# **Developing and Implementing**

# an Effective Ethics and

## **Compliance Training Program**

Tuesday, October 16, 2012

4:15 PM - 5:15 PM

### **Domenick Claudio**

*Executive Director, Global Financial Compliance The Estee Lauder Companies Inc.* 

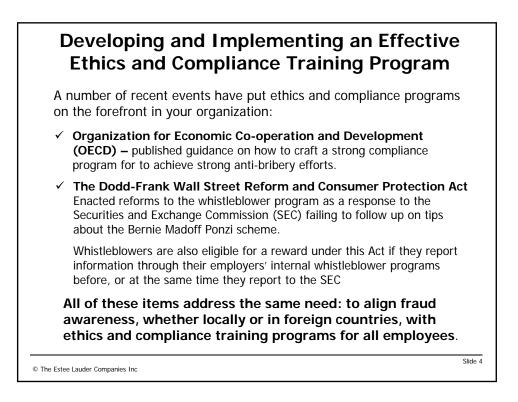


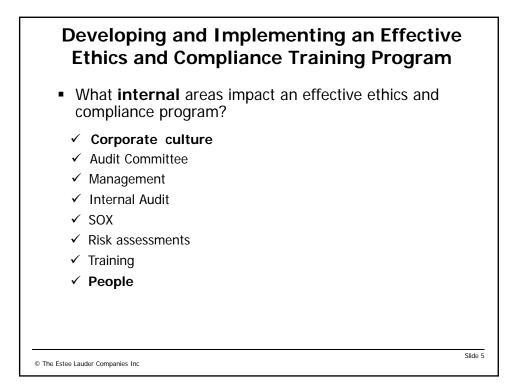


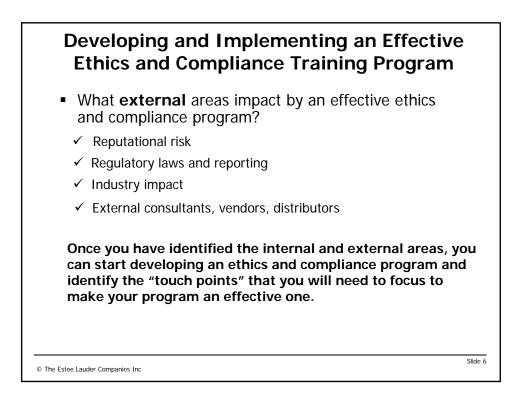
A number of recent events have put ethics and compliance programs on the forefront in your organization:

- ✓ Stepped up efforts by the Department of Justice (DOJ) and the Securities Exchange Commission (SEC) to monitor compliance with the Foreign Corrupt Practices Act (FCPA).
- ✓ Federal Sentencing Guidelines federal judges can now impose stiffer penalties on individuals <u>and</u> corporations found guilty of violating criminal laws including FCPA. Also requires companies to adopt comprehensive ethics and compliance programs and training.
- ✓ UK Bribery Act of 2010 makes corporations automatically liable for bribes paid on their behalf. Corporations can now face <u>criminal</u> sanctions if they cannot demonstrate adequate ethics and compliance programs are in place.

© The Estee Lauder Companies Inc







### Steps on How to Implement an Effective Ethics and Compliance Training Program

There are seven steps that will help you in implementing an effective ethics and compliance program:

- 1. Identify the **purpose and mission** of your ethics and compliance program
- 2. Know your company's ethical culture
- 3. Identify your organization's **business goals and objectives** (This is very important!)
- 4. Identify the **risks** associated with your organization's business goals and objectives (assessment of the current and future risks and who is accountable)
- 5. Create an accountability and authority organization chart
- 6. Develop an effective management response plan
- 7. Implement a continuous monitoring and improvement program

© The Estee Lauder Companies Inc

Steps on How to Implement an Effective Ethics and Compliance Training Program 1. Identify the **purpose and mission** of your ethics and compliance program An effective ethics and compliance program supports good corporate governance. It promotes effective risk management by ✓ Ensuring compliance with regulatory requirements locally and internationally  $\checkmark$  Makes management look at itself internally by ensuring its internal corporate policies are operating effectively Promotes effective and efficient internal controls, such as:  $\checkmark$ Proper authorization of transactions and activities • Accounting reconciliations and analysis • Segregation of duties • Adequacy of documentation and records Safeguarding of assets Slide 8

© The Estee Lauder Companies Inc

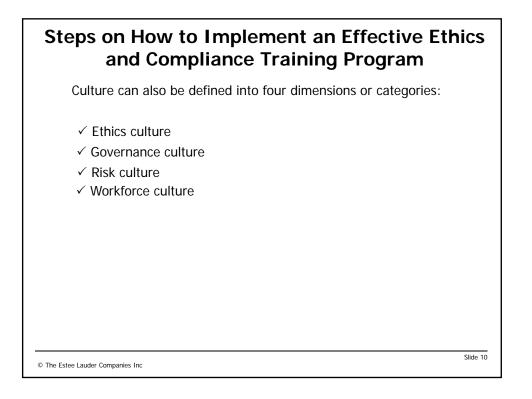
Steps on How to Implement an Effective Ethics
and Compliance Training Program

2. Know your company's ethical culture

"Every organization should put in place an ethics and compliance training program that ensures comprehensive reporting, clear accountability and full and effective oversight by the top decision makers. But to make the program truly effective - to maintain compliance, no matter how stressful the economic environment - it's even more important to develop a culture that fully committed to ethics and compliance."

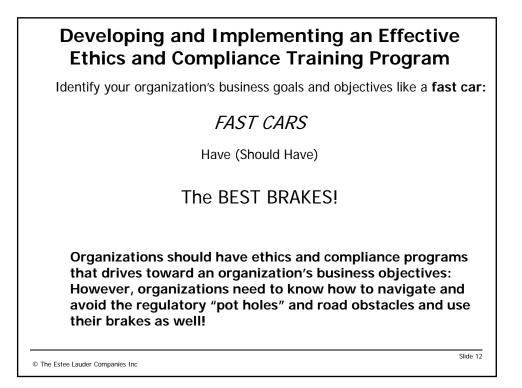
- Sven Erik Holmes, Executive Vice Chair, Legal and Compliance, KPMG

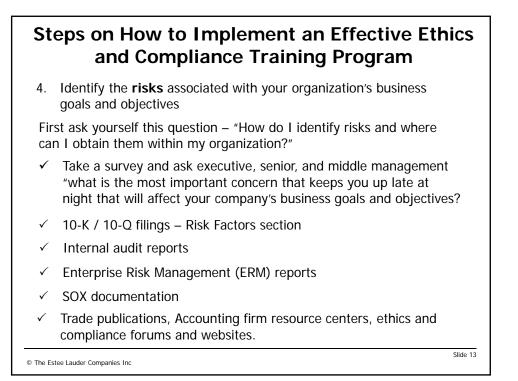
© The Estee Lauder Companies Inc





© The Estee Lauder Companies Inc

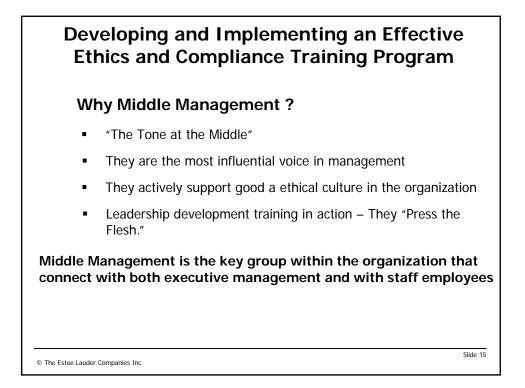


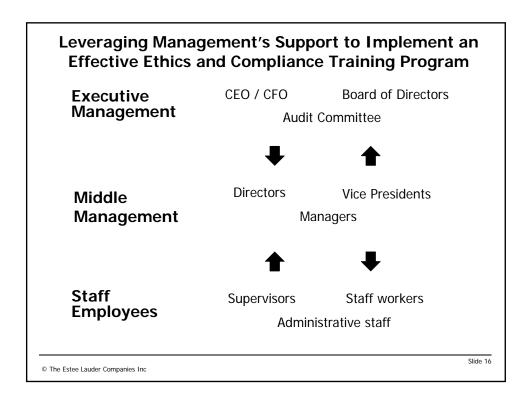


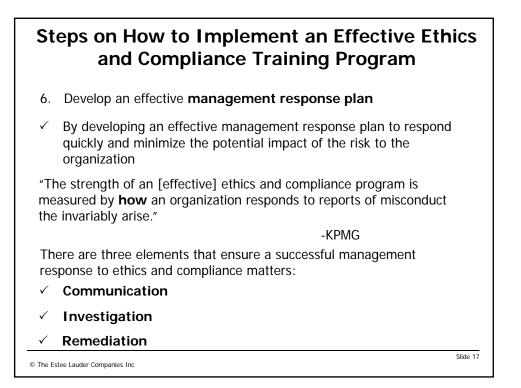
### Steps on How to Implement an Effective Ethics and Compliance Training Program

- 5. Create an accountability and authority **organization chart**
- ✓ The commitment of both the Board of Directors and senior management is critical to the success of an effectives ethics and compliance program
- ✓ Clear authorization and clearly defined roles must be in place
- ✓ When roles are clearly defined, so should accountability ownership be assigned
- Middle management will need to play a key role in your organization – they are the one that will ensure that policies and procedures are followed in the workplace

© The Estee Lauder Companies Inc







### Steps on How to Implement an Effective Ethics and Compliance Training Program

#### **Communication**

- Provide multiple channels of communication for raising ethical and compliance issues for all employees
  - Whistleblower Hotline
  - Feedback from local managers, supervisors, affiliate offices

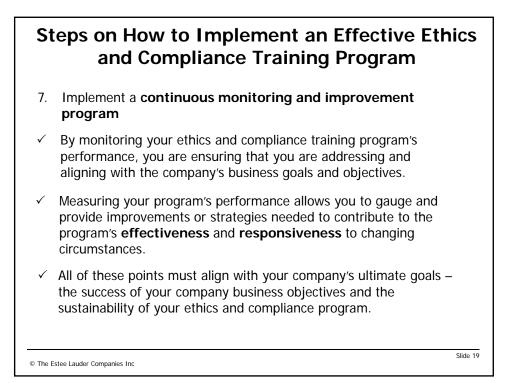
#### **Investigation**

- Ensure consistent, fair and thorough investigation of reported / alleged activities
  - Tracking and reporting system
  - Set up process, protocols, and metrics (i.e., progress report to management, the time it take to resolve a case, etc.)

#### **Remediation**

 For substantiated reports, implement specific and remedial measures to mitigate the reported / alleged activity from occurring again.

 $\ensuremath{\mathbb{C}}$  The Estee Lauder Companies Inc



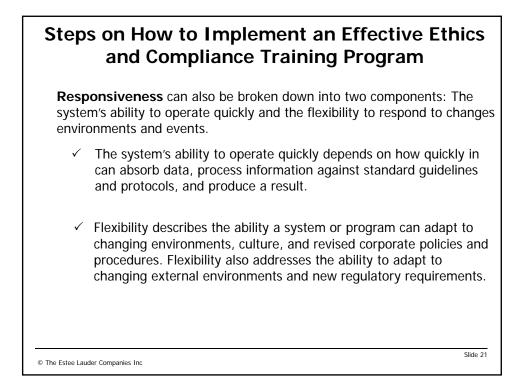


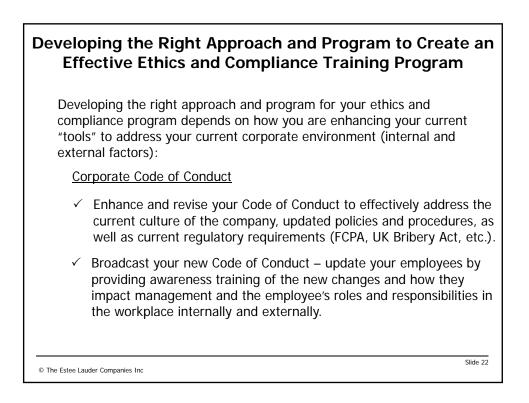
Measuring your program's **effectiveness** and **responsiveness** to changing circumstances.

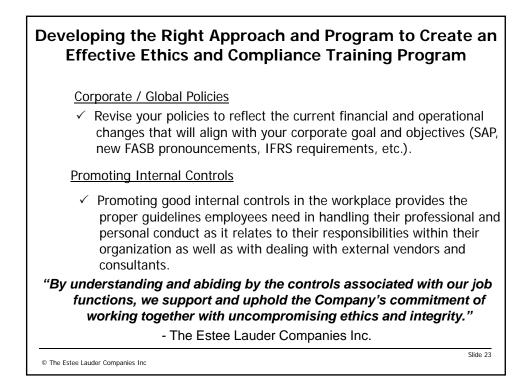
Effectiveness can be broken down into two components:

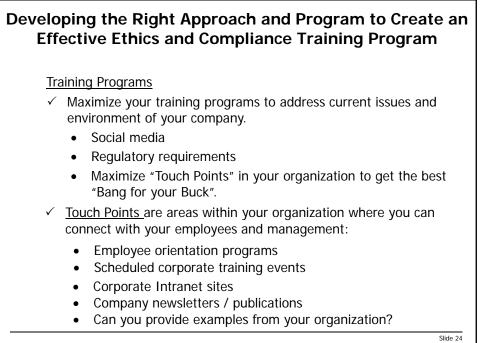
- <u>Design effectiveness</u> describes the degree to how a system is designed to meet the legal and cultural challenges of an organization and does it effectively meet its organizational, legal and regulatory compliance responsibilities.
- ✓ <u>Operating effectiveness</u> describes how well a system operates based on its design. Does your program function and operate the way it was designed? If a system is not operating effectively, it must be managed to operate at its intended level of operation. Management must make sure that operational effectiveness is in place to ensure a peak operational performance of its ethics and compliance program is in order to obtain its desired results.

© The Estee Lauder Companies Inc

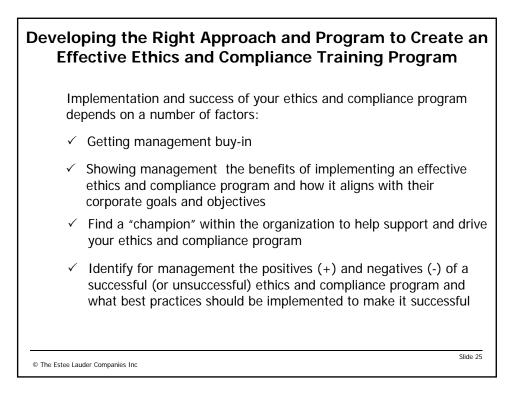


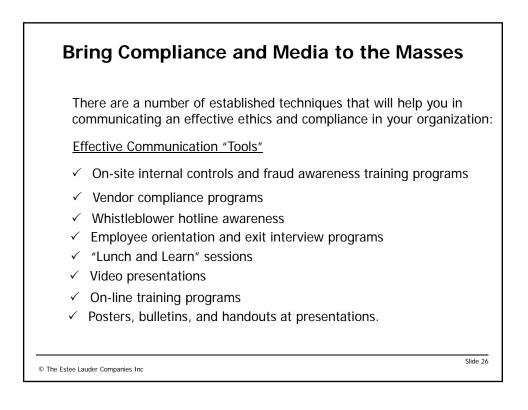






© The Estee Lauder Companies Inc





## Measuring Success of Your Ethics and Compliance Training Program

Gaining feedback from management and employees can help you measure the impact, visibility and perception of your ethics and compliance program has in your organization.

- ✓ Conduct surveys by focusing on management and employee's perception of the organization's ethics and compliance program.
- ✓ Measure your organization's response plan and reporting those results to management on a timely basis
- ✓ Demonstrate leadership, accountability and ownership where issues need to be addressed.
- ✓ Continuous monitoring of the design and operating effectiveness of your ethics ad compliance program.
- Develop metrics that can be reported and understood by management (simple, measurable, actionable and relevant to the goals and objectives of the company).

© The Estee Lauder Companies Inc

## Measuring Success of Your Ethics and Compliance Training Program

Always improve on what you have to make a successful ethics and compliance program more effective. Always use the following TEAM concept to evaluate good corporate governance which will drive the success of your ethics and compliance program:

- ✓ Training
- ✓ Educate
- ✓ Accept responsibility
- ✓ Managing and monitoring

© The Estee Lauder Companies Inc

Slide 28

## The Do's and Don'ts of an Effective Ethics and Compliance Training Program

### <u>Do's</u>

✓ Understand the topic and relate it to the employee's work environment

- ✓ Tailor your training program to your audience
- ✓ Make use of effective tools that are "tried and true" in your company
- ✓ Be available to answer questions or willing to find the answer to a question you do not know
- ✓ Engage management to support its "Tone at the Top."
- ✓ State the facts and explain *how* they relate to your company
- ✓ Make in interesting and interactive not one-sided
- ✓ Be humble, honest, and sincere show empathy
- ✓ Be passionate about your training program It will show in your work!

© The Estee Lauder Companies Inc

The Do's and Don'ts of an Effective Ethics and Compliance Training Program

### <u>Don'ts</u>

- ✓ Do not be adversarial in your training approach
- ✓ Do not waste your employee's time with filler information in your ethics training program
- $\checkmark$  Do not claim to be an expert in the field unless you are one.
- ✓ Do not try to create a program where "one size fits all."
- ✓ Do not communicate a program without management's support
- ✓ Do not make it boring
- ✓ Do not make your program longer that 30 minutes
- ✓ Do not make it old Enron and WorldCom are now old Make it relevant to today's issues - Lehman Brothers, AIG, and Bear Stearns
- ✓ Do a good job in your research in creating an effective ethics and compliance training program

© The Estee Lauder Companies Inc



