

CORPORATE CULTURE, ETHICS, AND THE ROLE OF THE BOARD OF DIRECTORS

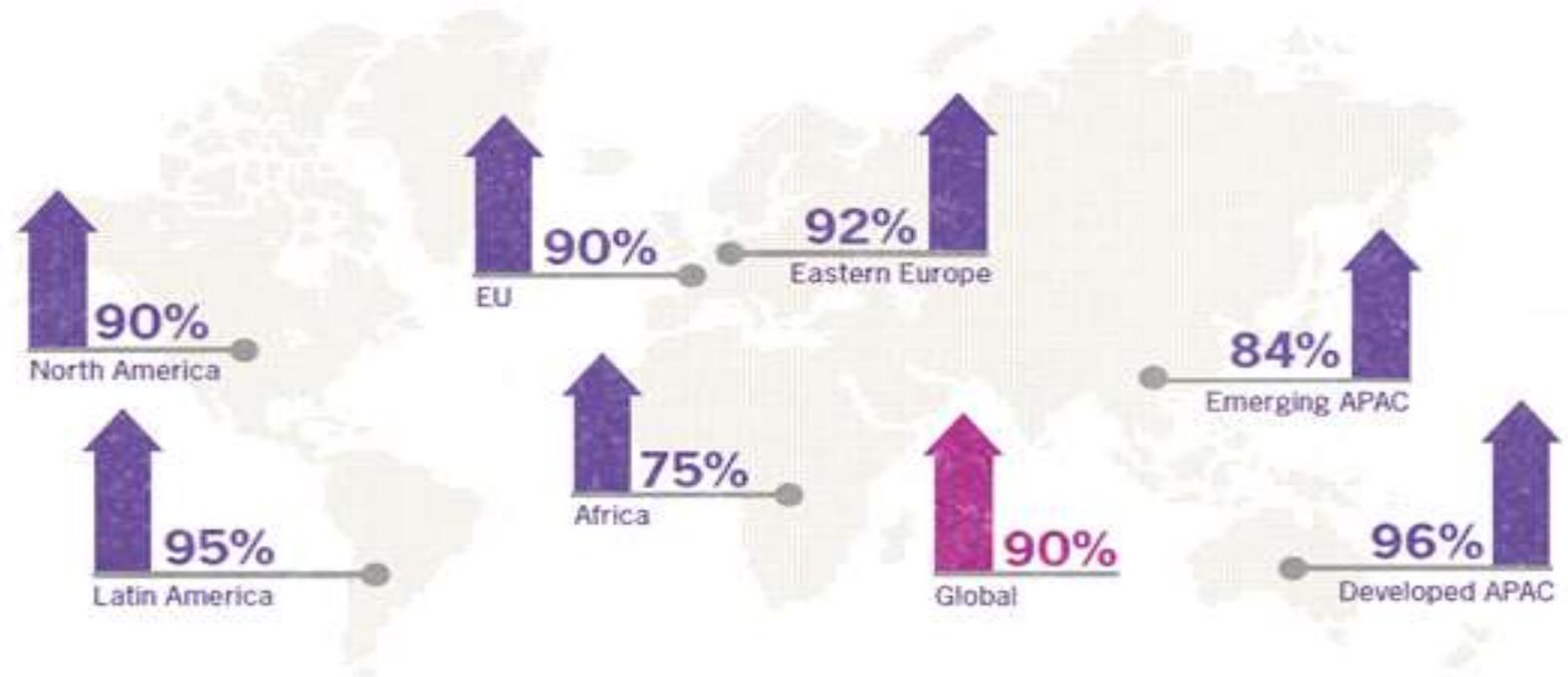


Boris Janjalia

IFC ECA Corporate Governance Officer

NOVEMBER 10, 2015

Percentage of businesses citing culture as important to a robust governance framework



Source: Grant Thornton IBR 2015
See methodology on page 19 for definitions of emerging and developed APAC

“Culture starts with the board and our work to make sure everything is driven down to CEO and senior management who need to develop and maintain well defined governance policies and procedures.”

*Board member
US*

Creating a culture of integrity begins with tone at the top, but it has to include the mood in the middle and the buzz at the bottom. ***Culture is what people see as recognized and rewarded.*** For employees, the face of culture might be their supervisor. The voices of culture are the legendary stories told throughout an organization that reinforce the fundamental values that it stands for. I have long said to boards and top executives that ***if companies aren't managing culture, culture is managing them.***

Keith Darcy
Former Executive Director,
Ethics & Compliance Officer Association

Corporate Culture and the Board

- Corporate culture is becoming a major area of concern among boards and audit committees.
- Culture is also increasingly on the agenda of regulators, with some, such as those in the United Kingdom, now holding boards directly responsible for oversight of corporate culture.
- Boards are limited in the role they play in directly shaping (rather than overseeing) corporate culture
- But, the board itself is an important role model for appropriate behaviors and processes, most particularly decision-making processes
- Existing link between culture and how a company performs and executes its strategy

HARVARD BUSINESS REVIEW, 2015

100 The Rankings

- 1** LARS REBIEN SØRENSEN, NOVO NORDISK
- 2** JOHN CHAMBERS, CISCO SYSTEMS
- 3** PABLO ISLA, INDITEX
- 4** ELMAR DEGENHART, CONTINENTAL
- 5** MARTIN SORRELL, WPP
- 6** STEPHEN LUCZO, SEAGATE TECHNOLOGY
- 7** JON FREDRIK BAKSAAS, TELENOR
- 8** GEORGE SCANGOS, BIOGEN
- 9** MICHAEL WOLF, SWEDBANK
- 10** FUJIO MITARAI, CANON
- 11** LESLIE WEXNER, L BRANDS



LEADERSHIP

The Best-Performing CEOs in the World

WHAT TO READ NEXT
Novo Nordisk CEO Lars Sørensen on
What Propelled Him to the Top
The Best-Performing CEOs in the World
Be Your Own Best Advocate



Sustainability

[Our approach to sustainability](#)

[Our Priorities](#)

[Access to health](#)

[Responsible business practices](#)

[Responsible sourcing](#)

[Public Affairs](#)

[Marketing Practices](#)

[Business Ethics](#)

[Patient Group Donations](#)

[Human Rights](#)

[Conflict Minerals](#)

[Commitment to transparency in financial relationships with HCPs and HCOs](#)

Business Ethics

For Novo Nordisk, business ethics is about how we think and how we act in the market place. Doing business globally entails many challenges, particularly when working in diverse cultures where the understanding of what constitutes appropriate business conduct can vary widely.

Ethical business conduct is about values and integrity as well as compliance and risk mitigation. The Novo Nordisk Way outlines expectations for employee behaviour by stating that 'we never compromise on quality and business ethics' (Essential 10), which is also supported by our [business ethics policy](#) as well as detailed procedures for how to operate.

Seven elements for a strong business ethics programme

Business ethics in Novo Nordisk is structured around seven pillars for a strong compliance programme.

Trends, risks and procedures

Novo Nordisk has in place four global business ethics procedures which lay down minimum global requirements for employees and third parties. The four procedures are:

- Business ethics – dealing with matters such as conflicts of interest, fraud, bribery, facilitation payments, donations and grants, gifts and hospitality, and interaction with public officials.
- Interaction with Health Care Professionals – covering promotion of pharmaceuticals and standards for ethical interaction with healthcare professionals.
- Interaction with Third Party Representatives – setting out requirements for how to deal with third parties who act on our behalf toward external parties, incl. public officials and healthcare professionals.
- Off-label communication – setting out requirements for when and how to engage in off-label communication concerning our products.

John Chambers, Chairman and CEO

Dear Cisco Employees,

I continue to be proud of Cisco's long-standing commitment to ethics and integrity.

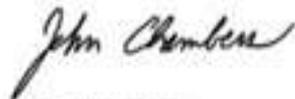
At Cisco, we hold ourselves to a very high standard of business and professional conduct. Our company was founded on a platform of open communication, empowerment, integrity and respect. These values remain at the forefront of the way we do business each day. As a result, our customers, partners and stakeholders around the world continue to trust our products and services.

The Code of Business Conduct (COBC) reinforces our values and should be used as a tool to help guide you in making decisions and resolving issues that you may encounter in your role. It has been designed to be a year-round resource and I encourage you to refer to it often.

If you ever have questions about the right thing to do or feel that the COBC is being violated, we ask you to speak up. We encourage you to talk with your manager, contact Ethics@Cisco or Cisco Legal. You may also share concerns anonymously through the Ethics Web form or the multi-lingual Cisco Ethics Line phone service.

Any success we achieve, if not achieved ethically, is no success at all. Thank you for being a part of Cisco and for upholding our values.

Sincerely,



John Chambers
Chairman and CEO



Corporate Culture

“Culture eats strategy for breakfast”

Peter Drucker

The academic literature defines culture along three dimensions:

- **Basic assumptions that the company has about its business**
 - **Values that the company holds**
 - **Visible artefacts, such as the company’s architecture, physical surroundings, products, technologies, clothing style of employees and mission statements**
-
- Companies that have strong cultures are the ones that have coherence along all three dimensions. Their assumptions form the basis of their values, which then translate into their artefacts. Any disconnect between these three parts will weaken the company’s culture.
 - Four values common to target group companies (25 best British performers) – **openness, collaboration, autonomy, and entrepreneurship.**

Corporate Culture and the Board

- Board should work proactively with business management team to foster a corporate culture of effective governance.
- Board should define the purposes of the company and what type of behaviors it wishes to promote (setting “the tone at the top”). Board also needs to understand how to influence behavior throughout the company so that employees will make good decisions.
- Board need to understand where its oversight role begins and ends and what the operational role of the management is (it is the responsibility of the CEO and senior management to reinforce the culture within the organization).

Chairman of the Board

- “The chairman should promote a culture of openness and debate.” (UK Corporate Governance Code, Supporting Principle A1)
- “The culture and style of the board is a core continuing responsibility of the chairman, and cannot be delegated”. (Sir David Walker’s Report, 2009)
- According to [2013 FTSE 350 Corporate Governance Review](#) only 5% of chairman were giving culture the attention and emphasis that it requires.
- According to Corporate Governance, the Tone from the Top, Grant Thornton global governance report (2015), only 19% of chairman feel that insufficient time is given to culture.
- Toshiba, BP, RBS, Serco, Co-op, Barclays, Tesco, FIFA, BP – **and most recently VW** – are all examples of where instinctively we would agree that something was wrong with their culture.

How could VW be so dumb? Blame the unethical culture endemic in business

September 26, 2015 12:40pm AEST



Volkswagen's new CEO must tackle the 'culture of arrogance'

COMMENTARY by Doron Levin @DoronPLevin SEPTEMBER 27, 2015, 11:45 AM EDT

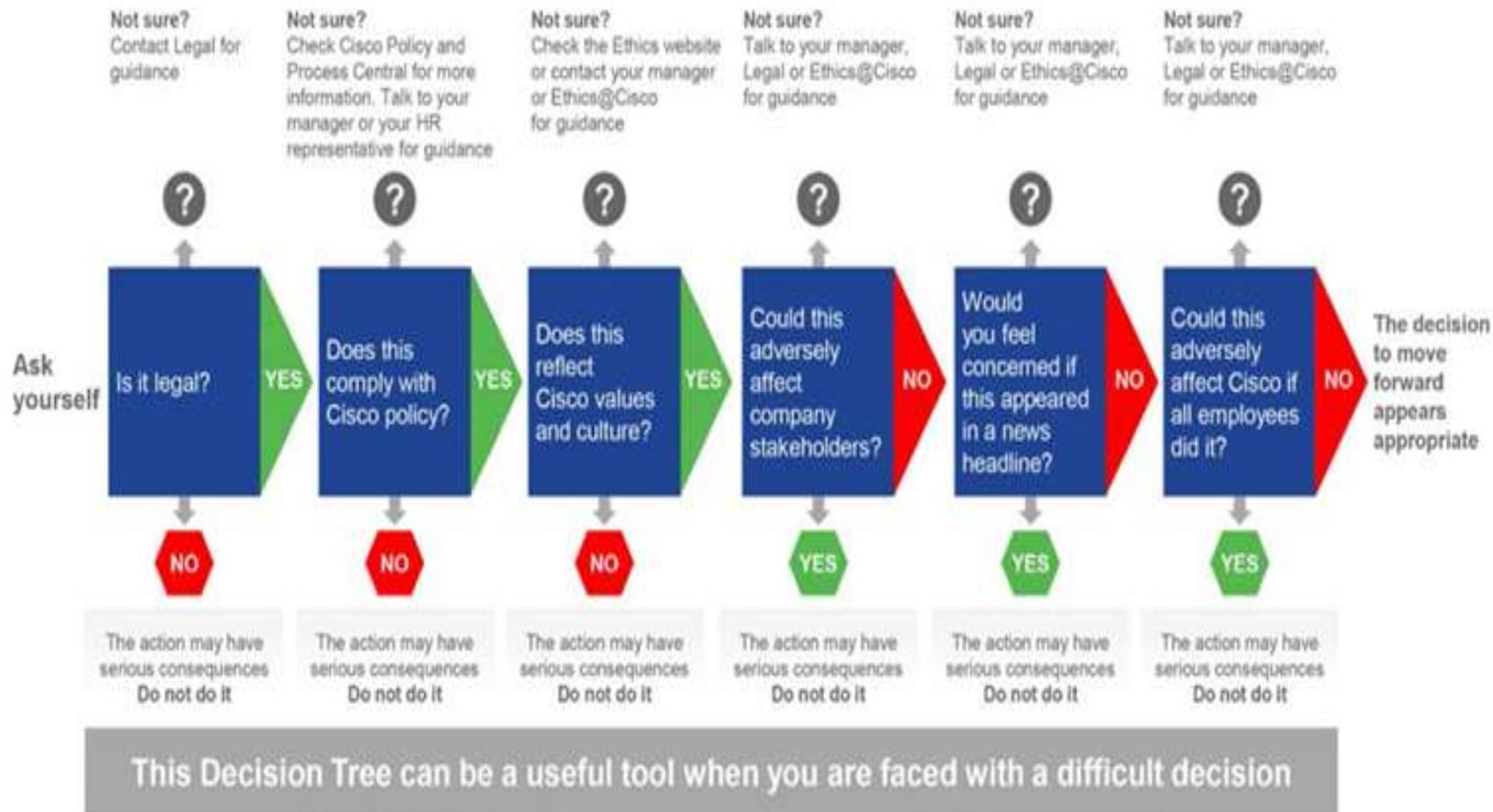


Some tips to measure your corporate culture

- customer complaints numbers,
- whistleblower statistics,
- health & safety failings,
- customer satisfaction results,
- employee surveys,
- attitudes to risk,
- diversity statistics,
- community engagement,
- environmental impact,
- training take up
- performance review completions

Effectively promoted ethical culture (clear rules and procedures)

“Ask yourself”– Ethics Decision Tree



Recent Board Related Activities on Promoting Ethical Culture

- Recent regulations adopted pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) emphasize the role of the boards in ensuring strong ethical culture.
- In United Kingdom, board oversight of culture has been added to the corporate governance code for all public companies – on a comply or explain basis – as a requirement of Financial Reporting Council.
- Increasing focus on boards to ensure that the board itself is complying with the company's code of conduct, certification processes, conflict of interest disclosure, etc.
- Ethics and compliance have risen on the list of top priorities for large public companies, as regulators have increasingly noted the role culture plays in compliance.

The Role of the Board Regarding Ethics & Compliance Infrastructure

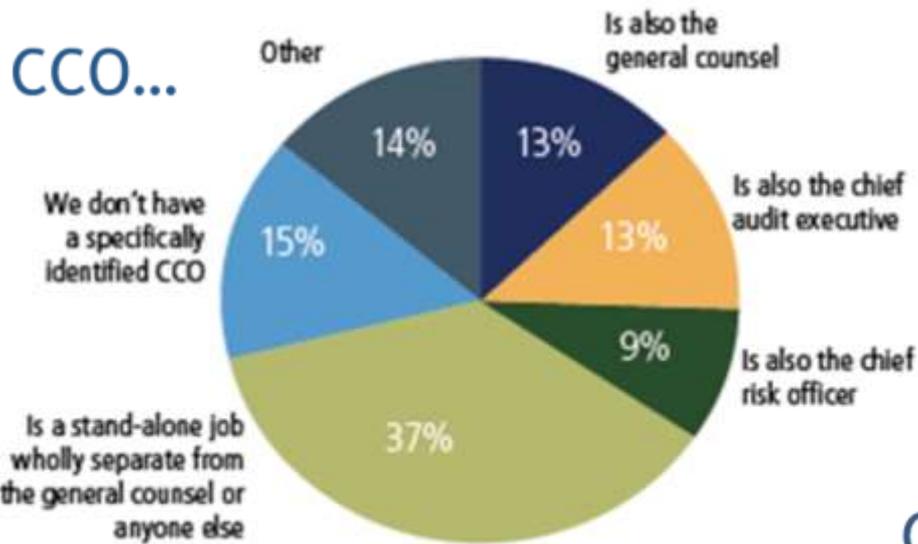
- Existence of an effective Code of Ethics/Conduct
- Governance oversight and E&C resources
- Periodic E&C risk management
- Delegation of approval authority and leadership vetting, and due diligence
- Targeted training and communications on E&C
- Monitoring, investigating, and auditing of E&C program
- Anonymous reporting and help lines
- Continual review and improvement of E&C program

Compliance Function

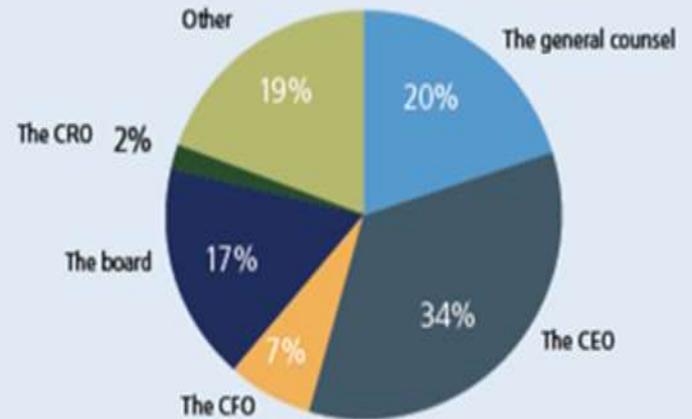
- **PURPOSE** - Compliance is a function in a company the purpose of which is to ensure that the company in its entirety (its directors, managers, officers, employees, but also, where appropriate, its clients and suppliers) act in line with the legal and regulatory requirements; in line with accepted standards in a given industry or a given country, and in line with the company's internal acts and values.

- **RESPONSIBILITIES** – The compliance function is an independent function in the company that identifies, assesses, provides advices on, and monitors and reports on the company's compliance (risk).

Chief Compliance Officer – Role, Position



CCO directly reports to...



Key Directions for the Board to Assure Proper Ethical Atmosphere

- The board itself:

- independence of board members,
- knowledge and analytical capabilities,
- business integrity experience,
- integrity and conflicts review,
- Code of Ethics/Conduct applicable towards board members,
- Ongoing ethic activities (certification, education and reporting),
- Role of the Audit Committee,**
- Effective oversight of the management

Key Directions for the Board to Assure Proper Ethical Atmosphere

•Cross-Functional Collaboration on Business Risks (areas that require collaboration on ethics issues and which need to be reflected by ERM):

- Human resources
- Ethics and compliance
- Employee communications
- Labor and employment matters
- Media and communications policies
- Finance and internal controls
- Security
- Environment, health, and safety
- Governance
- Corporate responsibility

Key Directions for the Board to Assure Proper Ethical Atmosphere

•Board Oversight of the Ethics & Compliance Function (questions to be asked):

- Are we identifying, prioritizing and auditing the company's ethics and compliance risks?
- Are the company's standards, policies, and procedures (e.g., code of conduct) linked to the prioritized ethics and compliance risks?
- How are we communicating to our employees their job-related compliance risks, and the importance of ethics and compliance, generally?
- Do we have an effective issue escalation policy/procedure/guideline and are we responding appropriately to compliance allegations, issues, and concerns?
- Can we demonstrate that employees are appropriately vetted upon hiring and promotion into certain positions of substantial authority?
- Do we have the right systems and controls (e.g., a help line) to ensure that ethics and compliance-related issues and concerns are brought to the attention of the appropriate people within the company?
- Are senior management and the board receiving the information that they need to provide appropriate oversight of the ethics and compliance program?
- How do we use performance management processes and tools to ensure that all employees are held accountable for creating an ethical, values-based culture?

COSO 2013

A history of ethical and responsible behavior by management and the board of directors and demonstrated commitment to addressing misconduct send strong messages in supporting of integrity. Employees are likely to develop the same attitudes about right and wrong. A consistent tone from the board and senior management through to operating management levels helps establish a common understanding of the values, business drivers, and expected behavior of employees and partners of the organization.



Basel CG Principles for Banks 2015

In order to promote a sound corporate culture, the board should take the lead in establishing the “tone at the top” by:

- Setting and adhering to corporate values for itself, senior management and other employees that create expectations that all business should be conducted in a legal and ethical manner.

A bank’s code of conduct or code of ethics, or comparable policy, should define acceptable and unacceptable behaviors.

- It should explicitly disallow behavior that could lead to any reputation risks or improper or illegal activity, such as financial misreporting, money laundering, fraud, anti-competitive practices, bribery and corruption, or the violation of consumer rights.
- It should make clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations and company policies.

The bank’s corporate values should recognize the critical importance of timely and frank discussion and escalation of problems to higher levels within the organization

- There should be direct or indirect communications to the board (eg through an independent audit or compliance process or through an ombudsman independent of the internal “chain of command”).
- The board should determine how and by whom legitimate concerns shall be investigated and addressed by an objective independent internal or external body, senior management and/or the board itself.

G20 OECD Principles of Corporate Governance 2015

In fulfilling its control oversight responsibilities it is important for the board to encourage the reporting of unethical/unlawful behavior without fear of retribution. The existence of a company code of ethics should aid this process which should be underpinned by legal protection for the individuals concerned. A contact point for employees who wish to report concerns about unethical or illegal behavior that might also compromise the integrity of financial statements should be offered by the audit committee or by an ethics committee or equivalent body.

Recently Emerging Practices in Effective Board Oversight

- Build relationships with key employees and visit company sites.
- Create a culture dashboard, including employee survey results, employee hotline calls, management performance appraisals and data for specific culture areas.
- Create a separate culture team.
- Engage internal and external auditors.
- Listen to external stakeholders.



Findings of Audit Committee Leadership Networks in North America (ACLN) and Europe (EACLN) meeting in New York, June 2015

Thank You!

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