WHAT THE BEST COMPANIES DO

THE CORPORATE EXECUTIVE BOARD COMPANY

Turning Ethics into Outcomes

Three Steps to Build "Integrity Capital," Manage Risk, and Drive Performance

COPIES AND COPYRIGHT

As always, members are welcome to an unlimited number of copies of the materials contained within this handout. Furthermore, members may copy any graphic herein for their own internal purpose. The Corporate Executive Board Company requests only that members retain the copyright mark on all pages produced. Please contact your Member Support Center at +1-866-913-8103 for any help we may provide.

The pages herein are the property of The Corporate Executive Board Company. Beyond the membership, no copyrighted materials of The Corporate Executive Board Company may be reproduced without prior approval.

LEGAL CAVEAT

The Corporate Executive Board Company has worked to ensure the accuracy of the information it provides to its members. This report relies upon data obtained from many sources, however, and The Corporate Executive Board Company cannot guarantee the accuracy of the information or its analysis in all cases. Furthermore, The Corporate Executive Board Company is not engaged in rendering legal, accounting, or other professional services. Its reports should not be construed as professional advice on any particular set of facts or circumstances. Members requiring such services are advised to consult an appropriate professional. Neither The Corporate Executive Board Company nor its programs are responsible for any claims or losses that may arise from a) any errors or omissions in their reports, whether caused by The Corporate Executive Board Company or its sources, or b) reliance upon any recommendation made by The Corporate Executive Board Company.

Senior executives face a "perfect storm" of increasing regulations, operational complexity, and internal pressures.

- Implication: Executives must look beyond traditional approaches to succeed.

THE CHALLENGING SITUATION

An Increasingly Complex Environment Facing Executives

1. Busier Regulators—

- 83% of your peers expect more regulations in more regions around the world.
- 86% of your peers expect an increase in the scope of regulatory enforcement.

2. Higher Employee Exposure—

- Greater access to sensitive company data and more channels through which that data might leak
- 72% of your peers expect these trends to increase.

3. Increasing Operational Complexity—

- Company growth depends on new products, technologies, increasing number of partner companies, and expanded geographic reach.
- 85% of your peers expect the complexity to increase.

4. Intense Pressure from an Anxious Board—

- Senior executives are faced with—and exert—increased pressure for greater risk assurances.
- 83% of your peers expect the pressure to increase.

Source: 2011 survey of more than 1,000 auditors, General Counsel, compliance and ethics officers, and risk managers.

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

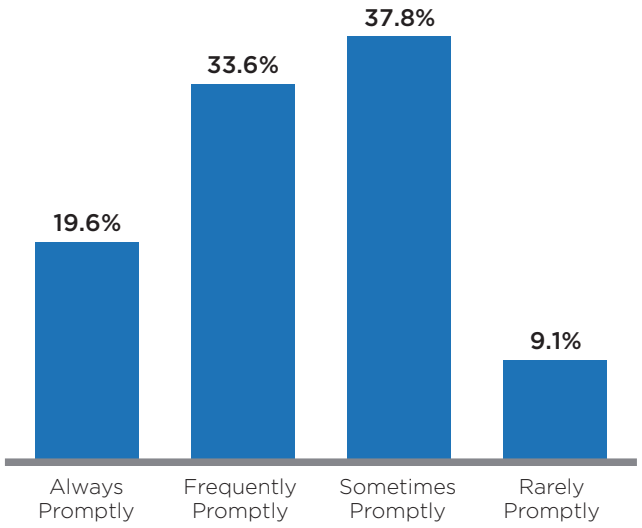
© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

THE OPPORTUNITY COST OF POOR COMMUNICATION

In this complex environment, potential loss or reduced timeliness of information reduces corporate ability to properly identify risks and avoid strategic missteps.

- On average, employees would forego $1 million to $10 million in company earnings to avoid reporting bad news or negative feedback.
- Recent survey work by our company's Finance and Strategy Practice shows that 58.7% of employees do not share bad news and negative feedback because they fear it will negatively impact their careers.

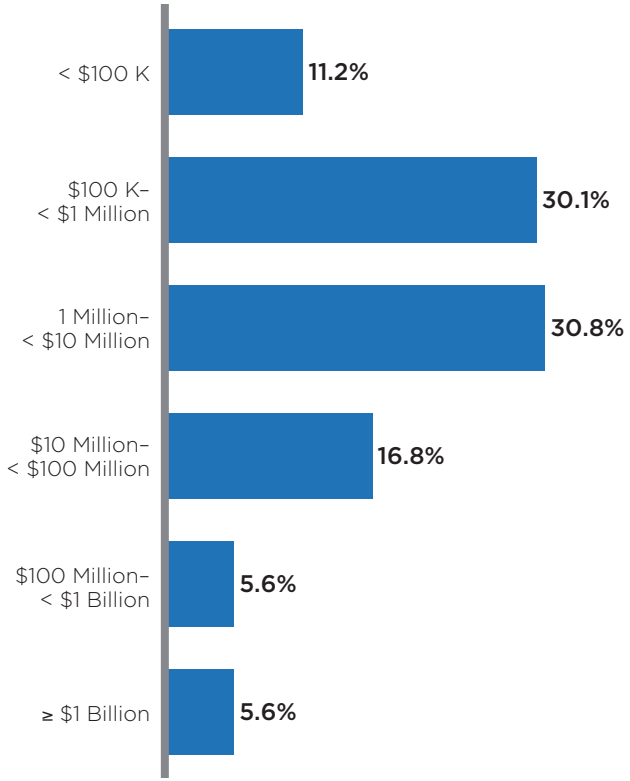
Speed with Which Material, Negative Corporate News Reaches Executive Teams



n = 143 responses from Finance and Strategy executives.

Reporting Bad News or Negative Feedback

Amount of Corporate Earnings at Stake Before Reporting



n = 143 responses from Finance and Strategy executives.

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

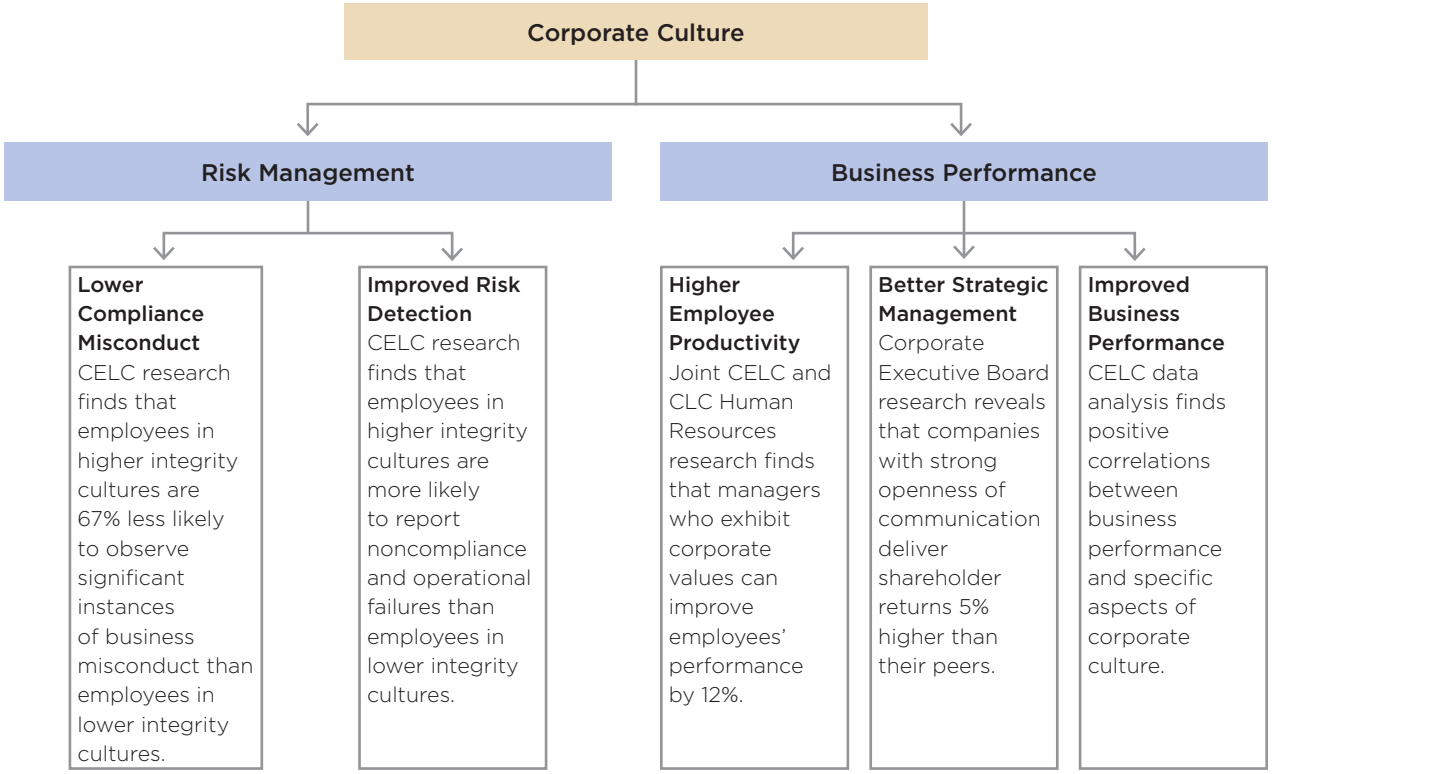
© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

A high integrity culture significantly influences both risk-management systems and business outcomes.

- While it is likely that business performance and corporate culture both, to some degree, drive the other, it is clear that cultures where employees freely speak up to honest, respectful senior leaders improve employee productivity, increase the flow of new ideas, and better avoid risk-management pitfalls.

DUAL BENEFITS OF "INTEGRITY CAPITAL"

Impact of a High Integrity Corporate Culture



Companies with cultures that value transparency around key ethics and compliance issues have high "Integrity Capital."

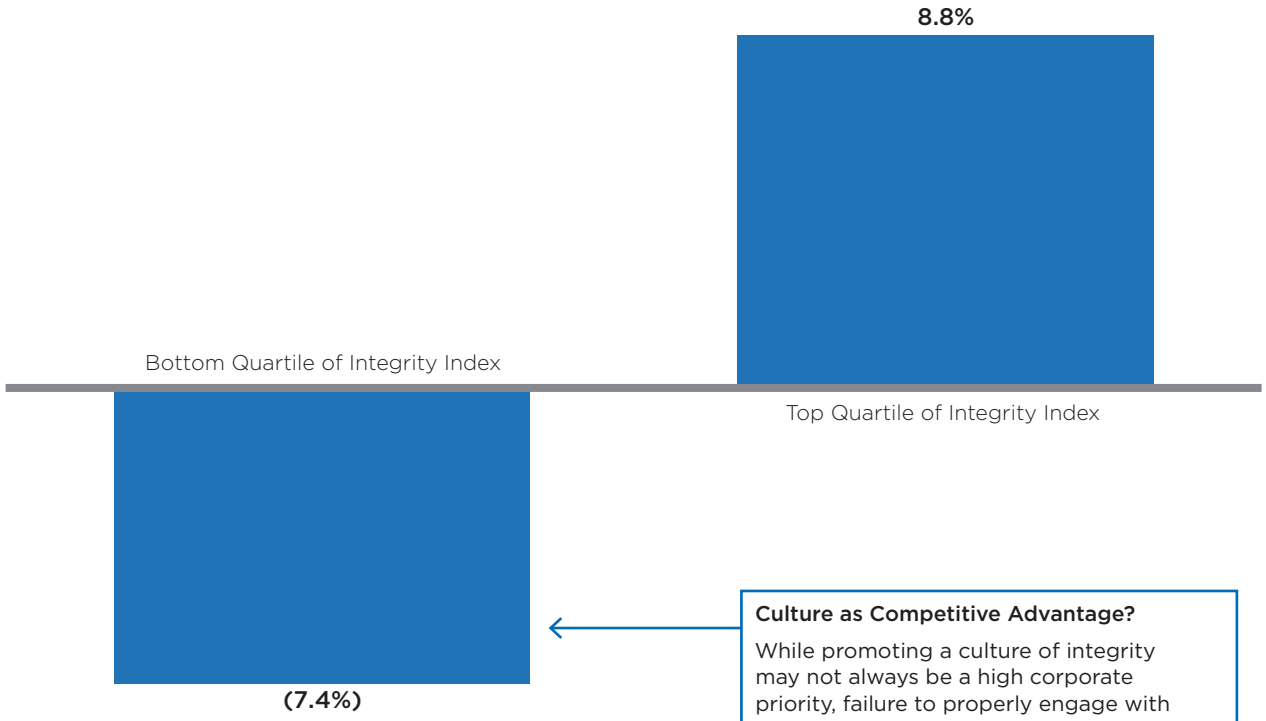
From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

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

COMPANIES WITH LONG-TERM TOTAL SHAREHOLDER RETURNS ALSO HAVE HIGH INTEGRITY SCORES

Difference in 10-Year Total Shareholder Return for Bottom and Top Quartile of 48 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.

Correlation (r) = 0.58
Significance level of Correlation: P-value < 0.01

n = 48.

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

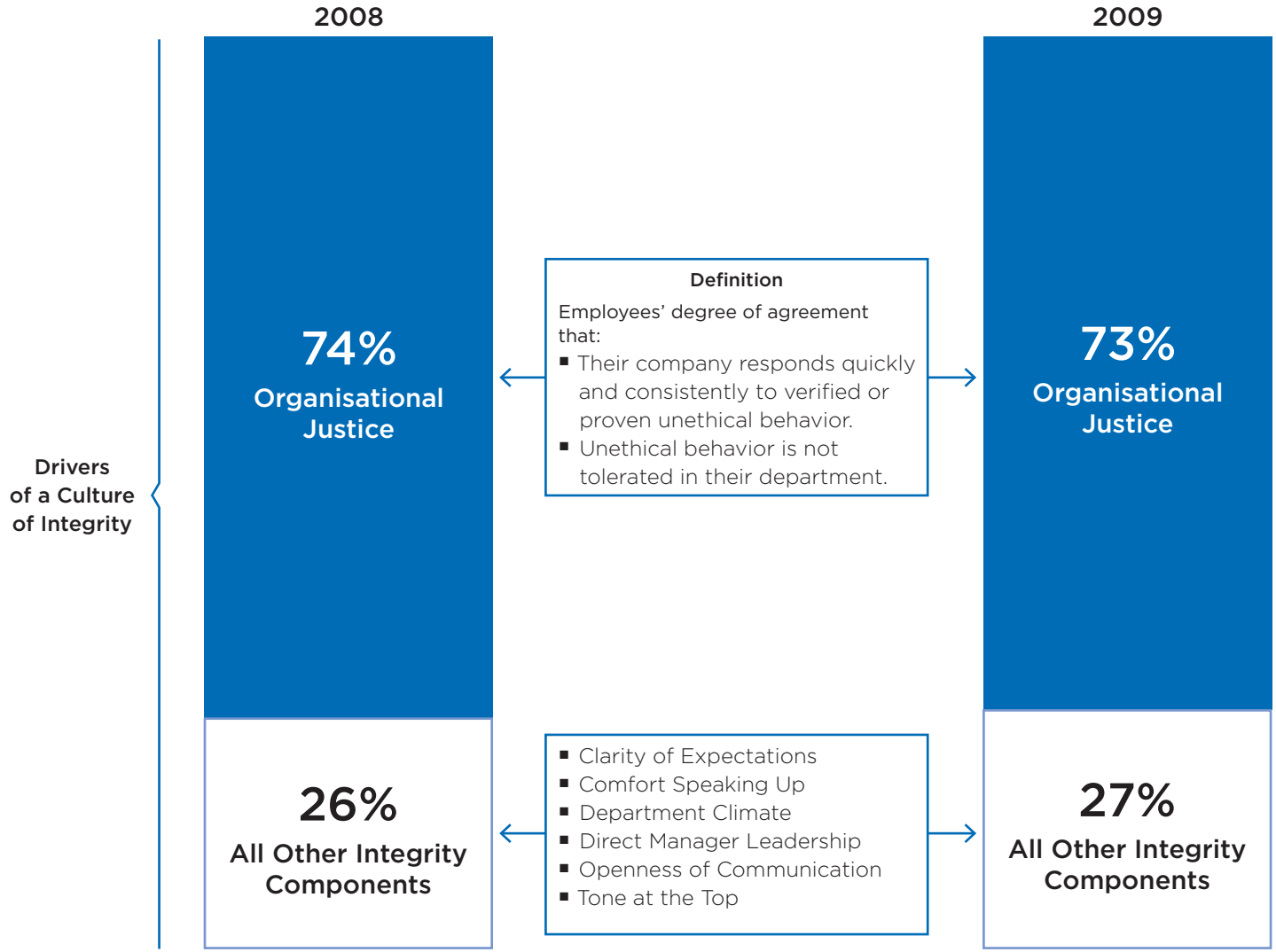
Employee perceptions about organisational justice explain the vast majority of their perceptions about the ethical culture of their company.

- CEB data indicate there is a big gap between how managers and non-managers view the company's efforts in dealing with unethical behavior.

What the Numbers Mean
Addressing organisational justice is the most effective way to impact ethical culture.

QUESTION #1: WHY DOES ORGANISATIONAL JUSTICE MATTER?

Culture of Integrity
Illustrative



n = 172,593 employees from 2008; n = 65,683 from 2009.

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1095911SYN

Fostering a stronger culture can have a dramatic impact on local misconduct levels and reporting rates.

- The Consequences of Culture on Risk Profiles:
  - Organisations with higher integrity index scores have significantly fewer observed instances of misconduct.
  - Organisations with higher integrity index scores have significantly higher reporting rates when misconduct is observed.

What the Numbers Mean
For every 10,000 employees at a typical company, a total of 1,840 individuals may observe misconduct. However, a single low-scoring business unit may hold twice as many misconduct observations as a business unit with a high Integrity Index score.

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

QUESTION #2: HOW DOES INTEGRITY VARY ACROSS THE COMPANY?

Impact of Culture on Misconduct and Reporting Rates

Findings from Alpha Company[1]

Company-Level Results *Actual RiskClarity Data*		
Integrity Index	=	5.59
Observation Rate	=	18%
Reporting Rate	=	50%

17 Business Units

Highest Integrity Business Unit		
Management		
Integrity Index	=	6.21
Observation Rate	=	7%
Reporting Rate	=	75%
Non-Management		
Integrity Index	=	5.82
Observation Rate	=	13%
Reporting Rate	=	50%

Lowest Integrity Business Unit		
Management		
Integrity Index	=	5.40
Observation Rate	=	**20%**
Reporting Rate	=	**46%**
Non-Management		
Integrity Index	=	5.15
Observation Rate	=	**29%**
Reporting Rate	=	**39%**

[1] Pseudonym.

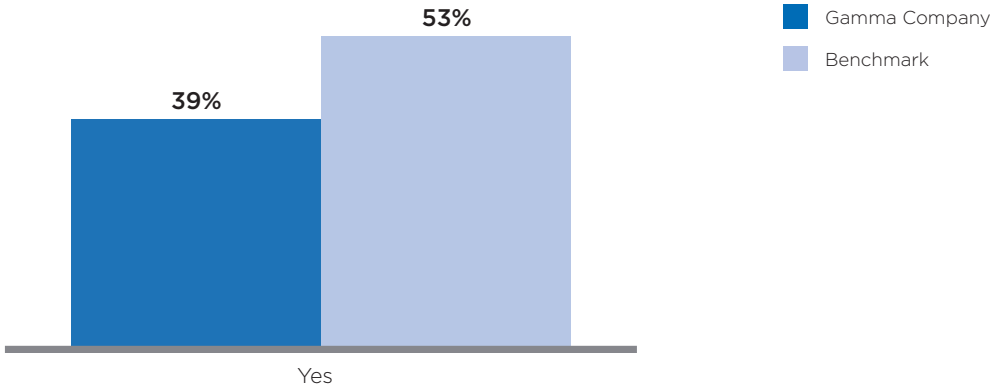
QUESTION #3: ARE MANAGERS SET UP FOR SUCCESS?

On average, barely one-half of managers feel prepared to respond to employee concerns.

- Managers receive training from their company typically due to a regulatory need; a significant subset of managers do not believe they have received training and do not feel prepared to respond to questions.

Q: Do You Feel Prepared to Address Employees Reports or Concerns of Misconduct?

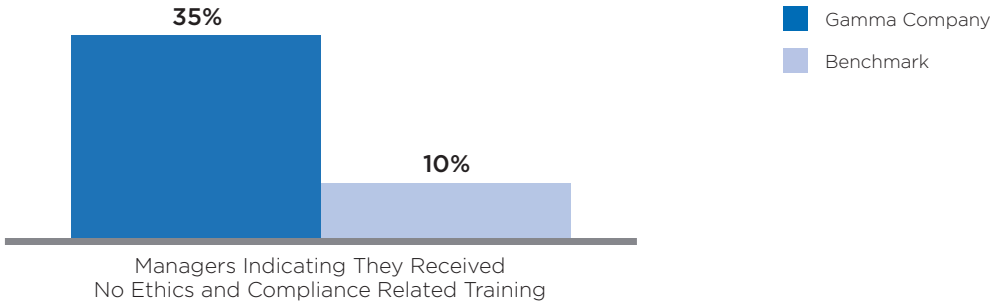
Responses from Managers at Gamma Company[1] Versus Benchmark



n = 829.

Q: How Much Ethics and Compliance Training Have You Received?

Responses from Managers at Gamma Company Versus Benchmark



[1] Pseudonym.

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

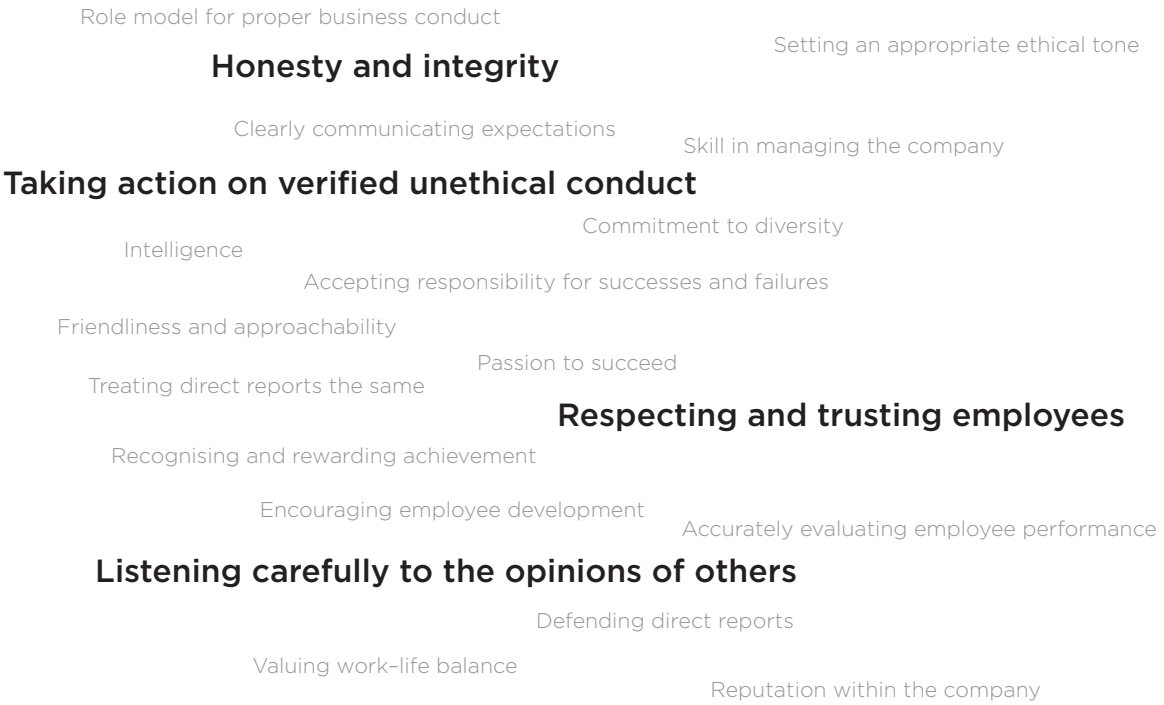
© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

Four key leadership competencies that drive a culture of integrity and reduce the likelihood of misconduct.

DEFINING ETHICAL LEADERSHIP

Leadership Competencies

Highlighted Terms Indicate Competencies That Actually Drive a Culture of Integrity and Reduce the Likelihood of Misconduct



Ethical Leadership

The Corporate Executive board defines "Ethical Leadership" as those managerial attributes which inspire employees to deliver high-performance results against business objectives while embodying the values of the organisation.

Research has found that four demonstrated behaviors are most likely to have the strongest correlation with ethical leadership:

- Honesty and integrity
- Taking action on verified unethical conduct
- Respecting and trusting employees
- Listening carefully to the opinions of others

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

FROM INSIGHT TO ACTION

How the Corporate Executive Board Can Help You to Build Integrity Capital in Your Organisation

Building Organisational Justice

Take appropriate action to ensure that employees feel comfortable raising ethical concerns.

Products and Services

- Tailor and deploy our "Voice Your Concerns" training module.
- View our "Employee FAQs" to address speaking up and reporting concerns.
- See how other companies have encouraged employees to speak up through proven best practice case studies.

Creating Local Relevance

Define local cultural goals and priorities to evaluate progress towards creating a culture of integrity.

Products and Services

- Deploy our training programmes for dispelling employee myths.
- Apply our recommendations on tailoring training for local relevance.
- View our proven best practice examples on creating policies and procedures to localize company standards.
- Learn from your peers on integrating integrity-related criteria into traditional performance reviews.

Developing Ethical Leaders

Create effective training to ensure that managers are prepared to appropriately handle employee concerns.

Products and Services

- Learn practical tips and guidelines from our Manager Leadership Training Guide.
- View our "Building Trust with Employees" presentation to create or update your own.
- Learn from peer experiences on onboarding and assessing managers on compliance and ethics criteria.

Features

Proven Best Practices | Research and Insights | Peer Benchmarks | Decision and Diagnostic Tools | Executive Networking | Advisory Support | Live and Online Learning Events

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

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

RISKCLARITY: *A CORPORATE INTEGRITY SERVICE*

FOR SENIOR FINANCE, STRATEGY, LEGAL, AND COMPLIANCE EXECUTIVES

Almost 58% 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 RiskClarity is an employee survey and suite of services that enables your company to do the following:

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

Act Today and Learn from Your Peers

~525,000
Participating Employees

~130
Participating Companies

20%
of the Fortune 100

~115
Countries Represented Across Six Continents

"[RiskClarity, formerly named 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
Health Care Services Company

Why RiskClarity Is Different

Guaranteed Data Quality	Established and extensive peer dataset based on four 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	Customised data cuts by seniority, function and business unit, and geography
Custom Reports and Support	Custom benchmarking report with detailed analysis	Continued implementation support from your advisory team

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

CEB'S CORPORATE INTEGRITY SUPPORT

Audit Director Roundtable

- Audit Planning
- Internal Controls
- Continuous Monitoring
- Data Analytics
- Talent Management

Compliance and Ethics Leadership Council

- Programme Management
- Policies and Procedures
- Training and Communication
- Corporate Culture and Compliance
- Compliance Risk Management

General Counsel Roundtable

- Legal Risk Management
- Outside Counsel Management
- Records Management
- Department Management and Effectiveness
- Corporate Governance

Additional Offerings

RiskClarity: *A Corporate Integrity Service*

- Quickly create an effective channel to see "bad news" before it goes public and becomes costly.
- Begin changing the culture to yield fewer incidents.
- Determine clear, actionable solutions to mitigate risk.

Legal Leadership Academy

- Offers intensive training sessions for legal department staff
- Builds individual skills in key areas such as business partnering and effective communications
- Cultivates team development and professional engagement

From the CORPORATE EXECUTIVE BOARD COMPANY
www.executiveboard.com

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN

WHAT THE BEST COMPANIES DO

THE CORPORATE EXECUTIVE BOARD COMPANY

© 2011 The Corporate Executive Board Company.
All Rights Reserved. GCR1Ø95911SYN