Office of Business Conduct and Ethics Program Review

Name and Title
Objectives - Three Parts to Presentation

Objectives of First Part:
- Review the current compliance and ethics landscape
- Provide an overview of data collected in initial assessment of existing program

Objectives of Second Part:
- Provide an assessment of current program against attributes of an effective ethics and compliance program
- Provide initial recommendations for enhancing the current program

Objectives of Third Part:
- Identify the specific actions for the next 12 months
- Propose timeline for remaining actions
The Business Case For Ethics and Compliance
The Cost of Failure is High

• Fines keep skyrocketing
  – BP $4.5B ($34B claim from the states)
  – GlaxoSmithKline $3B
  – Pfizer $2.3B
  – Johnson & Johnson $2.2B
  – HSBC $1.9B
  – Abbott Labs $1.5B
  – Eli Lilly $1.4B
  – Intel $1.4B
The Cost of Failure Is High

• The fines and penalties that make the headlines make up, on average, only 2-3% of the total costs to an organization

• “Hidden Costs” include:
  – Attorney and other professional fees
  – Lost opportunity costs
  – Employee retention effects
  – Brand and reputation issues
The Cost of Failure Is High

• The New York Times reported recently that Wal-Mart had incurred “$157 million of professional fees and expenses related to the ongoing FCPA matter during its last fiscal year and that it expect to incur an additional $40 to $45 million for the first quarter of fiscal 2014.”

• That’s approximately $604,000 in professional fees and expenses per working day.
The Other Side of The Coin

• Known declinations are hard to pin down, but there are exceptional cases

• Morgan Stanley -- April 2012:

  “After considering all the available facts and circumstances, including that Morgan Stanley constructed and maintained a system of internal controls, which provided reasonable assurances that its employees were not bribing government officials, the Department of Justice declined to bring any enforcement action against Morgan Stanley”
Proactive Action

• A targeted, well-resourced ethics and compliance program delivers results in lower misconduct instances and higher detection rates

• Building a strong culture that includes everyone encourages reporting and discourages misconduct through transparency

• Understanding compliance risks is key to marshalling resources effectively
Real Results

Companies with a strong ethical culture are much less likely to experience misconduct.


Companies with a weak ethical culture experience up to TEN TIMES more misconduct than companies with strong ethical cultures.

Compliance and Ethics Leadership Council, Corporate Executive Board.
Strength of Culture Matters

% of Employees that Observed Misconduct in Previous 12 Months

Source: 2011 NBES Survey, Ethics Resource Center
Strong Programs Drive Strong Culture

% of Organizations w/ Strong or Strong-Leaning Culture

- Little/No Program: 23%
- Poorly Implemented: 57%
- Well-Implemented: 86%

Source: 2011 NBES Survey, Ethics Resource Center
Regulator’s Expectations

• Regulators and prosecutors expect ethics and the promotion of an ethical culture to be part of a well-governed organization.

• Three sources that show this are the US Federal Sentencing Guidelines, the recent DOJ/SEC FCPA guidance and the US Atty’s Manual which states:

  “A corporation is directed by its management and management is responsible for a corporate culture.”
A Focus on Ethics Drives Returns

Source: Ethisphere Institute
Average Shareholder Return Over Ten Years

Top Quartile for Culture: 8.8%
Bottom Quartile for Culture: -7.4%

Top quartile companies outperformed bottom quartile companies by over 16% in total return to shareholders over ten years.

Source: Corporate Executive Board, 2012
Key Takeaways

• Ethics and Compliance is a bottom-line issue and program costs are minimal compared to fines and associated losses.

• Ethics and Compliance is part of any strategic plan for performance and can be a driver for recruitment, reputation, partnership and investment.
[Enter Year] Program Assessment

Items Considered:

- Helpline Contacts
- Employee Engagement Survey
- Employee Focus Groups
- Senior Management Meetings
- Training Records
- Compliance and Ethics Communications
- Best Practices
## Helpline Contacts

<table>
<thead>
<tr>
<th>OBCE Contact Statistics</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Helpline Contacts</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Anonymous Contacts</td>
<td></td>
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<td></td>
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<tr>
<td>Anonymous – No Action or Investigation Warranted</td>
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<tr>
<td>Prior Management Notification</td>
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## Helpline Contacts by Type

<table>
<thead>
<tr>
<th>OBCE Contact Statistics</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Matters</td>
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<tr>
<td>Misuse of Assets (Theft, Disclosure of Confidential Information)</td>
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<tr>
<td>Environmental Health and Safety</td>
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<tr>
<td>Corruption, Fraud &amp; Bribery</td>
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</tr>
<tr>
<td>Accounting, Auditing or Internal Controls</td>
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<td></td>
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<tr>
<td>Other Law, Code or Policy Violation</td>
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<td></td>
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<tr>
<td>Request for Guidance or Approval</td>
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</tbody>
</table>
Total Employees Worldwide

- U.S.
- Asia
- Middle East and Africa
- South and Latin America
Cycle Time

2010

- Orange: Less Than 24 hours
- Red: 2 days or less
- Green: 7 days or less
- Purple: 14 days or less
- Dark Blue: 15 days or more
- Brown: 30 days or more

2012

- Brown: 2 days or less
- Green: 7 days or less
- Purple: 14 days or less
- Dark Blue: 15 days or more
- Orange: 30 days or more
Intake Method

2010

- Email
- Webform
- In Person
- Phone
- Fax

2012

- Email
- Webform
- In Person
- Phone
- Fax
**Case Handling**

- Immediate Response w/Guidance
- No Investigation or Action Warranted
- Investigated, Corrective Action Taken
- Investigated, No Action Warrented
- Referred Contact to Resource

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>Immediate Response w/ Guidance</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>No Investigation or Action Warranted</td>
<td>15%</td>
<td>20%</td>
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<tr>
<td>Investigated, Corrective Action Taken</td>
<td>25%</td>
<td>30%</td>
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<tr>
<td>Investigated, No Action Warrented</td>
<td>15%</td>
<td>10%</td>
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<tr>
<td>Referred Contact to Resource</td>
<td>20%</td>
<td>15%</td>
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Helpline Trends

- Enter Trend
- Enter Trend
Employee Engagement Survey - [if applicable]

Enable the achievement of business results... 
by raising levels of employee engagement...
through measurement, diagnosis, and action taking...
as a result of deploying an employee survey process.

Survey included questions aimed at measuring commitment and adherence to the principles and values in our Code of Business Conduct and Ethics, including:

- Enter question
- Enter question
- Enter question
- Enter question
- Enter question
[Enter Year] Employee Engagement Survey and [Enter Year] Focus Groups Key Findings

Note 1 - Enter any data notes
Note 2 - Enter any data notes

Key Findings:

☐ Enter Key Finding

☐ Enter Key Finding
<table>
<thead>
<tr>
<th>Year</th>
<th>Education Information</th>
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<tbody>
<tr>
<td>2009</td>
<td>Enter Course and Completion Information</td>
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<tr>
<td>2010</td>
<td>Enter Course and Completion Information</td>
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<tr>
<td>2011</td>
<td>Enter Course and Completion Information</td>
</tr>
<tr>
<td>2012</td>
<td>Enter Course and Completion Information</td>
</tr>
</tbody>
</table>
Program Communications 2012

1Q2012
Enter Communication - Date, Type and Title

2Q2012
Enter Communication - Date, Type and Title

3Q2012
Enter Communication - Date, Type and Title

4Q2012
Enter Communication - Date, Type and Title
Key Initiatives this Year

List Key Initiatives for next 12 months
Three Year Plan

2013

2014

2015
Questions
Backup Slides
Oversight, Accountability & Resources

As Is: 

Future State: 
Standards & Controls

As Is:  Future State:

Notes:
Effective Training & Communication

As Is:  

Future State:

Notes:
Evaluation, Monitoring & Auditing

As Is:  Future State:

Notes:
Enforcement, Discipline & Incentives

As Is:  

Future State:

Notes:
Due Care in Delegating Authority

As Is:

Future State:

Notes:
Response & Continuous Improvement

As Is:  

Future State:  

Notes:
Key Sources - Effective Ethics and Compliance Program

United States Sentencing Commission
Chapter 8, Sentencing of Organizations

United States Department of Justice
*United States Attorneys’ Manual (August 2008)*
Principles of Federal Prosecution of Business Organizations
Existence and effectiveness of a corporation’s pre-existing compliance and ethics program (§ 9-28.300 and 9-28.800)

Sarbanes-Oxley Act of 2002
§ 301 - Anonymous Reporting Line
§ 406 - Code of Ethics for Senior Financial Officers
Key Sources - Effective Ethics and Compliance Program

Organisation for Economic Cooperation and Development
*Good Practice Guidance on Internal Controls, Ethics, and Compliance (2009)*

U.S. Department of Justice and U.S. Securities and Exchange Commission

Serious Fraud Office
*UK Bribery Act 2010 Guidance Adequate Procedures*