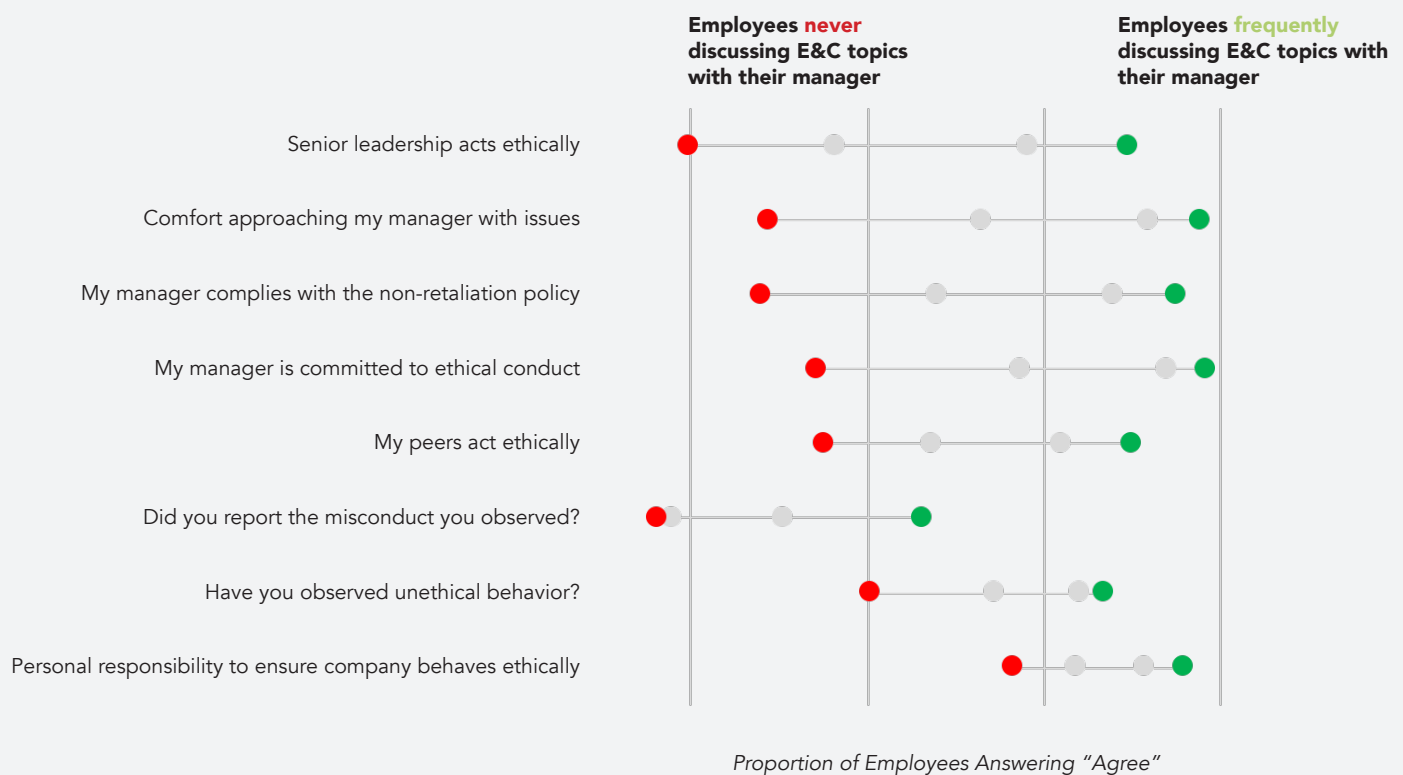| Modality Used to Report Misconduct	Percent (n=10,696)	% Satisfied
My immediate manager	61.1%	66.6%
Human Resources representative	36.3%	66.8%
My manager's manager	21.6%	64.9%
Other	16.6%	n/a
Compliance reporting helpline	11.1%	71.1%
Compliance and Ethics representative	8.7%	65.9%
Compliance web reporting portal	8.0%	68.3%

Satisfaction levels with manager reporting tend to vary significantly across an organization, with more people reporting either a satisfactory or unsatisfactory experience than a neutral experience. This seems to indicate that the issue is not trepidation about speaking to a manager per se, but rather each individual manager's way of handling reports. Hence, preparing managers to navigate these situations is key to building faith in the reporting process.

What really highlights the impact of a manager is our favorite data pivot, which sorts employee responses based on the answers to a question about how often their manager discusses ethics and compliance related topics with them, with answer options ranging from "frequently" to "never." The impact on a wide array of culture-related perceptions is dramatic. Among employees whose managers frequently discussed ethics and compliance related topics, we find significant faith in their manager's commitment to non-retaliation (94.6 percent), significant comfort levels in approaching a manager with concerns (97.6 percent), and higher than

average levels of reporting observed misconduct (65.9 percent as compared to the overall benchmark of 55 percent). Employees in this group were also more likely to believe that senior leaders acted ethically, and they themselves had a higher level of personal commitment to doing acting ethically as well.

In contrast, those employees whose managers never discussed ethics and compliance related topics were significantly less comfortable approaching those managers with questions (48 percent), almost 50 percent less likely to report faith in their manager's commitment to non-retaliation, less positive about senior leadership, and less personally committed to doing business the right way. In other words, training managers to disseminate the message of the importance of ethics is not just about preparing the managers themselves to act ethically. It's also about equipping them to instill comfort and confidence in their direct reports so they can internalize the message of ethics and support the program in their own work.

Employees never discussing E&C topics with their manager

Employees frequently discussing E&C topics with their manager

- Senior leadership acts ethically
- Comfort approaching my manager with issues
- My manager complies with the non-retaliation policy
- My manager is committed to ethical conduct
- My peers act ethically
- Did you report the misconduct you observed?
- Have you observed unethical behavior?
- Personal responsibility to ensure company behaves ethically

Proportion of Employees Answering "Agree"

Defining What's Good: Best Practices for Manager Support for Ethics and Compliance

• Include the "why" behind the "what," so managers understand why their responsibilities are critical

• Be clear about what issues managers are empowered to handle themselves and which concerns they should escalate and to whom

• Use storytelling for sharing manager-to-manager conversations using real-world examples

How to Reach Managers Effectively

Given the critical role that managers play in supporting a speak up culture, how can companies effectively engage them to make sure they have the tools and resources they need? One logical starting point is manager-specific training that goes beyond statutorily required training on identifying and preventing sexual harassment to address larger issues about communicating the importance of ethics. Seventy-three percent of honorees are providing such broad manager-specific training to all managers, while 25 percent are providing such training to some managers but not all. Just two percent indicated they are not providing such training to any of their managers, a three percent decrease since 2018.
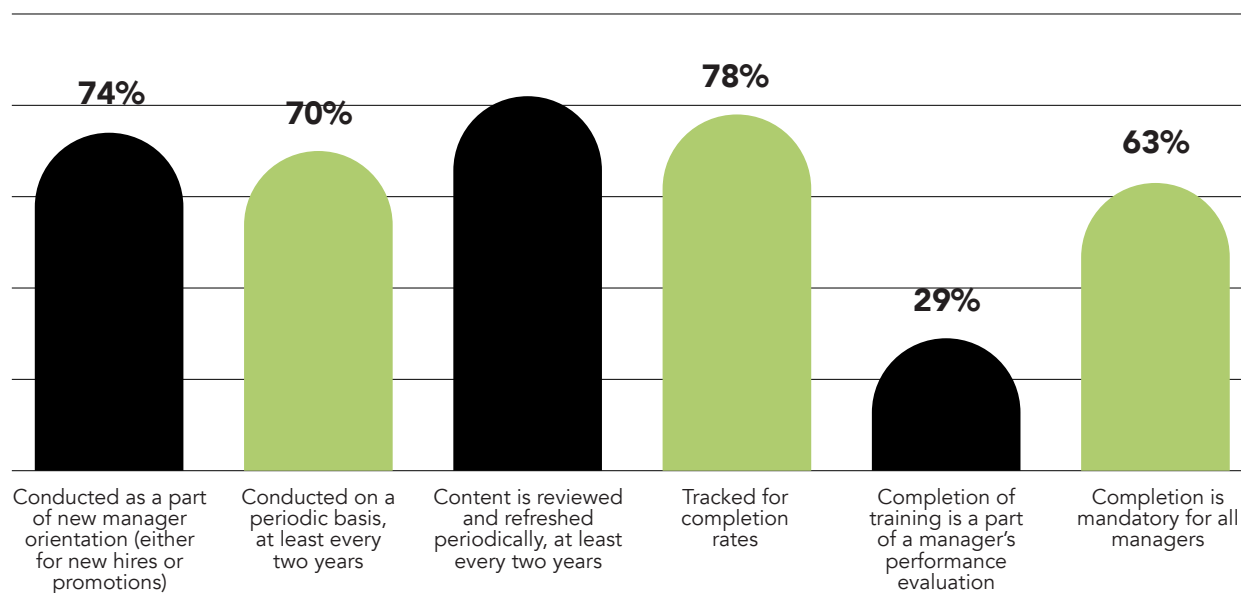
Many companies are focused on new managers. This is understandable, especially considering how many employees wind up in management for the first time. They're often promoted because they are solid individual contributors, and not because they have the skills needed to manage effectively. Accordingly, it is incumbent on their organizations to provide them with the skills they need to succeed in all dimensions of management. That said, experienced managers can also benefit from refresher training—which is why a majority of honorees indicate they're providing training on a periodic basis as well as during new manager orientation.

Does your company provide managers training on their special responsibilities with regards to encouraging and supporting compliant and ethical conduct?

73%	25%	2%
Yes, to all managers	Yes, to some managers but not all	No

Select the following that applies to manager training on ethics and compliance. (Multiple select)

74%	**70%**	**78%**	**78%**	**29%**	**63%**
Conducted as a part of new manager orientation (either for new hires or promotions)	Conducted on a periodic basis, at least every two years	Content is reviewed and refreshed periodically, at least every two years	Tracked for completion rates	Completion of training is a part of a manager's performance evaluation	Completion is mandatory for all managers

Manager training typically covers a wide variety of content, from the "why" component that sets the table about a manager's role in promoting a strong speak up culture (98 percent of honorees) to how to handle employee reports and the active listening skills needed to promote an open-door environment. Three-quarters of honorees are also discussing how to talk about ethics-related issues. In many cases, we see this

in the form of story-telling training, which encourages managers to find ways to discuss their own ethical decision-making processes. We also see a majority of honorees using senior leaders to lead the way on this type of tone-building, with 74 percent of companies reporting that senior executives use examples of moments of challenge in their own lives to illuminate their conversations around ethics and compliance.
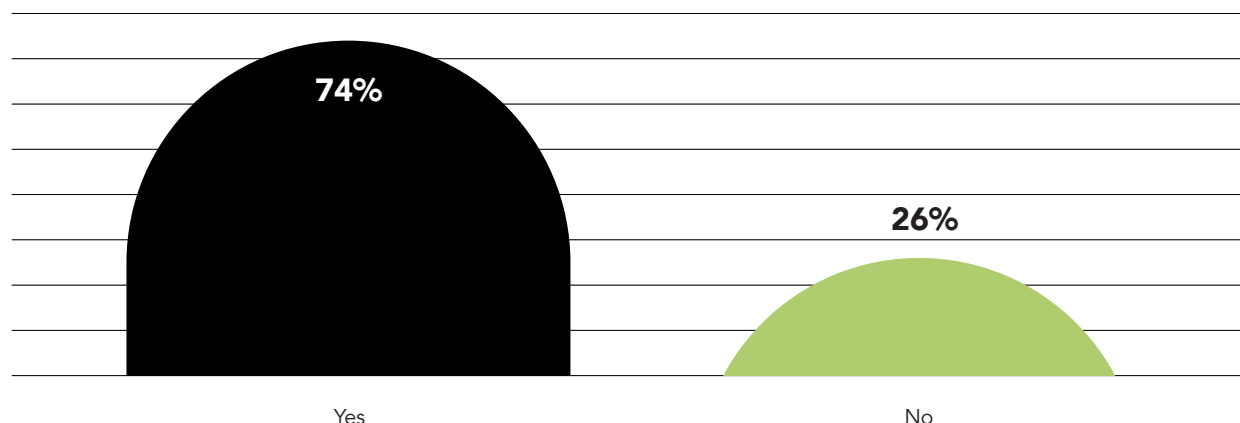
Select the following topics that are addressed by manager training. (Multiple select)

98%	**93%**	**92%**	**90%**	**86%**	**83%**	**78%**	**70%**	**66%**	**51%**
Promoting a culture of ethics and compliance	Creating and maintaining an open-door environment	Handling employee reports or concerns	Identifying and preventing retaliation	Incorporating ethics in business decision making	Understanding which types of concerns must be escalated	Communicating ethics to subordinates	Leveraging tools available to support effective manager communications	Understanding techniques to ensure active listening to employee concerns	Conducting employment interviews

Do senior executive leaders include examples of ethical decisions they have faced at various points of their career in their communications to employees, regardless of modality or format?
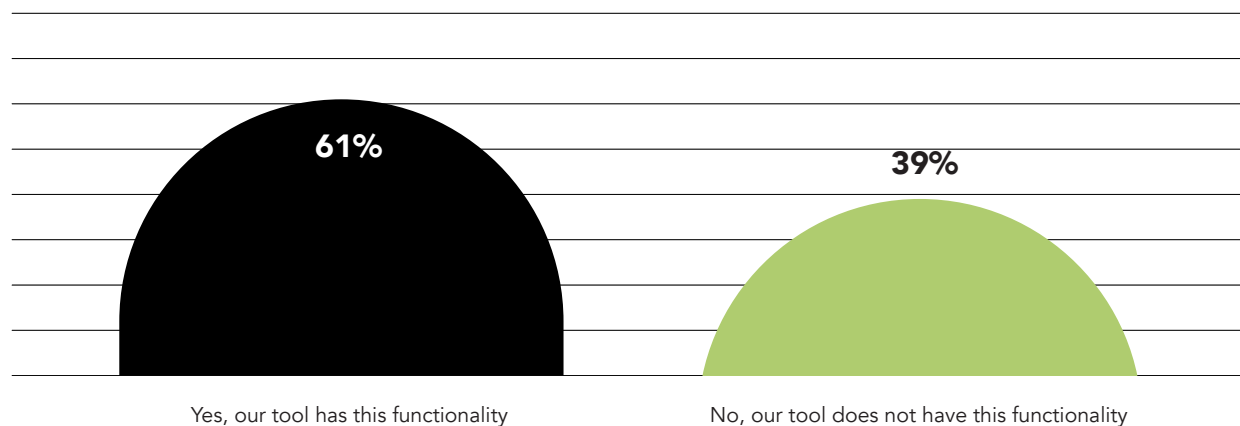
74%

26%

Yes

No

A majority of companies are not stopping at training, instead providing managers with a continuous flow of resources to allow them to hold a year-round conversation about ethics and integrity. We've seen the benefits of this approach reflected in our data. For some of the companies we work with, providing focused manager toolkits and encouraging managers to utilize them has led to as much as a 40 percent increase in employees' reported satisfaction rate when raising issues to their managers. The types of resources provided reflect a wide range of modalities to match an individual organization, with 80 percent of companies developing toolkits, three-quarters developing videos

that present discussions of ethical dilemmas, including from a fellow manager, and over half developing award programs to incentivize ethical conduct.

Recognizing that managers are the most frequently-used reporting channels, a majority of honorees offer an easy way for managers to log employee-reported issues in a centralized case management system. In some cases, this may be accomplished through managers passing along reports to ethics or compliance personnel, or by managers themselves entering the issues into the system. Regardless, capturing these open-door reports is critical to understanding the full universe of employees' concerns and questions.

Does your company's system or tool to manage reports and subsequent investigations allow a manager outside the ethics and compliance function to log a concern received from employees into it?

61%

39%

Yes, our tool has this functionality

No, our tool does not have this functionality

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 benchmarking 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

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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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