

**Developing and Implementing
an Effective Ethics and
Compliance Training Program**

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4:15 PM – 5:15 PM

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**Developing and Implementing an Effective
Ethics and Compliance Training Program**

- In this session we will discuss:
 - Recent regulatory events that have put ethics and compliance training programs in the forefront of your organization
 - Internal and external areas that are affected by an ethics and compliance program
 - Steps on how to implement an effective ethics and compliance training program
 - Developing the right approach and programs for your ethics and compliance programs
 - Bringing compliance and media to the masses
 - Measuring success of your ethics and compliance program
 - The do's and don'ts of an effective ethics and compliance program

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Slide 2

**Developing and Implementing an Effective
Ethics and Compliance Training Program**

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 and 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 criminal sanctions if they cannot demonstrate adequate ethics and compliance programs are in place.

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Developing and Implementing an Effective Ethics and Compliance Training Program

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

- ✓ **Organization for Economic Co-operation and Development (OECD)** – published guidance on how to craft a strong compliance program for to achieve strong anti-bribery efforts.
- ✓ **The Dodd-Frank Wall Street Reform and Consumer Protection Act** Enacted reforms to the whistleblower program as a response to the Securities and Exchange Commission (SEC) failing to follow up on tips about the Bernie Madoff Ponzi scheme.

Whistleblowers are also eligible for a reward under this Act if they report information through their employers' internal whistleblower programs before, or at the same time they report to the SEC

All of these items address the same need: to align fraud awareness, whether locally or in foreign countries, with ethics and compliance training programs for all employees.

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▪ What **internal** areas impact an effective ethics and compliance program?

- ✓ **Corporate culture**
- ✓ Audit Committee
- ✓ Management
- ✓ Internal Audit
- ✓ SOX
- ✓ Risk assessments
- ✓ Training
- ✓ **People**

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▪ What **external** areas impact by an effective ethics and compliance program?

- ✓ Reputational risk
- ✓ Regulatory laws and reporting
- ✓ Industry impact
- ✓ External consultants, vendors, distributors

Once you have identified the internal and external areas, you can start developing an ethics and compliance program and identify the "touch points" that you will need to focus to make your program an effective one.

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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**

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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
 - ✓ Makes management look at itself internally by ensuring its internal corporate policies are operating effectively
 - ✓ Promotes effective and efficient internal controls, such as:
 - Proper authorization of transactions and activities
 - Accounting reconciliations and analysis
 - Segregation of duties
 - Adequacy of documentation and records
 - Safeguarding of assets

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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

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

Culture can also be defined into four dimensions or categories:

- ✓ Ethics culture
- ✓ Governance culture
- ✓ Risk culture
- ✓ Workforce culture

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3. Identify your organization's **business goals and objectives**

By identifying your organization's business goals and objectives, you can develop an effective ethics and compliance program that:

- ✓ Identifies the boundaries of legal and ethical behavior that internally and externally affects your organization
- ✓ Ensures you are addressing management's goals and objectives from a national vs. global perspective
- ✓ In compliance with local and international laws

By establishing an ethics and compliance program that supports the organization's business objectives, you are creating an early warning system to alert management when an organization is getting close to (or crossing) a boundary or obstacle that could prevent it from achieving its business goals and objectives.

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Identify your organization's business goals and objectives like a **fast car**:

FAST CARS

Have (Should Have)

The BEST BRAKES!

Organizations should have ethics and compliance programs that drives toward an organization's business objectives: However, organizations need to know how to navigate and avoid the regulatory "pot holes" and road obstacles and use their brakes as well!

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

4. Identify the **risks** associated with your organization's business goals and objectives

First ask yourself this question – "How do I identify risks and where can I obtain them within my organization?"

- ✓ Take a survey and ask executive, senior, and middle management "what is the most important concern that keeps you up late at night that will affect your company's business goals and objectives?"
- ✓ 10-K / 10-Q filings – Risk Factors section
- ✓ Internal audit reports
- ✓ Enterprise Risk Management (ERM) reports
- ✓ SOX documentation
- ✓ Trade publications, Accounting firm resource centers, ethics and compliance forums and websites.

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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 effective 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

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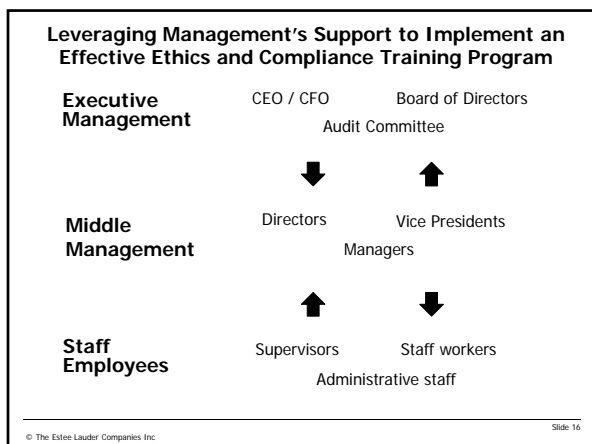
Why Middle Management ?

- "The Tone at the Middle"
- They are the most influential voice in management
- They actively support good a ethical culture in the organization
- Leadership development training in action – They "Press the Flesh."

Middle Management is the key group within the organization that connect with both executive management and with staff employees

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

6. Develop an effective **management response plan**

- ✓ By developing an effective management response plan to respond quickly and minimize the potential impact of the risk to the organization

"The strength of an [effective] ethics and compliance program is measured by **how** an organization responds to reports of misconduct the invariably arise."

-KPMG

There are three elements that ensure a successful management response to ethics and compliance matters:

- ✓ **Communication**
- ✓ **Investigation**
- ✓ **Remediation**

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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.

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

7. Implement a **continuous monitoring and improvement program**

- ✓ By monitoring your ethics and compliance training program's performance, you are ensuring that you are addressing and aligning with the company's business goals and objectives.
- ✓ Measuring your program's performance allows you to gauge and provide improvements or strategies needed to contribute to the program's **effectiveness** and **responsiveness** to changing circumstances.
- ✓ All of these points must align with your company's ultimate goals – the success of your company business objectives and the sustainability of your ethics and compliance program.

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

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

Effectiveness can be broken down into two components:

- ✓ **Design effectiveness** – 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.
- ✓ **Operating effectiveness** – 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.

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

Responsiveness can also be broken down into two components: The system's ability to operate quickly and the flexibility to respond to changes environments and events.

- ✓ The system's ability to operate quickly depends on how quickly in can absorb data, process information against standard guidelines and protocols, and produce a result.
- ✓ Flexibility describes the ability a system or program can adapt to changing environments, culture, and revised corporate policies and procedures. Flexibility also addresses the ability to adapt to changing external environments and new regulatory requirements.

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Developing the Right Approach and Program to Create an Effective Ethics and Compliance Training Program

Developing the right approach and program for your ethics and compliance program depends on how you are enhancing your current "tools" to address your current corporate environment (internal and external factors):

Corporate Code of Conduct

- ✓ Enhance and revise your Code of Conduct to effectively address the current culture of the company, updated policies and procedures, as well as current regulatory requirements (FCPA, UK Bribery Act, etc.).
- ✓ Broadcast your new Code of Conduct – update your employees by providing awareness training of the new changes and how they impact management and the employee's roles and responsibilities in the workplace internally and externally.

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Developing the Right Approach and Program to Create an Effective Ethics and Compliance Training Program

Corporate / Global Policies

- ✓ Revise your policies to reflect the current financial and operational changes that will align with your corporate goal and objectives (SAP, new FASB pronouncements, IFRS requirements, etc.).

Promoting Internal Controls

- ✓ Promoting good internal controls in the workplace provides the proper guidelines employees need in handling their professional and personal conduct as it relates to their responsibilities within their organization as well as with dealing with external vendors and consultants.

"By understanding and abiding by the controls associated with our job functions, we support and uphold the Company's commitment of working together with uncompromising ethics and integrity."

- The Estee Lauder Companies Inc.

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Developing the Right Approach and Program to Create an Effective Ethics and Compliance Training Program

Training Programs

- ✓ Maximize your training programs to address current issues and environment of your company.
 - Social media
 - Regulatory requirements
 - Maximize "Touch Points" in your organization to get the best "Bang for your Buck".
- ✓ Touch Points are areas within your organization where you can connect with your employees and management:
 - Employee orientation programs
 - Scheduled corporate training events
 - Corporate Intranet sites
 - Company newsletters / publications
 - Can you provide examples from your organization?

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Developing the Right Approach and Program to Create an Effective Ethics and Compliance Training Program

Implementation and success of your ethics and compliance program depends on a number of factors:

- ✓ Getting management buy-in
- ✓ Showing management the benefits of implementing an effective ethics and compliance program and how it aligns with their corporate goals and objectives
- ✓ Find a "champion" within the organization to help support and drive your ethics and compliance program
- ✓ Identify for management the positives (+) and negatives (-) of a successful (or unsuccessful) ethics and compliance program and what best practices should be implemented to make it successful

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Bring Compliance and Media to the Masses

There are a number of established techniques that will help you in communicating an effective ethics and compliance in your organization:

Effective Communication "Tools"

- ✓ On-site internal controls and fraud awareness training programs
- ✓ Vendor compliance programs
- ✓ Whistleblower hotline awareness
- ✓ Employee orientation and exit interview programs
- ✓ "Lunch and Learn" sessions
- ✓ Video presentations
- ✓ On-line training programs
- ✓ Posters, bulletins, and handouts at presentations.

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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 and 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).

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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

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

Do's

- ✓ 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 it 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!

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

Don'ts

- ✓ Do not be adversarial in your training approach
- ✓ Do not waste your employee's time with filler information in your ethics training program
- ✓ 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 than 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

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Developing and Implementing an Effective Ethics and Compliance Training Program

In Summary:

- ✓ We discussed recent regulatory events that have put ethics and compliance training programs in the forefront of your organization
- ✓ We identified internal and external areas that may have an affect on an ethics and compliance program
- ✓ We learned the steps on how to implement an effective ethics and compliance training program
- ✓ We discussed on how to develop the right approach and programs for your ethics and compliance program
- ✓ We learned on how to bring compliance and media to the masses
- ✓ We discuss key points that can measure the success of your ethics and compliance program
- ✓ We learned the do's and don'ts of an effective ethics and compliance program

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Any Questions or Comments ?

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Thank you!

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