OBJECTIVES FOR OUR MEETING

Key Goals

1. Benchmark current program structure, resources and performance against peers.

2. Better understand the components of program effectiveness and the activities that drive it.

3. Walk away with at least one idea to improve compliance and ethics program effectiveness.
INCREASING REGULATORY COMPLEXITY

Legislation and Enforcement That Impacts the Energy and Utilities Industries

- Regulatory complexity across a greater number of jurisdiction only increases difficulties of meeting changing energy production and distribution demands.
- The financial crisis altered the relationship among governments, companies, and consumers, increasing regulatory scrutiny on all companies.

Impeding Business

- The unintended consequence of Section 6 of the UK Bribery Act is to potentially criminalize perfectly legitimate and proportionate promotional expenditure and hospitality practices. For the pharmaceutical industry, it could therefore impede the vital interaction between the industry and government-employed health care professionals and have far-reaching ramifications. In countries such as China, virtually every doctor is government-employed. *British Corporate Compliance Office, Fortune 500 Company*

- UK Bribery Act—Britain's new law increases pressure on multinational companies to revise their anti-bribery controls and procedures.

EPA—Regulating carbon emissions to address greenhouse gas.

EU Data Privacy Directive—Complying with existing data privacy protections in Europe continues to present a challenge, especially as individual European countries roll out distinct provisions.

Consumer Protection—Modernizing the toxic substances act.

Heightened Enforcement

- In 2009, there were 168 foreign bribery enforcement cases in the United States.
- FEAC enforcement staff received 93 self-reports in FY2010, down from 122 in FY2009. However, more non-disclosed investigations were opened in 2010 than in 2009.
- OSHA launched New Violator Program, enhancing enforcement and increasing penalties.

- Corporate Compliance Office, Fortune 500 Company

ROAD MAP FOR THE PRESENTATION

Current State of Compliance and Ethics

Program Effectiveness and Assessment

Impact of Corporate Culture on Program Performance

Q&A
A range of companies in the energy and utilities industry responded to our biennial State of the Compliance and Ethics Function Survey.

- A total of 192 members across multiple industries participated in our survey that tests core program elements including the following:
  - Program structure
  - Reporting lines
  - Budget size and allocation
  - Compliance activities and effectiveness
  - Allegations and investigations.

CELC’s State of the Function Survey: Demographics

Respondents by Revenue
Energy and Utilities Industry Respondents

- 6% Less Than $1 Billion
- 16% $1-1.99 Billion
- 30% $2-5.99 Billion
- 16% $6-9.99 Billion
- 12% $10-19.99 Billion
- 37% $20-49.99 Billion
- 8% $50-99.99 Billion
- 4% More Than $60 Billion

n = 23.

Respondents by Employee Size
Energy and Utilities Industry Respondents

- 46% Fewer Than 5,000
- 21% 5,000 to 9,999
- 12% 10,000 to 19,999
- 20% 20,000 to 49,999
- 4% 50,000 to 99,999

n = 23.

Program Budgets Remain Flat

Compliance budgets in the energy and utilities industries remain below those of other highly regulated industries.

- Less than 20% of respondents expect to increase the program’s budget in 2011.
- Salaries and benefits make up the largest piece of the compliance budget, with limited resources to devote elsewhere.

Median 2010 Compliance and Ethics Budgets (in USD Millions)

<table>
<thead>
<tr>
<th>Energy and Utilities</th>
<th>Insurance</th>
<th>Health Care/Insurance</th>
<th>Finance</th>
<th>Retail</th>
<th>Technology/Performance</th>
<th>Compliance-Related</th>
<th>Technology/Regulatory</th>
<th>Training/Compliance</th>
<th>Controls</th>
<th>Compliance and Ethics</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.0 Million</td>
<td>3.1</td>
<td>2.7</td>
<td>10.0</td>
<td>3.1</td>
<td>2.7</td>
<td>1.0</td>
<td>1.0</td>
<td>3.1</td>
<td>1.0</td>
<td>10.0</td>
<td>3.1</td>
</tr>
</tbody>
</table>

n = 17.

Forecast Change in Compliance Budget for 2011 (in Millions)
Energy/Utility Industry Respondents

- 15.6% Increase
- 7.8% Decrease
- 51.3% No Change
- 45% Other

n = 17.

Average Distribution of 2010 Compliance and Ethics Budget
Energy/Utility Industry Respondents

- 50% Salaries, Benefits, and Training
- 15% Outside Consultants
- 10% Travel
- 6% Technology Performance
- 4% Technology Regulatory
- 4% Training/Compliance/Communication
- 4% Business Controls
- 4% Other
As in 2008, a majority (54%) of compliance and ethics programs reside in the legal department.

- Energy companies locate the compliance and ethics program in the Legal department almost twice as frequently as do Utility companies.

### CORPORATE LOCATION OF THE COMPLIANCE PROGRAM

<table>
<thead>
<tr>
<th>Industry</th>
<th>Legal Department</th>
<th>Independent Function</th>
<th>Other Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy (n = 11)</td>
<td>64%</td>
<td>27%</td>
<td>9%</td>
</tr>
<tr>
<td>Utilities (n = 13)</td>
<td>54%</td>
<td>38%</td>
<td>18%</td>
</tr>
<tr>
<td>All Companies (n = 196)</td>
<td>54%</td>
<td>25%</td>
<td>21%</td>
</tr>
</tbody>
</table>

1. Other Locations include the risk function, internal audit, finance, human resources, operations, and other functions.

### SHIFT IN COMPLIANCE REPORTING LINES

Compliance and ethics programs most frequently maintain direct-line reporting to the General Counsel:

- In the energy and utilities industries, sixty-four and twenty-three percent of compliance and ethics officers directly report to the GC, respectively.

CELC analysis finds that reporting to the CEO and Board leads to greater satisfaction with program structure and is more important for than either program independence or location.

### SHIFT IN COMPLIANCE REPORTING LINES

<table>
<thead>
<tr>
<th>Primary Reporting Relationship of the Chief Compliance and Ethics Officer</th>
<th>Percentage of Programs, 2006 Through 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access Matters</td>
<td>Satisfactions (very satisfied = 5, very dissatisfied = 1)</td>
</tr>
<tr>
<td>Board Audit Committee</td>
<td>44%</td>
</tr>
<tr>
<td>CEO</td>
<td>46%</td>
</tr>
<tr>
<td>Chief Risk Officer</td>
<td>22%</td>
</tr>
<tr>
<td>Board Compliance Committee</td>
<td>14%</td>
</tr>
<tr>
<td>Head of Human Resources</td>
<td>10%</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>12%</td>
</tr>
<tr>
<td>Internal Audit Director</td>
<td>9%</td>
</tr>
<tr>
<td>Access to Board of Directors</td>
<td>4%</td>
</tr>
<tr>
<td>Access to Chief Compliance Officer</td>
<td>2%</td>
</tr>
<tr>
<td>Access to General Counsel</td>
<td>1%</td>
</tr>
<tr>
<td>Access to All Board Directors</td>
<td>1%</td>
</tr>
<tr>
<td>Access to Human Resources</td>
<td>1%</td>
</tr>
</tbody>
</table>

1. Satisfactions were evaluated on a five-point scale (very satisfied = 5, very dissatisfied = 1).
Compliance and Ethics staff sizes remain relatively unchanged over the past year:

- On average, more than half of FTE compliance and ethics staff are located in the business.
- A higher proportion of FTE staff located in the business is significantly related with greater effectiveness at developing policies and procedures and driving investigations.

**Embedding Compliance and Ethics Staff in the Business**

 Median 2009-2010 Compliance and Ethics FTEs

<table>
<thead>
<tr>
<th>Industry</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>9.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Utilities</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>All Companies Median</td>
<td>7.5</td>
<td>6.5</td>
</tr>
</tbody>
</table>

**Ratio of Embedded and Non-Embedded Compliance and Ethics Staff, by Industry**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage of Compliance FTEs Located in Business</th>
<th>Percentage of FTE Compliance and Ethics Staff Located in the Business, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>(62%)</td>
<td>(62%)</td>
</tr>
<tr>
<td>Utilities</td>
<td>(38%)</td>
<td>(62%)</td>
</tr>
<tr>
<td>All Companies</td>
<td>(59%)</td>
<td>(59%)</td>
</tr>
</tbody>
</table>

1 Sample sizes were not sufficient to display ratios for all industry groups.

**The Compliance and Ethics Risk Dashboard**

*Health, safety, and environmental concerns continue to be top of mind for energy and utilities companies.*

- Not surprisingly, data privacy and bribery have grown in importance over the last five years.

**Most Significant Compliance Risks** Percentage of Energy/Utilities Companies Selecting as a Top-Three Risk, 2010

<table>
<thead>
<tr>
<th>Risk</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health/Safety Policy, Regulation, or Law Violations</td>
<td>52%</td>
</tr>
<tr>
<td>Environmental Regulation or Law Violations</td>
<td>43%</td>
</tr>
<tr>
<td>Data Privacy</td>
<td>26%</td>
</tr>
<tr>
<td>Bribery and Corruption</td>
<td>22%</td>
</tr>
</tbody>
</table>

**Type of Risk Assessment Process** Percentage of Energy/Utilities Respondents, 2010

<table>
<thead>
<tr>
<th>Process</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top-Down</td>
<td>33%</td>
</tr>
<tr>
<td>Bottom-Up</td>
<td>37%</td>
</tr>
<tr>
<td>Hybrid</td>
<td>27%</td>
</tr>
<tr>
<td>Already Integrated with ERM</td>
<td>23%</td>
</tr>
</tbody>
</table>

**Integration of Compliance Risk Assessment Activities with ERM Efforts** Percentage of Energy/Utilities Respondents, 2010

<table>
<thead>
<tr>
<th>Integration</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top-Down</td>
<td>33%</td>
</tr>
<tr>
<td>Bottom-Up</td>
<td>27%</td>
</tr>
<tr>
<td>Hybrid</td>
<td>30%</td>
</tr>
</tbody>
</table>

High Stakes

“We’ve opened more investigations, we’ve had more convictions, higher penalties and fines in the last two years than we’ve had in any other two-year period.”

Tony West  
Assistant Attorney General, Civil Division  
U.S. Department of Justice
Allegations per employee are generally high across “regulated” industries, particularly in the utilities sector.

- Across all industries, 54% of allegations are reported through the hotline.
- Average investigation case cycle time is 42 days.

**COMPLIANCE AND ETHICS ALLEGATIONS PER EMPLOYEE**

Total Allegations and Hotline Allegations, by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Allegations</th>
<th>Hotline Allegations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and Financial Services</td>
<td>23.2</td>
<td>10.2</td>
</tr>
<tr>
<td>Insurance</td>
<td>17.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Health Care and Health Insurance</td>
<td>6.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Pharmaceuticals and Biotechnology</td>
<td>9.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Utilities</td>
<td>6.9</td>
<td>4.2</td>
</tr>
<tr>
<td>High Technology and Telecommunications</td>
<td>6.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Consumer Products, Food, and Tobacco</td>
<td>6.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Manufacturing/Auto/Heavy Manufacturing</td>
<td>6.9</td>
<td>5.4</td>
</tr>
</tbody>
</table>

**Average investigation case cycle time is 42 days.**

**Across all industries, 54% of allegations are reported through the hotline.**

**Average investigation case cycle time is 42 days.**

**ROAD MAP FOR THE PRESENTATION**

- Current State of Compliance and Ethics
- Program Effectiveness and Assessment
- Impact of Corporate Culture on Program Performance
- Q&A
While the goals and value of program assessments vary by purpose and audience, the outcome should reinforce a standing program objective.

- Whenever possible, assessment should be based on actual regulatory results or changes in observed employee behavior.
- Methods for assessment vary by element, but include:
  - Self-Assessment
  - Internal Efficiency Review
  - Industry Benchmarks
  - Peer Review
  - Regulatory Review
  - External Assessment

**WHAT CONSTITUTES AN EFFECTIVE PROGRAM**

Program Elements for Possible Evaluation Elements in Typical Program Review

- Measuring and Reporting Effectively
  - Monitoring and Auditing
  - Reporting and Disclosures

Risk Management
- Compliance and Ethics Risk Assessment
- Regulatory Compliance

Policies, Procedures, and Controls
- Policies and Procedures
- Records Management and Compliance Documentation

Training, Communication, and Culture
- Compliance and Ethics Training
- Corporate Culture
- Employee Incentives

Investigations and Discipline
- Hotline Usage and Metrics
- Investigation Procedures

Program Design and Structure
- Governance and Structure
- Delegation of Authority

Measuring Program Effectiveness

**Key Challenges**

1. **Identifying Credible Indicators of Program Performance**—It is hard to establish indicators when regulatory expectations constantly change and management behaviors are hard to objectively assess.

2. **Finding Relevant Data**—It is hard to find meaningful benchmarking data with actionable analytics.

3. **Achieving Consistency in Program Monitoring**—It is hard to develop a useful frame for evaluating program success and ensuring consistency and objectivity in its use.

4. **Prioritizing Activities Based on Measurements**—It is hard to take meaning from existing metrics.

**THE BALANCED COMPLIANCE SCORECARD**

Potential Program Metrics

**Functional Metrics**

- Measures the efficiency at which compliance and ethics programs meet objectives. Metrics include the following:
  - Number of identified compliance gaps, material weaknesses, or policy violations
  - Compliance cost per $Billion in gross revenue
  - Number of operational process improvements made annually
  - Allegation and investigation case-cycle time
  - Inventory of relevant policies, procedures, and guidelines is maintained and easily accessible

**Employee/Cultural Metrics**

- Measures the cultural condition in which employees operate, likely adherence to policies, and general susceptibility for misconduct. Metrics include the following:
  - Percentage of employees who feel direct manager respects his/her employees
  - Percentage of employees who fear retaliation in response to reported allegations
  - Company responds quickly and consistently to verified or proven unethical behavior
  - Percentage of employees who feel direct manager respects his/her employees
  - Percentage of employees who feel direct managers quickly respond to minimize operational problems when they are identified
  - Deviation from training plan goal

**Regulatory Metrics**

- Measures ability to meet expectations of key regulators, corporate monitors, or other governmental bodies. Metrics include the following:
  - Number of regulatory violations compared to industry average
  - Regulatory examination results
  - Risk assessment results and resultant process changes
  - Year-over-year volume and costs of fines, penalties, and legal settlements
  - Timeliness of reporting trading activities

**Operating Business Metrics**

- Measures ability to facilitate business growth while still ensuring compliance. Metrics include the following:
  - Feedback from senior business leaders on compliance’s effectiveness and support
  - Efficiency of regulatory approval process
  - Demonstrated business knowledge and acumen of compliance staff
  - Applicability of discretionary compliance training materials

To accurately assess performance, compliance and ethics officers must capture feedback from a range of stakeholders.

- Effective compliance and ethics programs satisfy competing stakeholder demands (governments/regulators, investors, public) while enabling the business to operate successfully.
- This presentation will focus on measurement of functional and employee/cultural metrics.
Energy/Utility programs feel most effective at investigations and training activities.

- Industry respondents consider themselves less effective driving program outcomes (e.g., measuring effectiveness or improving risk management).

**WHAT DO WE DO WELL?**

Assessment of Activity Effectiveness
Energy/Utility Industry Respondents, 2010

<table>
<thead>
<tr>
<th>Policy/Program Area</th>
<th>Very Effective</th>
<th>Ineffective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measuring and Reporting Effectively</td>
<td>3.64</td>
<td>1.71</td>
</tr>
<tr>
<td>Risk Management</td>
<td>3.66</td>
<td>3.44</td>
</tr>
<tr>
<td>Training and Communication</td>
<td>4.04</td>
<td>2.60</td>
</tr>
<tr>
<td>Investigations</td>
<td>4.30</td>
<td>2.54</td>
</tr>
<tr>
<td>Compliance and Ethics Training Program</td>
<td>4.37</td>
<td>2.70</td>
</tr>
<tr>
<td>Compliance and Ethics Risk Management</td>
<td>4.37</td>
<td>2.70</td>
</tr>
<tr>
<td>Compliance and Ethics Risk Monitoring</td>
<td>4.37</td>
<td>2.70</td>
</tr>
<tr>
<td>Compliance and Ethics Risk Mitigation</td>
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<td>2.70</td>
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<td>2.70</td>
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<td>2.70</td>
</tr>
<tr>
<td>Compliance and Ethics Risk Mitigation</td>
<td>4.37</td>
<td>2.70</td>
</tr>
</tbody>
</table>

**DETERMINING COMPLIANCE AND ETHICS PRIORITIES**

Priority Scores2 of Compliance Activities
Top Eight Priority Scores for Compliance Activities, Energy/Utility Respondents 2010

<table>
<thead>
<tr>
<th>Priority Score</th>
<th>Activity Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.72</td>
<td>Program Effectiveness</td>
</tr>
<tr>
<td>6.21</td>
<td>Risk Assessment</td>
</tr>
<tr>
<td>6.11</td>
<td>Compliance and Ethics Risk Management</td>
</tr>
<tr>
<td>6.06</td>
<td>Compliance and Ethics Risk Monitoring</td>
</tr>
<tr>
<td>2.95</td>
<td>Compliance and Ethics Risk Mitigation</td>
</tr>
<tr>
<td>2.79</td>
<td>Program Effectiveness</td>
</tr>
<tr>
<td>2.70</td>
<td>Program Effectiveness</td>
</tr>
</tbody>
</table>

**Notes:**
1. Effectiveness was evaluated on a five-point scale (Very Effective = 5, Very Ineffective = 1).
2. Priority scores are calculated by (Importance - Current Effectiveness) × Importance. The result is a weighted score highlighting the relative importance of a particular activity toward program success.

On average, programs place a higher priority on compliance training and enforcing policies and procedures.

- Energy and utility companies show the greatest opportunity for investment in regulatory tracking, risk assessment, and training.
ROAD MAP FOR THE PRESENTATION

Current State of Compliance and Ethics ➔ Program Effectiveness and Assessment ➔ Impact of Corporate Culture on Program Performance ➔ Q&A

CELC'S CULTURAL DIAGNOSTIC SURVEY

The Council's Cultural Diagnostic Employee Survey and Scale

Survey Statements

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Slightly Agree</th>
<th>Neither</th>
<th>Slightly Disagree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I can report unethical behavior or practices without fear of retaliation. My company responds quickly and consistently to verified or proven unethical behavior.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am often exposed to situations that could lead to inappropriate conduct.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key Demographics of Survey Participants to Date

- Multiple Industries: Participating companies represent the following industries: Energy, Mining and Gas, Insurance, Pharmaceuticals, Financial Services, Retail, Construction and Building, Professional Services, Call Centers, Human Resources, and Consumer Product Goods.

- Global Coverage: Respondents work in more than 80 countries across North America, Europe, Asia, the Pacific Rim, and Latin America.

- All Employees Levels: Employees at all levels, from the CEO and senior management to middle management and frontline employees.

- All Business Functions: Respondents represent all business functions, including Finance, Sales, Marketing, Information Technology, Call Centers, Human Resources, and Manufacturing.

Note: All questions were coded or recorded in such a way to directionally be on the same scale.
Employees with “Least Favorable” perceptions of company culture are nearly 10 times more likely to observe misconduct than employees with “Most Favorable” perceptions of culture.

- Interestingly, employees with “Neutral” perceptions are the group most likely to answer “don’t know” when asked if they observed misconduct at their company in the past year. This suggests that “Neutral” employees lack the awareness needed to identify misconduct in the workplace.

- The solution for improving perceptions of corporate integrity for “Neutral” employees should include training and communications that address what constitutes misconduct in the workplace, as well as the importance of reporting.

---

**LARGE INTEGRITY VARIATIONS EXIST ACROSS BUSINESS UNITS**

Impact of Culture on Misconduct and Reporting Rates

Findings from CELC’s Cultural Diagnostic Survey for One Company

---

**IMPROVING CULTURE REDUCES MISCONDUCT**

Distribution of Employees By Overall Perception of Culture¹

Percentage of 2009 Respondents in Each Category and Their Corresponding Observation/Reporting Rates

- Employees with “Least Favorable” perceptions of company culture are nearly 10 times more likely to observe misconduct than employees with “Most Favorable” perceptions of culture.

- Interestingly, employees with “Neutral” perceptions are the group most likely to answer “don’t know” when asked if they observed misconduct at their company in the past year. This suggests that “Neutral” employees lack the awareness needed to identify misconduct in the workplace.

- The solution for improving perceptions of corporate integrity for “Neutral” employees should include training and communications that address what constitutes misconduct in the workplace, as well as the importance of reporting.

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**LARGE INTEGRITY VARIATIONS EXIST ACROSS BUSINESS UNITS**

Impact of Culture on Misconduct and Reporting Rates

Findings from CELC’s Cultural Diagnostic Survey for One Company

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**IMPROVING CULTURE REDUCES MISCONDUCT**

Distribution of Employees By Overall Perception of Culture¹

Percentage of 2009 Respondents in Each Category and Their Corresponding Observation/Reporting Rates

- Employees with “Least Favorable” perceptions of company culture are nearly 10 times more likely to observe misconduct than employees with “Most Favorable” perceptions of culture.

- Interestingly, employees with “Neutral” perceptions are the group most likely to answer “don’t know” when asked if they observed misconduct at their company in the past year. This suggests that “Neutral” employees lack the awareness needed to identify misconduct in the workplace.

- The solution for improving perceptions of corporate integrity for “Neutral” employees should include training and communications that address what constitutes misconduct in the workplace, as well as the importance of reporting.
**SMALL DIFFERENCES, BIG CONSEQUENCES**

Even relatively small changes in Integrity Index scores are linked to significant differences in misconduct levels.

- A few ethical missteps can have a significant impact on overall employee perceptions of a company’s culture of integrity and can increase the company’s risk profile.

### Relative to Employees at Top Quartile Companies, Employees at Bottom Quartile Companies Are...

- 1.6 times as likely to observe misconduct.
- Two times as likely to observe HR–related misconduct.
- Three times as likely to observe misconduct in high-risk compliance areas such as conflicts of interest or accounting irregularities.

Even relatively small changes in Integrity Index scores are linked to significant differences in misconduct levels. A few ethical missteps can have a significant impact on overall employee perceptions of a company’s culture of integrity and can increase the company’s risk profile.

### The data shows a connection between health of corporate culture and total shareholder return.

While one-year, three-year and five-year total shareholder returns have modest levels of statistical significance and are positively correlated with Integrity Index levels, 10-year total shareholder returns have a strong, highly significant correlation with Integrity Index levels.

### INTEGRITY DRIVES BUSINESS PERFORMANCE

Integrity Index Score and 10-Year Total Shareholder Return

- Correlation (r) = 0.58
- Significance Level of Correlation: P-value < 0.01
- Summary: Positive relationship; statistical significance
COMFORT SPEAKING UP HAS THE STRONGEST RELATIONSHIP WITH LONG-TERM TSR

Relationship Between Comfort Speaking up and Long-Term TSR

For every 0.2-point increase in the comfort speaking-up score, companies tend to see a five-percentage point increase in average 10-year total shareholder return.

- Comfort speaking up is employees’ degree of agreement that
  - They can report unethical behavior or practices without fear of retaliation at their company and
  - They feel comfortable reaching out to someone at their company to seek advice about ethical dilemmas or concerns.

Potential Drivers

- Enables focus on accountability and product quality over individual reputation
- Creates greater sense of trust and purpose
- Fosters a problem-solving culture, driving innovation, performance, and risk mitigation

Correlation (r) = 0.60
Significance level of Correlation: P-value < 0.01
n = 34.

Top quartile companies outperformed the bottom quartile companies by more than 16 percentage points in 10-year total shareholder return.

HIGHER INTEGRITY, STRONGER LONG-TERM TOTAL SHAREHOLDER RETURNS

Average 10-Year Total Shareholder Return for Bottom and Top Quartile of 34 Companies

Culture as Competitive Advantage?

While promoting a culture of integrity may not always be a high corporate priority, failure to properly engage with employees represents a strategic (as well as compliance) risk that threatens long-term competitive advantage.

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KEY LESSONS

Executive Summary

1. Defining Effectiveness—A proper measure of compliance and ethics effectiveness balances competing demands of multiple stakeholders, including regulators, business partners, employees, and the public.

2. Assessing Program Performance—Accurate program assessments require credible, results-based measurements, meaningful benchmarks, and a consistent evaluation standard.

3. Compliance and Ethics Program Performance—Across the utilities and energy industries, compliance programs should focus investment on the activities with the highest potential priority and returns: tracking regulatory developments, risk assessments, compliance and ethics training, and corporate culture.

4. Corporate Culture is a Lead Indicator of Actual Employee Behavior—Compliance and ethics officers that create high-integrity cultures decrease the most significant forms of business misconduct by 67%. In particular, compliance and ethics officers should directly target specific employee perceptions, such as employee comfort speaking-up, that have a dramatic impact on both the instances of business misconduct but the likelihood that it is reported.

5. Corporate Culture and Business Performance—Significant correlations exist between specific components of corporate culture and business misconduct. For example, companies with a higher culture of integrity have 10-year total shareholder returns that are 16 percentage points higher than companies with low integrity scores.

Questions?
Appendix

CULTURAL DIAGNOSTIC SURVEY AND ENGAGEMENT

Assess your company’s ethical culture and prescriptively identify cultural risks before they lead to compliance failures.

- The Cultural Diagnostic Survey and Engagement is available as a fee-based stand-alone service.
- Contact David Reile for more information: dreile@executiveboard.com.

Almost 50% of employees at your peer companies do not share bad news and negative feedback because they fear it will negatively impact their careers. What are your employees not telling you?

The Corporate Executive Board’s Cultural Diagnostic Survey is an employee survey and diagnostic tool for senior Finance, Strategy, Legal, and Compliance executives that enables your company to do the following:

- Identify cultural weak spots that present increased risk—and missed strategic opportunities—for your organization.
- Benchmark your results against hundreds of thousands of employees across the globe.
- Analyze your findings by business unit and management level.
- Determine clear actionable solutions to assess and improve your corporate culture.

Why Our Diagnostic Is Different

Guaranteed Data Quality
- Established and extensive peer data set based on three years of research
- Developed in collaboration with member companies and academics

Comprehensive Data Collection Tool
- Paper and online survey tool including simple, easy-to-follow instructions
- Customized data cuts by seniority, function, business unit, and geography

Custom Reports and Support
- Custom benchmarking reports with detailed analysis
- Continued implementation support from your advisory team

"The Cultural Diagnostic survey has allowed our company to identify some underlying cultural issues that our risk assessment process had not uncovered. It also provided information to business owners regarding where they should target limited resources for increased training and controls.”

Chief Compliance Officer
Healthcare Services Company
CULTURAL DIAGNOSTIC SURVEY AND ENGAGEMENT
(CONTINUED)

Core Question Categories
- Integrity Index:
  - Comfort Speaking Up
  - Organizational Justice
  - Quality of Communication
  - Clarity of Expectations
  - Tone at the Top
  - Direct Manager Leadership
  - Trust in Colleagues

Other Question Categories
- In addition to the core questions, participants can include customizable question sets related to the following:
  - Misconduct
  - Strategic Agility
  - Risk Management
  - Safety
  - Security (Available early 2011)
  - Quality (Available early 2011)

Customized Reports and Ongoing Guidance
As a participant, you receive a detailed and customized report including the following:
- Quantitative data on the strength of your organization’s culture of integrity
- Indicators or red flags on how susceptible your organization is to multiple risk areas
- Levels and types of risk areas observed by your employees in the past year
- Rates at which employees report misconduct and the channels they use
- Prescriptive guidance and tools for addressing identified gaps and opportunities

Sample Report Screenshots

IDENTIFY YOUR STRENGTHS AND IMPROVEMENT OPPORTUNITIES WITH THE PROGRAM ASSESSMENT WIZARD

- Compare your program’s effectiveness to standards set by world-class compliance and ethics programs.
- Identify your most significant improvement opportunities and start using CELC tools and best practices to close gaps.
- Work a 360-degree look at the Program Assessment Wizard! Visit the CELC Web site to use the Program Assessment Wizard Demo or take the full survey to discover your program’s full potential.

COMPLIANCE AND ETHICS PROGRAM ASSESSMENT WIZARD

Key Components
- Web-Based Diagnostic Survey
  - Assess your compliance and ethics program across the following eight performance elements:
    - Program structure and oversight
    - Standards and procedures
    - Compliance risk management
    - Training
    - Communications
    - Discipline and incentives
    - Allegation reporting and investigations
    - Program measurement and monitoring

- Custom Benchmarking Report
  - Use your individualized benchmark report to compare your program’s performance against your peers and identify areas of greatest leverage for resource allocation.

- Service Plan
  - A customized service plan identifies your program’s vulnerabilities and provides ready-to-use tools and templates for program improvement.