



Leading Practices and Trends from the 2018 World's Most Ethical Companies®

An Ethisphere Research Report

Preface

We seem to be at a tipping point for ethics in business. At Ethisphere, we've long been proponents of the notion that it's possible to do well by doing good—and perhaps, that it's even the best route to success. That idea drives the World's Most Ethical Companies® (WMEC) process and all of the other work that we do. Lately, a chorus of prominent leaders and a growing body of research seem to agree.

Another year of corporate challenges has shown us that corporate culture and ethical leadership are critical to long-term success. Regulatory expectations continue to grow, as do stakeholder expectations. Maintaining

transparency around corporate behavior is more important than ever.

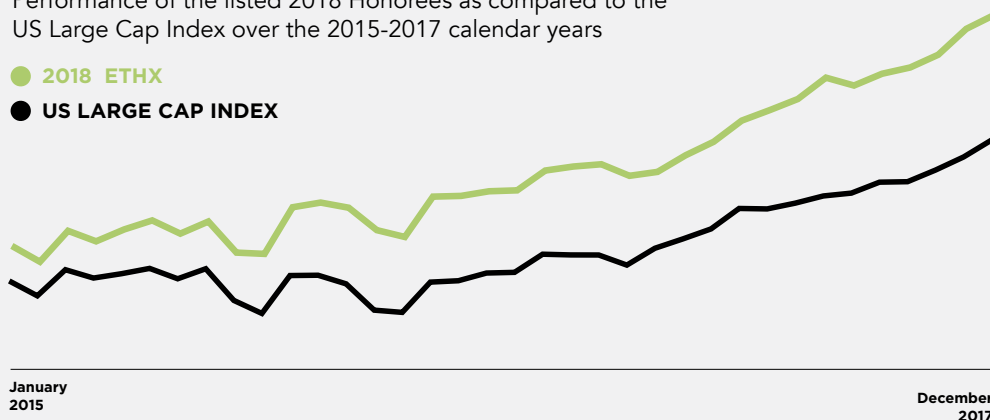
Our own research demonstrates this principle in clear terms. When the stock performance of the WMEC honorees is tracked against a US large cap index, our honorees outperform the market by 4.88 percent, a bonus we call the "Ethics Premium." No matter which data you find most compelling or which leaders you listen to, the results are clear and undeniable: Companies that commit to values and practices that advance employees, society, communities, and investors outperform their peers—today and tomorrow.

3-YEAR ETHICS PREMIUM: 4.88%

Performance of the listed 2018 Honorees as compared to the US Large Cap Index over the 2015-2017 calendar years

● 2018 ETHX

● US LARGE CAP INDEX



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 by how their practices compare to those of organizations recognized as the World's Most Ethical. This benchmarking exercise leads to serious, fact-based conversations that inform resource planning, professional development, and executive interaction with the compliance and ethics team.

This report is based upon responses to the 2018 EQ. To help identify developing trends, we've also included year-over-year comparisons for certain data points. We've divided our analysis into three main areas where we saw appreciable chance or interesting developments over the year:

1. Governance: how leading companies are engaging an increasingly diverse board
2. Training and reporting: how leading companies are tackling a perennial challenge in the face of growing demands on employee time
3. Establishing an ethical culture: how leading companies are measuring culture and educating managers on their special responsibilities as ethical leaders

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.

Ethisphere

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Honorees Lead in Embracing Gender Diversity at the Board Level

Study after study in recent years has shown that a diverse board of directors (or other governing authority) correlates to more effective governance and higher levels of company performance.¹ There has been considerable debate about the cause of this connection, with most commentators agreeing that including women members on the board provides the opportunity for a broader range of perspectives, potentially brings differing approaches to risk management, and prevents “group think.” Whatever the cause, there is ample

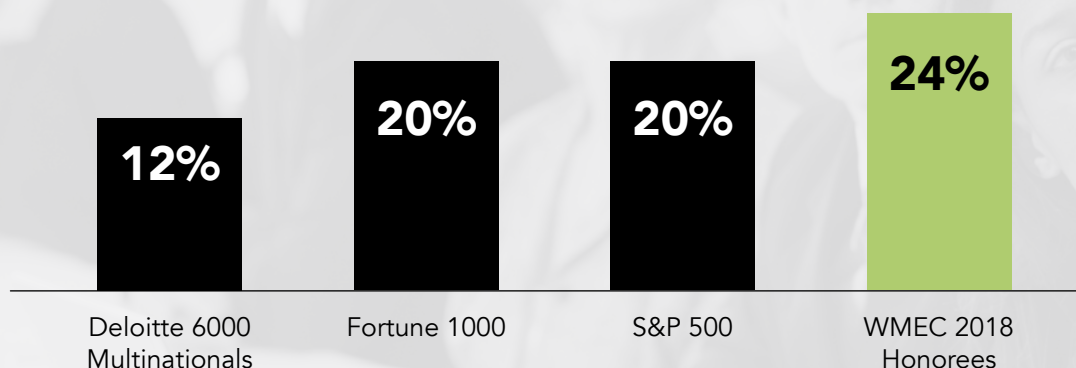
evidence that gender diversity on boards corresponds with higher returns on equity and returns to invested capital.²

In spite of these data points, among Fortune 1000 companies, during 2017 women held just 20 percent of board seats, an increase of one percentage point over the prior year.³ A study conducted by Deloitte found that among 6,000 of the largest global companies, only 12 percent of board members were women.⁴

However, board composition for those companies receiving

the 2018 WMEC designation demonstrates these companies have a keen understanding of the importance of gender diversity. Women hold 24.2 percent of all available board seats among 2018 WMEC honorees. The board or governing authority of the median 2018 WMEC honoree has 25 percent women members, a number exceeding most published studies. Two-thirds of the 2018 WMEC honoree class have a board or governing authority that is comprised of at least 20 percent women.

Average Proportion of Women Board Members Across Common Indices

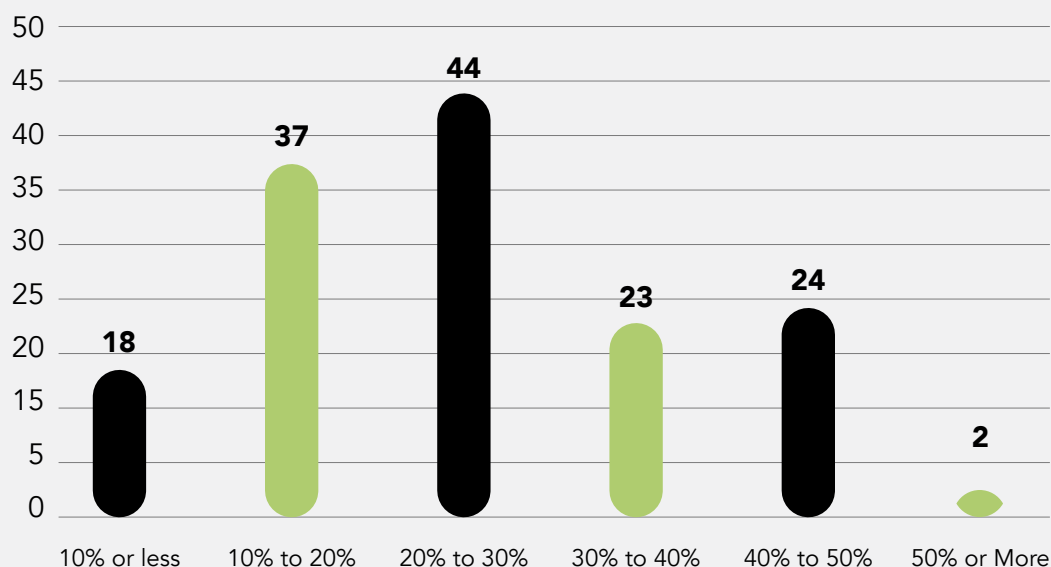


¹ <https://hbr.org/2012/06/why-boards-need-more-women>;

² <http://www.catalyst.org/media/companies-more-women-board-directors-experience-higher-financial-performance-according-latest>

³ 2020 Women on Boards Gender Diversity Index; https://www.2020wob.com/sites/default/files/2020WOB_GDI_Report_2017_FINAL.pdf

⁴ Women in the boardroom: A global perspective; Deloitte; <https://www2.deloitte.com/women-in-the-boardroom>

Proportion of Women Board Members among 2018 WMEC Honorees

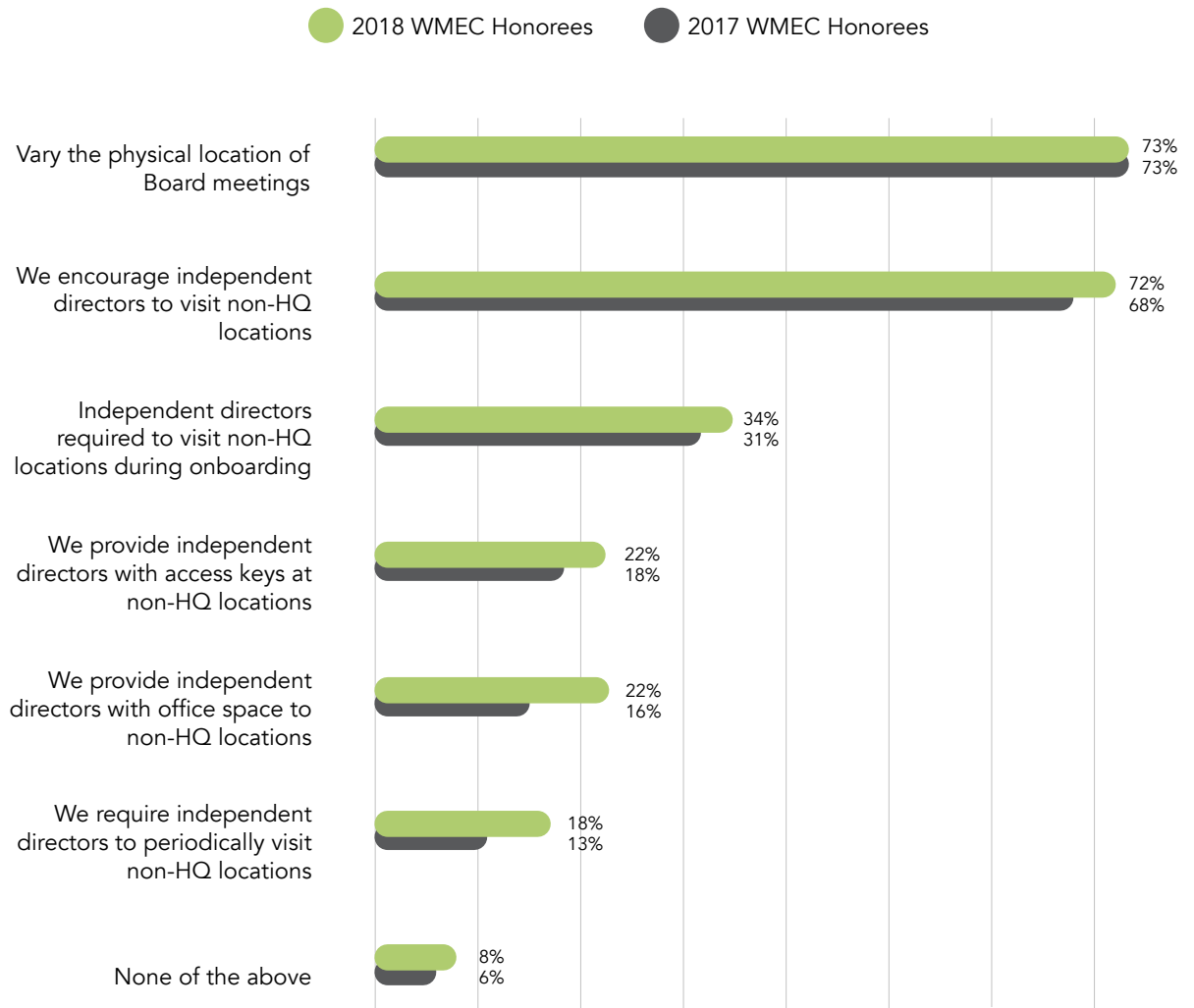
An Informed Board Is an Efficient Board: Exposing Independent Directors to Operations and Risks

Regardless of who comprises the board, inadequate exposure to current company operations and risks can leave independent directors unable to govern effectively. To facilitate such exposure, the majority of 2018 WMEC honorees encourage independent directors to visit company locations other than headquarters and also vary the physical location of board meetings (72 percent and 73 percent, respectively).

Twenty-two percent of 2018 WMEC honorees encourage board interaction with the larger company by providing dedicated office space for independent directors' use at locations other than the primary headquarters. While the proportion of 2018 WMEC honorees providing such office space appears limited, it represents a growing minority, as evidenced by the six percentage point increase over last year's honoree class.

Compared to 2017, an increasing number of 2018 WMEC honorees now require independent directors to visit company locations other than headquarters on a periodic basis and outside the normal board meeting cadence, representing one of the fastest-growing practices to expose independent directors to company operations and risk.

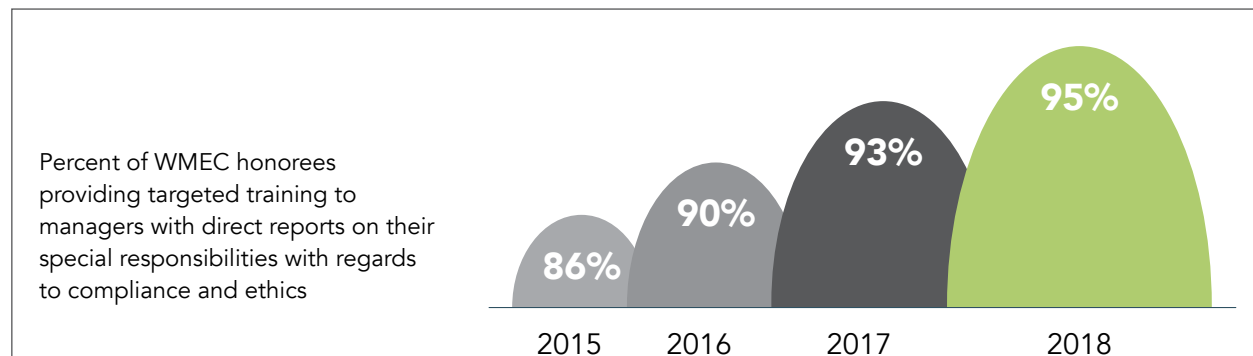
Which of the following practices does your company use to expose independent directors to the company's operations and risks?



Honorees Train Managers to Become Cultural Standard Bearers

It is well understood that managers are the vehicle by which the ethical tone established at the top of the organization is modeled and disseminated downward. Managers also play a critical role since, according to Ethisphere's Ethical Culture data set, an employee's immediate manager is the most often utilized reporting resource—by a considerable margin. For this

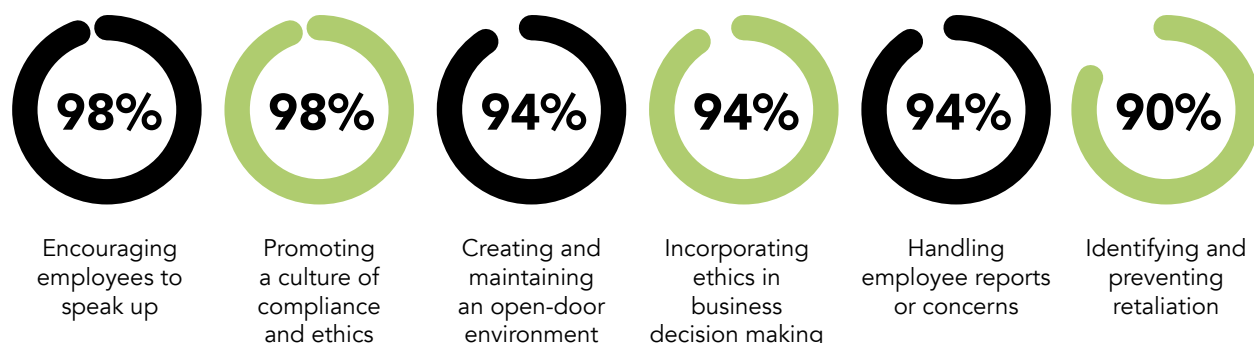
reason, we continue to see an increasing percentage of WMEC honorees—95 percent—recognize the importance of properly preparing managers for acting as the organization's cultural stewards by providing targeted training on ethics- and compliance-related responsibilities.



The training provided to these managers commonly includes topics directly related to encouraging reporting and combating the fear of retaliation, as well as incorporating ethical behavior into everyday business decisions. We continue to see a minority of WMEC honorees include the topic of employee interviews during ethics and compliance training. We are hopeful that this number will increase in 2019, since as we

commonly espouse, there are four levers a company can pull on to effectively and efficiently move a culture: who it hires, who it fires, who it praises, and who it promotes. By not level-setting with managers how to incorporate ethics and compliance in the interview process, one of these levers is not being effectively maximized, which can be detrimental to the organization as a whole.

Five Most Common Topics Included Among Manager-Targeted Ethics & Compliance Training from 2018 WMEC Honorees



Honorees Are Increasing the Resources Available to Support Employees' Efforts to Report Misconduct

Employees' general reliance on their managers to act as a sounding board for ethics and compliance questions or serve as a vehicle by which employees can report perceived misconduct hasn't prevented leading companies from investing in additional reporting resources. On average, 2018 WMEC honorees provide over eight different resources or tools for reporting misconduct and raising concerns at their companies, representing a slight—but meaningful—increase over the approximately seven resources or tools indicated by the average honoree in 2017.

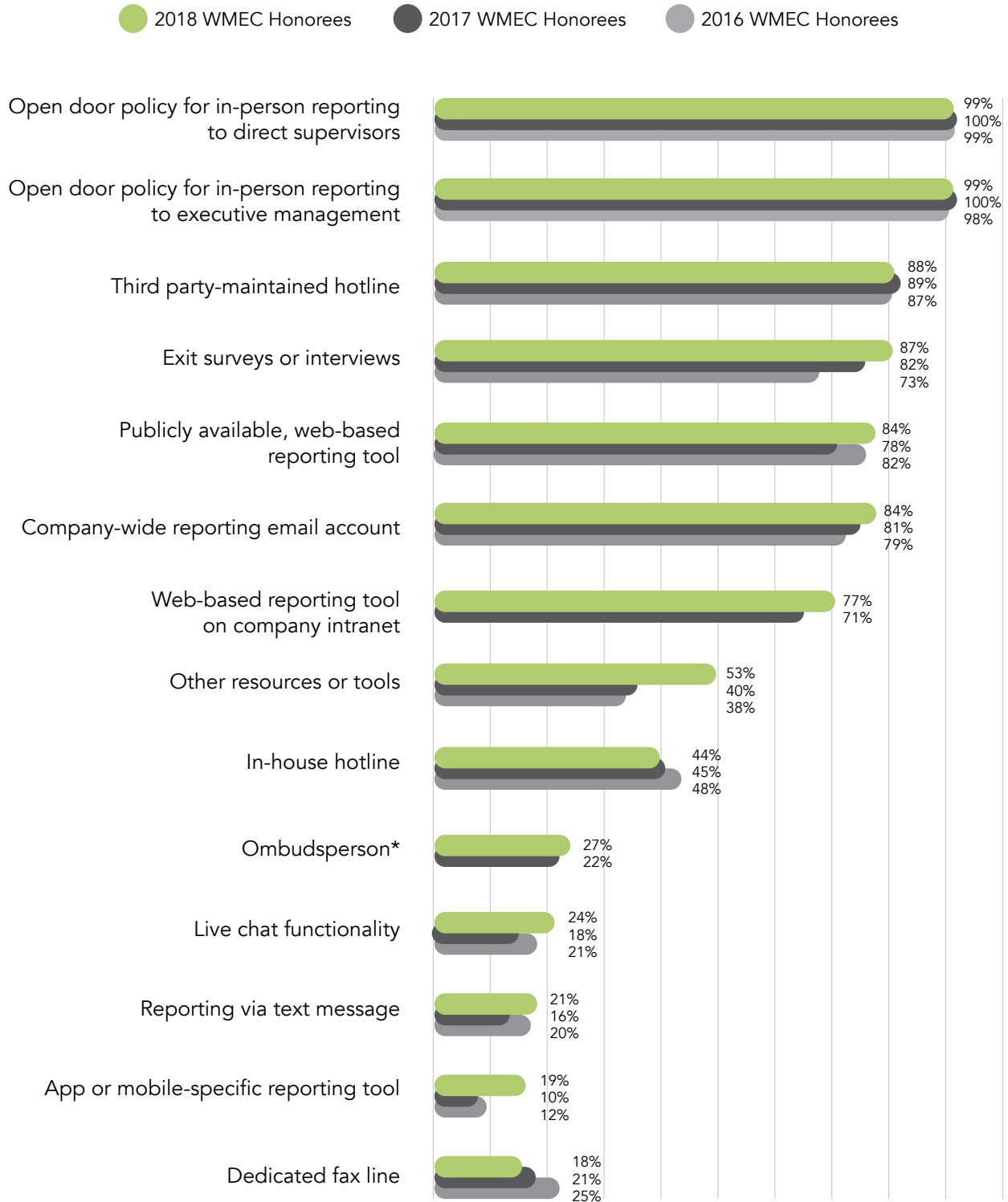
Whether it is using custom-built, native applications or adaptations of existing resources reskinned for smartphones, 2018 WMEC honorees are slowly, but steadily, embracing mobile-specific reporting tools, as evidenced by the seven percent increase over 2017 honorees.

The largest area of growth observed is the 14 percentage point increase in the number of honorees that use exit surveys or interviews, compared to the class of 2017. This reflects a greater interest among honorees in using all available methods to capture previously unreported potential misconduct.

While incidents of potential misconduct reported during the exit interview process may prove to be red herrings, many departing employees who were previously unwilling to make a report may be comfortable doing so now that they are exiting the organization. This is an area where we expect to see growth within forward-thinking and mature programs, along with data-enabled analysis of turnover rate comparisons between business units.

SECTION TWO: TRAINING & REPORTING

Resources or Tools Available for Reporting Misconduct and Raising Concerns at Your Company (Multiple Select)



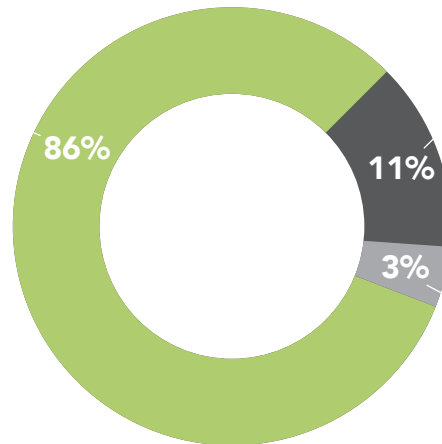
Case Management System Capabilities and Usage Suggest a Disconnect

Despite an increasing array of options for employees to report misconduct or raise concerns, the data suggests there is a slight discrepancy (seven percentage points) between the number of 2018 WMEC honorees with robust case management system capable of logging reports from any source, compared to honorees that are

routinely tracking reports and related cases, regardless of how they were received. In other words, while leading companies are quick to embrace sophisticated case management tools and systems capable of a variety of input mechanisms, not all are leveraging these tools to their full potential.

Does your company have a system or tool to manage reports and subsequent investigations?

86% - Yes, our company uses a case management system that can log and track reports and related investigations regardless of how the report



11% - Yes, our company uses a case management system that can log and track reports and related investigations, BUT ONLY for reports made in the

0% - No

3% - Other

Indicate how your company tracks reported incidences of ethical misconduct (where allowed by law).

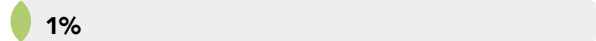
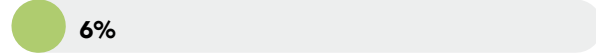
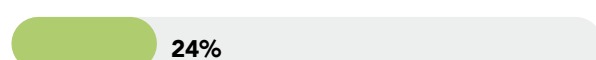
C&E function routinely tracks reports and related cases, regardless of how they were received



C&E function routinely tracks reports received through the hotline or similar channels, but open-door reports are not normally tracked

Different functions or business units track different reports and related cases

None of the above

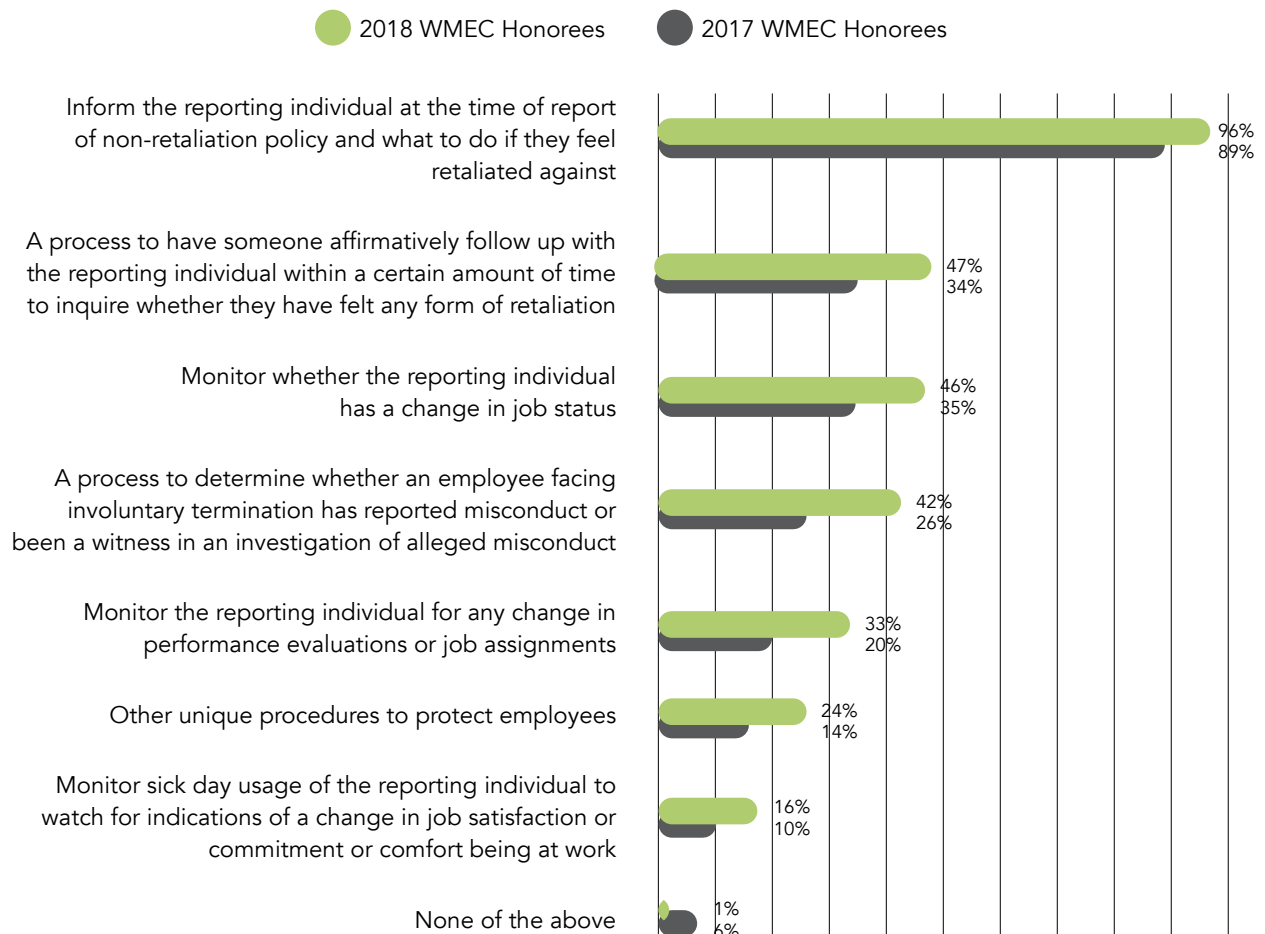


Enhanced Protections for Whistleblowers

The proportion of honorees using procedures to protect employees who report suspected misconduct has increased from 94 percent in 2017 to 99 percent in 2018. Every available method for protecting whistleblowers included in our survey has seen an increase in the past year, demonstrating the enhanced commitment by honorees to protect whistleblowers. In particular, we saw significant year-over-year growth in two areas: companies who are routinely checking

to make sure that employees impacted by layoffs or restructurings have not raised a concern, and companies who have implemented a process to affirmatively check in with a reporter following the close of an investigation. Indeed, some companies have anecdotally told us that they are using that “check in” to also get feedback on the investigation process, which is then used to improve the process as needed.

Indicate which established procedures your company has to protect employees who report suspected misconduct.

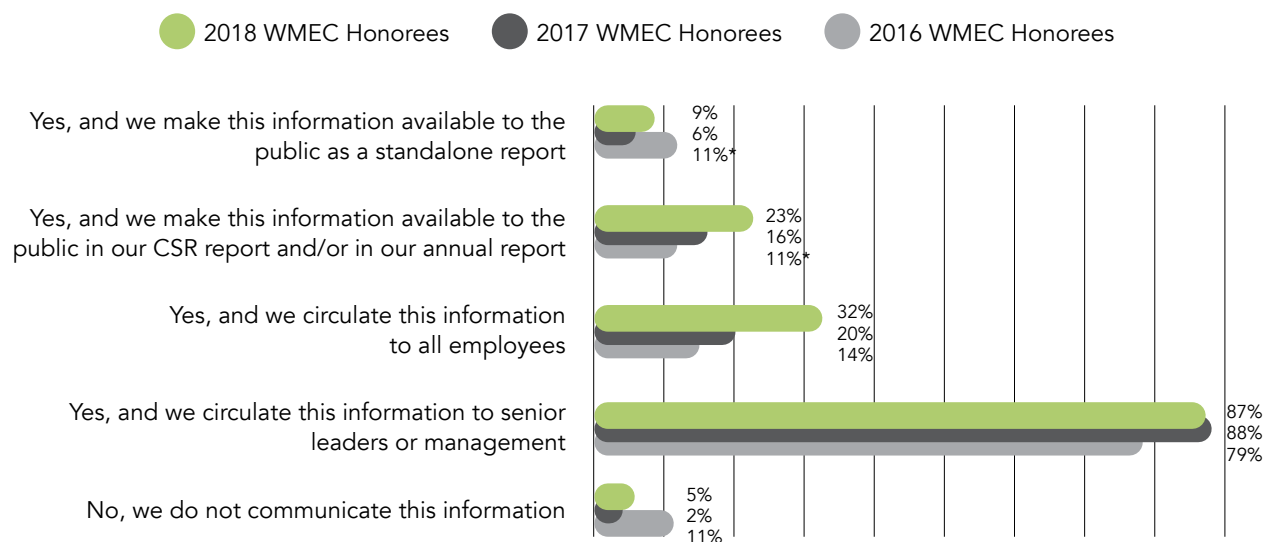


Honorees Are Building Trust through Transparency into the Reporting and Investigation Processes

In evaluating the ethical culture of dozens of global multinational companies, Ethisphere's data set consistently shows employee perceptions of organizational justice—the view of whether the company holds wrongdoers accountable and the awareness of discipline—are among the lowest of all areas measured. One tool that compliance professionals can use in fighting this negative perception is transparency into the reporting process and the associated outcomes.

Nearly every 2018 WMEC honoree (95 percent) communicates the number and types of reports received to some stakeholders, compared to 89 percent of 2017 WMEC honorees. While still among the minority of companies surveyed, the number of 2018 WMEC honorees now sharing this information broadly with employees has more than doubled since 2017 (32 percent and 14 percent, respectively).

Separate from reports to the Board or other governing authority, does your organization communicate how many concerns were reported, the types of concerns reported, and the results of reports and investigations?
Please select all that apply.



*Answer option for 2016 is "Yes, and we make the report available to the public"

Leading companies recognize the importance of establishing trust not only with employees, but also with external stakeholders. Nearly one-third (32 percent) of 2018 WMEC honorees communicate how many concerns were reported, the types of concerns

reported, and the results of said reports to the public either as a standalone document or within a CSR report. This represents nearly triple the proportion of 2017 honorees that did so (11 percent).

Leading Companies Are Doing More to Measure Ethical Culture

Honorees are leveraging a broader array of tools and techniques to get a sense of their internal ethical cultures. The use of employee engagement surveys to measure ethical culture among companies continues to rank as the most popular, and it is growing, as evidenced by 82 percent of 2018 WMEC Honorees compared to 76 percent in 2017. These engagement surveys, which are largely driven by the human resources function, are often distributed broadly across an enterprise and conducted

frequently. Ethisphere's data suggests that using pulse-type surveys to capture small, but frequent, readings of ethical temperatures across the organization is oft-discussed, but rarely used.

In 2018, we saw another uptick in the use of physical site visits as a method to measure ethical culture. Fifty-three percent of honorees deployed this method in 2016, and for 2018 honorees it was the second most commonly used method as reported by 81

percent of honorees. We believe this reflects a growing relationship between the compliance function and other related control functions, like Internal Audit, that are regularly in the field. More companies are arming Internal Audit with questions to ask during site visits, collaborating more closely with HR and functions like Safety, and generally looking for "sister control functions" who can provide a leanly-staffed compliance functions with additional insights.

Five Most Common Methods to Measure Ethical Culture

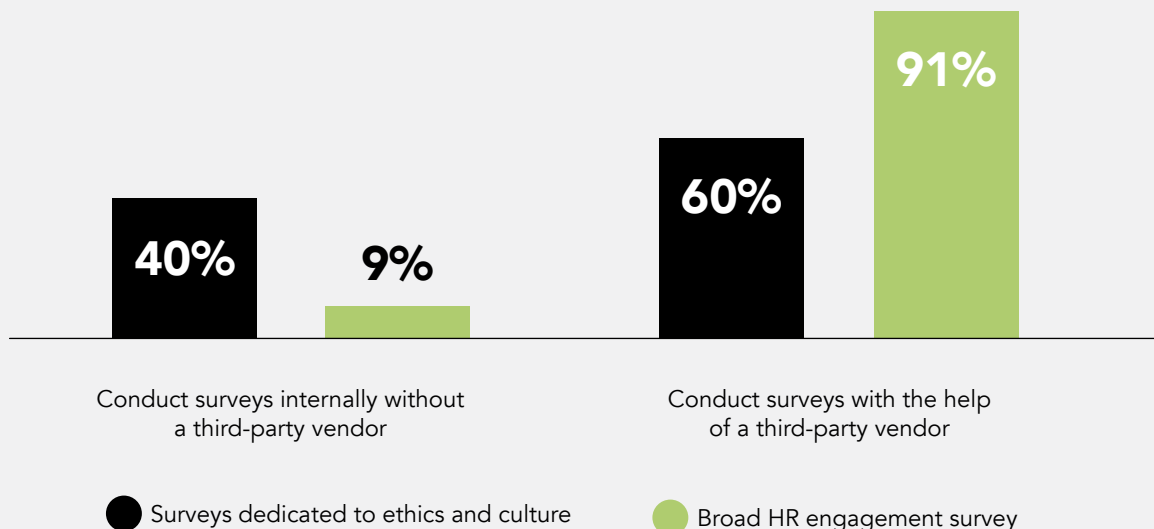
	2018 WME Rank	2017 WME Rank	2016 WME Rank
HR/Engagement Survey	1st (82%)	1st (77%)	1st (76%)
Physical Site Visit	2nd (81%) – tied	4th (66%) – tied	5th (53%)
Review Social Media	2nd (81%) – tied	2nd (73%)	4th (54%)
Management Interviews	4th (74%)	3rd (69%)	3rd (56%)
Employee Focus Groups	5th (73%)	4th (66%) – tied	6th (44%)

Evidence Suggests Less Support Provided for Measuring Ethical Culture Than Engagement

Honorees implementing an ethical culture survey are far more likely to run it themselves internally, compared to honorees who measure culture using an engagement survey. 2018 WMEC data reflects that 40 percent of honorees running a dedicated culture survey do so without the assistance of a third-party vendor, compared to only nine percent of honorees that run an engagement survey. The propensity for

companies to run dedicated ethical culture surveys without external support from experts may account for the lower response rates reported for culture surveys than for engagement surveys. Our experience has been that employees are often more comfortable responding to a survey on sensitive topics when they know it is administered by a third party.

2018 WME Honorees Conducting Surveys Using Internal Resources or a Third-Party



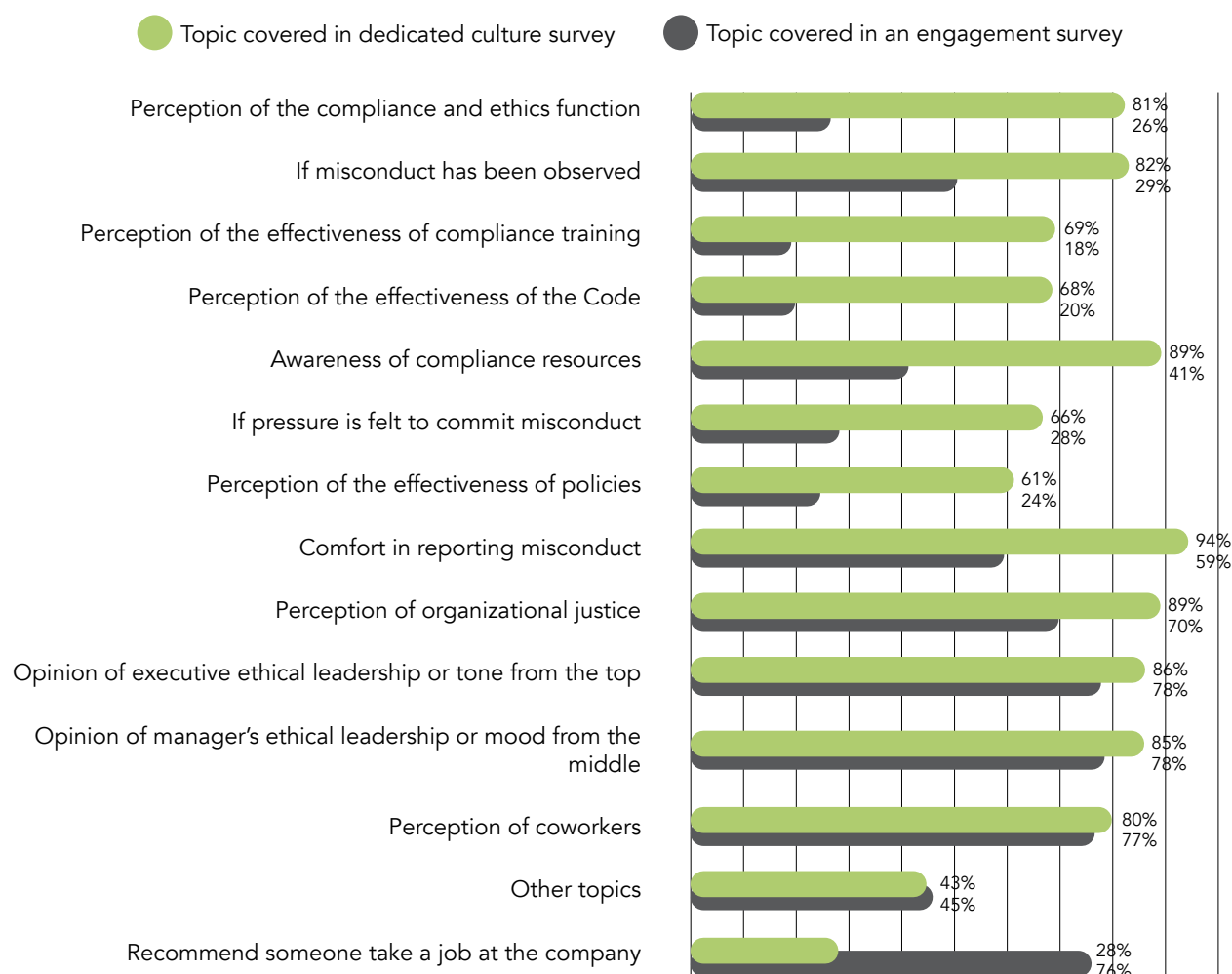
Honoree Data Suggests Using Surveys Focused on Ethics Provides an Opportunity for Better Insights

The data suggest that those honorees serious about capturing detail and insights associated with ethical culture do so using a dedicated survey process. It is worth stating that companies using a dedicated ethics survey have the opportunity to cover significantly more ethics and compliance topics than those using engagement surveys. Topics least often addressed in engagement surveys relative to ethical culture surveys include employee perceptions of the compliance and ethics function, whether an employee has recently

observed misconduct, and perceptions of compliance training effectiveness—data relevant to developing and maintaining an ethical culture.

Every topic measured is more commonly found in a dedicated ethical culture survey than an engagement survey, with the notable exception of the topic “Whether the employee would recommend to a friend or family member that they take a job at the company.”

Survey Topics Used by 2018 Honorees When Measuring Ethical Culture



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:

Ethisphere's Ethics Quotient Survey*
The Only Data Set That Allows for Benchmarking Against the World's Most Ethical Companies

The proprietary Ethics Quotient Survey provides an objective measurement of a company's ethical culture, compliance programs, policies, and procedures, as well as other aspects of an ethical organization.

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.

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 Peer Benchmarking Presentation.

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 access to our cloud-based reporting application so you can conduct unlimited data analysis.

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.

*Indicates a service that is included with Ethisphere's Business Ethics Leadership Alliance (BELA) membership

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ABOUT ETHISPHERE

The Ethisphere® Institute is the global leader in defining and advancing the standards of ethical business practices that fuel corporate character, marketplace trust and business success. Ethisphere has deep expertise in measuring and defining core ethics standards using data-driven insights from our Ethics Quotient, and works with the world's largest companies to enhance culture capital with the insights from our culture assessment data set, which is grounded in our 8 Pillars of Ethical Culture. Ethisphere honors superior achievement through its World's Most Ethical Companies recognition program and provides a community of industry experts with the Business Ethics Leadership Alliance (BELA). More information about Ethisphere can be found at <https://ethisphere.com>.



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