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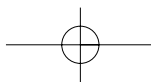
Avoiding the avalanche

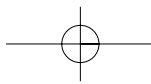
How a robust ethics programme can prevent small problems from snowballing into disasters

| by Dennis Muse |

Can any organisation afford to ignore the importance of implementing, communicating, and demonstrating a code of conduct? Is it possible to place too much emphasis on ethics? In today's world, news of a corporation's mishap, misstep, or misdeed can spread across the country, continent, or even globe in a matter of hours, ruining the corporation's reputation and causing it to suffer staggering losses. This is a real-world manifestation of the butterfly effect, the idea that a butterfly moving its wings in Asia may cause a hurricane in the Atlantic. This aspect of chaos theory suggests that the smallest of changes can have the largest of effects. As the economy becomes increasingly more globalised, the butterfly effect becomes more and more relevant to corporations and organisations of every size and type. The massive growth of the internet as well as increasingly complex and collaborative business relationships are two of the factors that lend themselves to this phenomenon. The genie is truly out of the bottle. The interconnectedness that opens up markets and creates opportunities previously unimagined also leaves corporations with little room for error when it comes to behaving ethically and in compliance with laws and regulations. The smallest mistake or lapse in judgment can easily snowball into an avalanche.

While the US Sarbanes-Oxley Act of 2002 will require European corporations listed on US stock exchanges to establish mechanisms for the confidential and anonymous submission of concerns regarding questionable accounting or auditing matters by the summer of 2006, there are a myriad of compelling reasons for every organisation, no matter the size, location, or structure, to focus their full attention on establishing, communicating, and demonstrating a robust code of conduct. Organisations who fail to adopt effective ethics programmes suffer from unchecked loss of assets, negative work environments, compromised relationships with business partners and clients, a decreased ability to operate internationally, and the lost opportunity to shape a more ethical business climate now and in the future. Is it possible to place too much importance on ethics? The answer is a resounding no.





First, an effective ethics programme prevents loss of assets and mitigates risk. Loss prevention and risk mitigation can take many forms, ranging across all levels of an organisation and encompassing risks both large and small, not the least of which is reputational. In accordance with legislation requiring procedures for confidential and anonymous submission of concerns regarding accounting and auditing matters, more and more corporations are establishing hotlines and web reporting in order to capture allegations of financial malfeasance. Detecting and preventing such behaviour not only saves an organisation the money it may be losing as a result of the malfeasance itself, even greater savings may be realised in terms of the organisation's reputation. As corporate scandals have demonstrated around the world, nothing weakens investor confidence like allegations of corporate fraud or insider trading. Organisations also reap huge benefits by preventing loss at a local level, office by office, store by store. By providing effective avenues for employees to report theft, fraud, and waste without fear of repercussion, corporations can realise real savings at a grass roots level. While petty theft, for example, may seem just that, when multiplied across tens or hundreds of cases over the course of a year, corporations begin to realise how important it is to take every measure to stop their assets from walking out the back door. An effective ethics programme translates into an effectively run organisation which in turn translates into profitability. When employees observe violations of policy and poor business decisions being made by co-workers and managers, it is important that they have options for reporting this behaviour. The chain of command may fail to respond to an employee's concerns, or the employee may believe his job will be threatened if he speaks with management. In such cases, only a confidential and independent reporting mechanism will prevent valuable concerns from falling through the cracks.

Secondly, an effective ethics programme promotes a positive work environment. In addition to establishing confidential avenues for employees to report concerns, employers must use communications materials and training sessions to ensure each employee is aware of and understands their organisation's ethics policy, purpose, and process. Fairness is a quality everybody wants to find in their workplace. Organisations can go a long way to imparting this quality by educating their employees on their options for reporting and responding to concerns while emphasising that every employee from entry level to board room is subject to the same process. Once employees understand they will be treated fairly and will have recourse when they believe they have not been, the workplace becomes a much healthier environment for all concerned.


Third, what is true for employees is also true for business partners, vendors, and clients. Successful business relationships depend on everyone involved behaving in an honest and fair manner. With this understanding, the best practice is for corporations to encourage non-employees such as contractors, shareholders, and customers to utilise their resources and report concerns and allegations of wrongdoing. More and more organisations are making it a common practice to share their code of conduct with those parties with whom they do business. While such transparency was once considered undesirable by some, in today's world organisations of all types place great importance on ensuring that they are in a position of ethical equivalency with their business partners; i.e. all parties are equally dedicated to open, honest, fair, and legal business dealings.

Fourth, as business ethics has become more and more of a hot topic, varying and sometimes contradictory practices, guidelines, regulations, and laws are arising around the world. Organisations that keep abreast of the latest developments and incorporate them into their policies and procedures are that much more equipped to conduct business internationally. Ethics is not only about organisations looking inward, it is also about looking outward to the world, establishing best practices and finding a common set of values upon which a foundation can be built. While the laws of nations sometimes diverge when it comes to business ethics, they tend to share a common goal: to encourage organisations to behave openly, honestly, and ethically.

Finally, organisations that are proactive in creating effective ethics programmes find themselves in the position to help shape the future business environment we will all inhabit. The policies and procedures we adopt today will be the standards and best practices used by everyone tomorrow. Truly, every organisation has a role to play, be it small or large, in the global spread of ethical business practices. Business people will tell you time and time again they yearn to compete on a level playing field. What better playing field is there than one where everybody plays honestly, fairly, and with integrity?

While the stakes have never been higher for organisations to embrace a robust code of conduct, there also have never been more tools available to help them create the most ethical business environments possible. As the creator of the original third-party ethics and compliance hotline, my company, Global Compliance Services, has spent the last 25 years helping clients establish, manage and evolve effective ethics programmes. In addition to hotline reporting, we also offer web reporting, a sophisticated case management system, a report writer tool to chart and analyse trends, custom communications campaigns, interactive

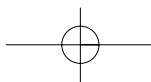
training, and a wide range of evaluations, inventories, and inspections. We pride ourselves on being an integrated solution for corporations wishing to mitigate risk and comply with legislation and regulation impacting multinational corporations. Global Compliance Services also places great emphasis on the consultative guidance we offer our clients. In this regard, we play an important role in keeping our clients informed of changes to laws and regulations and how such changes will affect their ability to conduct business overseas. For example, Global Compliance Services has taken the foremost leadership position in our industry in addressing problems arising from conflicting regulations and court decisions specific to reporting hotlines in the US and Europe, such as recent rulings in France and Germany. We have retained outside legal counsel to explore these issues and make recommendations that we pass on to our clients. We also communicated directly with the European Union to explain our viewpoint on these issues and to encourage a reasonable compromise. In addition, we hosted a representative from the French data protection agency, Commission nationale de l'informatique et des libertés (CNIL), at our headquarters on December 6, 2005. This representative served as the featured speaker for a conference call with Global Compliance Services' multinational clients to address the recent French Whistleblower guidelines and the rationale behind them. By providing our clients with such timely and relevant information, we have given them a great advantage in continuing to conduct their international business in an effective, legal, and ethical way. We at Global Compliance Services believe we offer organisations of all shapes and sizes the best solution for creating robust ethics programmes to establish and maintain the desired corporate culture; however, we encourage all organisations to explore their options, both internal and external, to ensure their ethics programmes are as effective as possible. The important point is not to ignore the issue. There is far too much at risk.

In closing then, the butterfly effect should be viewed not only as a dire warning but also as a great opportunity that should not be missed. If chaos theory tells us small changes can have vast consequences, then it is up to us to make those changes positive ones. By using all available resources to create effective ethics programmes, organisations of every kind are planting seeds that will reap great rewards; in contrast, those who ignore the call or respond too slowly may find themselves buried in the avalanche. 



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The golden age of corporate ethics

| by Dennis Muse |

The rule of thumb is you can never define a golden age until it's already over. Did those passengers who boarded Pan Am flying boats for week-long flights across the Pacific Ocean in the 1930s realise they were pioneers in the golden age of air travel? Did families huddled around tiny, flickering television screens during the early 1950s realise they were bearing witness to the golden age of television? The answer to both questions is probably not, yet surely those early air passengers and TV viewers suspected they were standing on the cusp of something historic in nature. Now, looking back at the past 25 years of the ethics and compliance industry, it seems clear that we in this business have also tread a historic path. When my company, Global Compliance Services, began the first ethics and compliance hotline in 1981, a whole new age was ushered in, though few knew it at the time.

Golden ages are typically marked by the emergence of an industry as a significant force in our daily lives. By the end of a golden age, what was once rare has become commonplace, routine even. Wireless phones, personal computers, and internet access have all experienced golden ages in recent years. If proliferation is an accurate indicator, one can hazard the guess that corporate and institutional ethics is not only well into its own golden age, it may even be approaching the end stage, universal acceptance. A few years ago, ethics hotlines and other forms of ethics reporting were the exception rather than the rule; today they are quickly becoming the rule. The pessimistic view is that laws like the Sarbanes-Oxley Act of 2002 have dragged many companies into this new age kicking and screaming. The optimistic view is that a confluence of corporate scandals have brought about a sea-change in the way businesses view themselves—embracing a corporate culture of ethics and integrity is not just the right thing to do, it is also good business. Every organisation, after all, is just one scandal away from disaster. Safeguarding against such scandals may cost money in the short term, but it certainly saves money in the long term. Whatever one's viewpoint, it's clear that the idea of good corporate governance is here to stay. When this golden age is over, employees and other stakeholders in corporations and institutions all across the globe will be empowered to report their concerns via confidential reporting hotlines and web forms as easily as they call their neighbours or access their personal e-mail accounts.

Of course, such reporting mechanisms comprise only one part of any successful corporate ethics programme. As the original pioneer of ethics and compliance reporting, Global Compliance Services has used its unparalleled experience working with clients around the world and in every sector to identify ten elements crucial for achieving an effective programme to detect and prevent malfeasance and promote ethical behaviour.

Code of conduct

First, effective codes of ethics or conduct are vital to establishing a framework of good corporate governance. Codes present a series of supporting rules that define good practices, what is allowed or prohibited. A code of conduct should offer clear guidance regarding what is expected of the members of the organisation, whether officers, employees, contractors, vendors, or any other stakeholders. The code should amplify the organisation's overall vision. Moreover, a code of conduct should be a dynamic document. It has little value if it is simply filed away and forgotten after its initial launch. Every code of conduct should be accompanied by a prominent and ongoing communication campaign, thus ensuring that the code is more than just words on paper, it is a set of values ingrained into the organisation's corporate culture.

Tone from the top

Second, an effective ethics programme begins at the top, with the board establishing directions to be carried out by executive management and communicated throughout all levels of the organisation. Executive management and middle management alike must stress ethics and compliance in their daily routines and embrace the desired corporate culture. The tone from the top should resonate at every level; the idea that different rules apply to different people should be avoided at all cost.

Communication

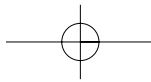
Third, education and communication are paramount in maintaining an elevated and ongoing awareness of an organisation's ethics programme. Steps must be taken to frequently communicate standards and celebrate the ethics programme across all employees, including those in upper management. This should include communication of information on new or amended laws and regulations, as well as changes in internal processes and procedures.

Confidential reporting mechanism

Fourth, organisations should utilise a confidential reporting mechanism, such as the hotline and web reporting services offered by Global Compliance Services and other vendors. The mechanism should allow employees and other stakeholders to report concerns anonymously and without fear of retribution. The mechanism should also enable the organisation to follow-up with reporters, while maintaining their anonymity, in order to gather additional information and provide feedback. The mechanism should operate independent of the normal chain of command, which is why more and more organisations are outsourcing their hotlines and web applications to third-party vendors. Vendors also offer the advantage of 24/7 availability, multi-lingual information intake and specialised expertise. Organisations should ensure that their reporting mechanism is compliant with the data protection laws in each country in which they operate and that any vendors they use are also able to comply with the data protection laws in their countries of operation. For example, Global Compliance Services is Safe Harbor certified, meaning it complies with the European Commission's directive on data protection. Thus, companies in the European Union can do business with us without fear of violating the directive. While hotlines are the most accepted and proven type of reporting mechanism, web submission is also becoming increasingly popular. As a best practice, Global Compliance Services recommends offering employees the option of using both methods.

Centralised data repository

Fifth, reports of allegations, regardless of how they are submitted, should be stored in a centralised data repository. Only such a repository makes it possible to efficiently manage and assess submitted reports of misconduct, fraud, and other concerns. The data repository that Global Compliance Services offers not only stores hotline and web reports, it also allows clients to enter their own reports based on information they may receive internally such as letters, e-mails or voice mails. Keeping all reports in one centralised database ensures the greatest accountability possible, with no worries that the odd complaint will fall between the cracks.



Case management

Sixth, in conjunction with the central data repository of element five, organisations should use a robust case management system to document the actions taken to investigate and resolve allegations reported through their reporting mechanisms. Any good case management system should allow a case manager to assign investigators and case status as well as append case notes and other documentation.

Data query and analysis

Seventh, the central database described in element five should also allow an organisation to conduct real-time queries and analyses of all report and case management data. With this ability, an organisation can identify trends and conduct statistical analyses of its ethics programme's activity. At Global Compliance Services, we not only make this data searchable by the client, we also offer clients the option of using our Global Report Writer tool, which empowers them to chart their own standard or ad hoc management reports based on their collected data.

Case investigation

Eighth, organisations must possess the ability to pursue investigations to resolution. Whether investigations are conducted internally or by a third-party firm, they should be tracked using the case management system described in element six to ensure resolution is achieved in a timely and effective manner.


Background checks and screens

Ninth, organisations should devote resources to preventing malfeasance before it happens, using such tools as background checks and sanction screens. By performing routine background checks and screens on

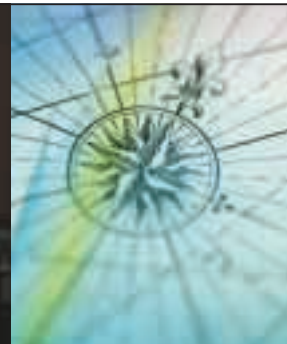
prospective employees, organisations can avoid hiring individuals with histories of unethical behavior or individuals who have been barred from working in an industry. This is one way for an organisation to demonstrate its commitment to a culture of ethics and integrity from the very beginning.

Evaluation and validation

Tenth, and finally, evaluation and validation, a method of self-assessment, also helps prevent non-compliant, fraudulent or otherwise undesirable behaviour. Validation consists of running controlled inputs through organisational systems in order to measure associated outputs. Mystery shopping is one example of validation employed frequently by retail organisations. Validation can identify weaknesses in employee awareness, comprehension or performance so that additional training can be employed to correct the problem.

Any organisation that follows these 10 guidelines will find itself well on its way to establishing an effective ethics programme and a culture of integrity among its employees and other stakeholders. While many organisations today struggle with the commitment of resources and the occasionally uncomfortable degree of introspection necessary to follow a path of good corporate governance, in years to come such qualms will no doubt disappear even as these ten guidelines become second nature. In that future time, the early adapters who pursued the goal of organisational integrity, not simply because laws all around the world were moving in that direction but also because it was both good stewardship and good business, will proudly proclaim that they, too, were pioneers of the golden age of corporate ethics. 

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