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Thank You!
Benchmarking Compliance, Risk and Anticorruption Efforts: How Does Your Company Compare?
January 16, 2008

Presented by Corpedia & the Ethisphere Institute

Association of Corporate Counsel
www.acc.com
Panel

**Moderator:** Erica Salmon-Byrne

**Presenters:**
- Alex Brigham
  President and CEO
  Corpedia Corporation

- Robert Leffel
  Associate Director
  The Ethisphere Institute
Today’s topics…

- ACC-Corpedia recent benchmarking survey
- External factors impacting internal compliance & ethics programs
  - Goldman Sachs research
  - New government contractor ethics regulations
  - Ethisphere Institute work
- What does it mean for the future?
About Corpedia…

- Established 1998
- 500+ global clients
- eLearning in 300+ compliance topics
- Code of ethics writing & training
- Compliance program consulting
- Global risk assessment software
- FCPA Audits
All Survey Participants

**Does Your Organization Have a Chief Compliance Officer?**

- Yes: 42%
- No: 58%

**Does Your Organization Have a Chief Ethics Officer?**

- Yes: 28%
- No: 72%
Year 2005 vs. Year 2007

To whom does the person with daily operational responsibility for the compliance program report?

<table>
<thead>
<tr>
<th>Role</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>53%</td>
<td>35%</td>
</tr>
<tr>
<td>GC</td>
<td>26%</td>
<td>31%</td>
</tr>
<tr>
<td>CFO</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Asst. GC</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>CIA</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>CCO</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>

The CEO is becoming less involved on a daily basis
All Survey Participants

Does your organization provide formal Code of Conduct training to employees?

- Yes: 76%
- No: 24%
Year 2005 versus Year 2007
% of Employees who receive Code of Conduct Training

<table>
<thead>
<tr>
<th></th>
<th>Less than 10 percent</th>
<th>10 to 25 percent</th>
<th>26 to 50 percent</th>
<th>51 to 75 percent</th>
<th>76 to 90 percent</th>
<th>91 to 100 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2005</strong></td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
<td>9%</td>
<td>7%</td>
<td>64%</td>
</tr>
<tr>
<td><strong>2007</strong></td>
<td>3%</td>
<td>5%</td>
<td>4%</td>
<td>7%</td>
<td>12%</td>
<td>69%</td>
</tr>
</tbody>
</table>
Publicly Traded Companies

Has your Board of Directors been trained in compliance consistent with Federal Sentencing Guidelines criteria?

- Yes: 62%
- No: 38%
All Survey Participants
How many hours of compliance training does the Board of Directors receive on an annual basis?

- 1 to 2 hours: 47%
- 2 to 5 hours: 20%
- Less than 1 hour: 26%
- More than 5 hours: 7%
All Survey Participants
Do you maintain an "Ethics Guidance" line, separate from the hotline, where employees can seek advice on ethical dilemmas?

- Yes: 27%
- No: 73%
Year 2005 versus Year 2007
Organizations that conduct "periodic" risk assessments

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>58%</td>
<td>70%</td>
</tr>
<tr>
<td>No</td>
<td>42%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Publicly Traded Companies (U.S.A.)
In the context of a violation of federal or state law where government authorities investigate, do you believe that attorney-client privilege protections continue to exist in a meaningful way?

- Attorney-client privilege is alive and well: 10%
- Attorney-client privilege is damaged but still helpful: 59%
- Attorney-client privilege is nonexistent: 31%
Key takeaways

- CEO increasing have less day-to-day responsibility/oversight for compliance activities

- Separate Chief Ethics Officer not necessary – but can be consolidated into Chief Compliance Officer function (necessary)

- Mandatory code training deep into the workforce is new ‘norm’ regardless of industry – other topics less

- Board of Directors should be trained in compliance; 1-2 hours annually suffices

- Risk assessment must be done – with eye on lack of Attorney-Client privilege

- Separate ‘Ethics Guidance’ or Ombudsman role is not necessary
About Ethisphere Institute

- research institute with associated 300+ corporate membership council
- research and best practices in ethical leadership and compliance
- 70,000+ CEO/Director magazine circulation
- global certification of orgs’ compliance/ ethics programs and leadership
PROFIT POINTS

Ethical leadership can have a profound impact on corporate profits. But how? Across what areas of performance does Ethical Leadership have real influence?

The Ethisphere Council identified a total of 36 core contributors relating to ethical leadership. These roll up into nine profit point categories. If you’re like many business people, you may not have fully considered all of the areas or actions where ethical leadership can mean the difference between success and failure. For more information on profit points, core contributors and how ethical leadership can make a difference, be sure to visit www.ethisphere.com,
FIVE-YEAR TOTAL RETURNS*

*The Ethics Index tracks the stock performance of publicly traded organizations which have been recognized by researchers for their superior corporate citizenship, ability to attract and retain employees, and sustainability practices.
Ethical companies outperform

Goldman Sachs Sustainability Index (GS SUSTAIN) outperforms relevant market metrics 72% of the time – and has outperformed the overall market by 25% since August 2005.
Goldman Sachs analyzed…

- Company’s ability to engage with “Millennials” (next generation of employees) who demand “alignment of personal and corporate values”

- Social leadership and disclosure

- Gender diversity in employees, leadership and board

- Compensation per employee

- “policies, management systems and leadership to ensure ethical business conduct”
Well-regarded companies are worth more...

“What Price Reputation?
- July 9, 2007 issue

“a company's reputation for being able to deliver growth, attract top talent, and avoid ethical mishaps can account for much of the 30%-to-70% gap between the book value of most companies and their market capitalizations. Reputation is a big reason why Johnson & Johnson trades at a much higher price-earnings ratio than Pfizer, Procter & Gamble than Unilever…”
Government contractor rating

- First/only independent review of U.S. government contractors ethics and compliance program, based on the F.A.R. rules and Federal Sentencing Guidelines

- Supported by members of NIH, DOJ and dozens of top law firms and corporations

- Analyzing top 1,500 federal contractors
Ethisphere’s 2008 Government Contractor Ethics Program Rankings is “nonpartisan and non-confrontational.”

“Ethisphere’s effort makes sense. Voluntary disclosure of internal ethics procedures will give us better means to do business with the best contractors out there.”
- Senator Tom Carper, State of Delaware

Other supporters and initial participants include...

- Lockheed Martin
- EDS
- PepsiCo
- Avaya
- Rockwell Collins
- Fluor Corp.
- Computer Sciences Corporation
- Pitney Bowes
- Tyson Foods
Aggregate Weightings

- Internal Control Systems: 35%
- Leadership and Tone From the Top: 20%
- Training and Communication Program: 25%
- Code of Ethics and Business Conduct: 20%
Reward vs. Punish Research

Jan 2008: Richard Ivey School of Business (Ontario) researchers announced correlations between business ethics perception and pricing

- Price premium for products perceived to be ethically produced

Consistent with positive-negative asymmetries, the notion that individuals react more strongly to negative information, the research found that there is a stronger punishment for unethically-produced goods and a smaller reward pattern for ethically-produced goods. The expectation to pay less for unethically produced goods is far greater than consumers’ willingness to pay more for ethically produced goods.
Using ethics to win in the market
With Success Comes Responsibility

Fluor strives to become increasingly effective in performing its global responsibilities, proactively addressing many of the relevant and vital issues that confront today’s world. From the workplace to the natural environment, from the corporate boardroom to the community school, Fluor Corporation and its people go beyond legal requirements and traditional practices to do business in a socially, economically, and environmentally responsible way. In doing so, we believe we will help benefit and sustain current and future generations.

Based upon a well-defined set of principles and practices, we seek to become a valued partner in the many nations and communities in which we...
2008 World’s Most Ethical Companies

- June 3<sup>rd</sup> 2008
- New York City
- Unveiled at the Forbes-Ethisphere World’s Most Ethical Companies Conference
- Published in Forbes
Key takeaways

- Discussion migrating from compliance to ethics

- Increase in research correlating business ethics and competitive outperformance
  - Ability to attract employees
  - Pricing and customer capture/retention
  - “Get out of jail free” pass for good reputation corps

- Increased government pressure on ethics controls

- Objective rating and rankings initiatives coming onto center stage (Innovest, Ethisphere, Forbes, etc…)

- Trend will continue for foreseeable future
Thank you for attending another presentation from ACC’s Desktop Learning Webcasts

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