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In Focus
Compliance Trends Survey 2013

A collaboration between Deloitte and Compliance Week | August 2013

[WELCOME]

Welcome to the 2013 Compliance Trends Survey report, a joint effort between Deloitte and Compliance Week to get a sense of the scope and complexity of the modern corporate compliance function. Here, we've combined the deep knowledge and experience of Deloitte with the broad industry perspective of Compliance Week to answer a common question: How do compliance functions efficiently and effectively manage the compliance risks associated with increasing demands of numerous stakeholders and position themselves for success in the future? Or put more simply, what is the new normal?

For the last three years, Compliance Week has published an annual benchmarking survey, asking compliance officers how they work with their peers, what their responsibilities are, what resources they have, and much more. This executive summary is the culmination of a much larger effort. We began last winter, creating a 35-question survey that explored a wide range of issues confronting compliance organizations today. Those 35 questions were grouped into four broad categories: the resources that compliance departments have; the compliance risks associated with their operations; the risks within the extended enterprise; and the use of technology.

We then asked compliance executives across Corporate America (and overseas) to take the Compliance Trends survey. Participants hailed from many industries, and their companies had median annual revenue of $5 billion and more than 18,000 employees—in other words, a strong representation of modern, global businesses.

The 189 respondents gave us the raw material to understand the common practices of compliance functions today, and we're grateful for their input. We took the data and used it to answer three questions in this report:

- Do compliance executives have the appropriate authority and resources to do their jobs?
- Are compliance executives addressing the right risks?
- Do compliance executives use the right metrics to measure progress?

In these pages, you'll find an executive summary of the results on pages 5-7, and then "snapshots" of select findings from each of those three categories.

We hope you find this information useful and that it can serve as a guidepost for your own efforts to understand how corporate compliance works best in your company.

For three years running, Compliance Week has published benchmarking surveys that ask compliance officers how they work with their peers, what their responsibilities are, what resources they have, and much more.

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The 2013 Compliance Trends Survey suggests that compliance officers are making slow but steady progress toward the ideal of a strong, independent compliance function—although in many, but not all, industry sectors (especially the less highly regulated sectors) the size of the "typical" compliance function appears to remain relatively small in both manpower and budget dollars. That fact of life for compliance executives means that for them to succeed, they should master the art of working with and leveraging resources in other functions (legal, IT, HR, and internal audit) to achieve compliance goals, and they should continuously communicate to management and the board that a strong compliance function is a valuable strategic asset that not only focuses on risk avoidance, but also looks to find ways to gain strategic advantage from intelligently managing risk.

Thirty-seven percent of respondents said their top compliance job (whatever the exact title) is a stand-alone position, and 51 percent said that person answers directly either to the CEO or the board. That said, 13 percent responded that the top compliance executive is also the general counsel, another 13 percent said that person is also the chief audit executive, and 15 percent said their organization has no dedicated compliance executive at all.

Thirty-seven percent of respondents said their top compliance job (whatever the exact title) is a stand-alone position, and 51 percent said that person answers directly either to the CEO or the board.

Those statistics are similar to the findings of past benchmarking reports. More concerning, however, were findings about staffing levels and budget: 52 percent said their full-time compliance staff consists of five or fewer people, and 47 percent said their annual budget for compliance (including salaries) is less than $1 million.

For some companies, then, success can depend on how effectively compliance officers can raise awareness and promote a "culture of compliance" while also embedding compliance controls into day-to-day business across the enterprise. More than 80 percent of respondents said they have at least some part-time help (1 to 50 other employees), and the remainder said they had even more assistance (anywhere from 51 to hundreds, possibly from respondents in highly regulated industries).

Risks

The most common areas of responsibility for compliance officers were (in order): establishing standards for ethical business conduct, whistleblower protection, the complaints and incidents hotline, and anti-bribery compliance. Those answers are all expected, based upon U.S. Sentencing Guidelines, the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, industry-specific codes of conduct, and the heightened enforcement within the United States and increasingly abroad. Altogether, they suggest an emerging consensus of what the CCO's responsibilities minimally *should* consist of.

Still, significant gaps exist between small and large companies about what the chief compliance executive's responsibilities actually *are*. Compliance executives at smaller businesses

OUTSOURCING

- 62 percent outsource ethics hotline operations
- 32 percent outsource training
- 18 percent outsource investigations

The most common areas of responsibility for compliance officers were (in order): establishing standards for ethical business conduct, whistleblower protection, the complaints hotline, and anti-bribery compliance under the Foreign Corrupt Practices Act.

($1 billion or less in annual revenue) are much more likely to include "tactical" compliance and risk management duties—audits, regulatory filings, business continuity, and the like—as part of their purview. CCOs at larger companies are more likely to focus on strategic issues such as setting standards of ethical conduct and managing risks associated with the business's strategic initiatives, while (presumably) leaving implementation issues to other parts of the enterprise.

Emerging technologies, on the other hand, seem to be a thorn in the side of compliance executives at any size company. For example, most respondents (78 percent) said their businesses have a social media policy in place—but more than half of that group admitted they don't actually monitor employees' use of social media to see whether they follow the policy. Likewise, 55 percent of respondents said their organizations have no formal "bring your own device to work" (BYOD) policy to handle the explosion of mobile devices. (Although half of that group said they do offer technology support for employees' mobile devices.)

Metrics

Effectiveness of the compliance program is important for two principal reasons: to demonstrate to stakeholders, including regulators, that the company is making good-faith efforts to follow standards of good business conduct; and to justify compliance expenditures to the board and other senior leaders of the corporation. Still, 31 percent of respondents said they make no effort to measure the effectiveness of their compliance programs—marginally better than the 38 percent who said as much in a survey Compliance Week conducted in 2011.

RISK ASSESSMENTS

- » 52 percent perform an enterprise-wide compliance risk assessment annually
- » 11 percent perform an assessment every six months
- » 15 percent say they have never completed an enterprise-wide compliance risk assessment at all

The two-thirds of respondents who do try to measure the effectiveness of the compliance program face a daunting task. Survey participants cited a litany of operational challenges to implementing compliance: auditing third parties, monitoring third parties, conducting internal investigations, training employees, launching new policies, and so forth. Such a wide range of duties requires multiple metrics to get a good sense of how well the compliance program performs overall. In other words, compliance executives need to piece together the results of many different metrics to understand what an "effective" compliance and program maturity really look like.

PEER PRESSURE

- » 7 percent of respondents 'closely watch' competitors for evidence of misconduct
- » 65 percent pay cursory heed to competitors' possible misconduct
- » 38 percent say they will report competitors' misconduct to regulators when they see it

The most commonly used metrics were (in order): analyses of internal audit findings, completion rates for workforce training, and the volume of calls to internal hotlines. Other metrics included internal investigations, ethics surveys, and comparisons to competitors. The common theme for all of them, however, is that they are generally backward-looking metrics—while boards, CEOs, and compliance officers generally want to know about risks looming in the future.

Predictive metrics and tools are much harder to develop. Twenty-eight percent of respondents said their businesses have a team (either in the compliance or the IT department) that studies data analytics for ways to improve compliance, but 66 percent said they either do analytics in an ad hoc approach or don't try analytics at all. One piece of (marginally) good news: 56 percent said they are either "very" or "generally" confident that their IT systems capture all the compliance data the company needs. (Then again, 44 percent were only "somewhat" or "not very" confident.)

Do CCOs have appropriate authority and resources?

76 percent of respondents have a centralized compliance function, where one global CCO oversees all business units.

The U.S. Federal Sentencing Guidelines—as well as an abundance of corporate integrity agreements from multiple federal agencies—clearly favor a strong, independent compliance function, led by a full-time CCO who is separate from the general counsel and ideally answers to the CEO and the board. The 2013 Compliance Trends Survey shows Corporate America moving toward that goal: 37 percent of respondents said their top compliance job is a stand-alone position, and 51 percent said that person reports directly either to the CEO or to the board. (See charts 1 and 2, at right.)

Still, that trend highlights a longer timeline: 13 percent said the CCO is also the general counsel, another 13 percent said the CCO is also the chief audit executive, and 15 percent said their organization doesn't have any designated chief compliance executive at all. Moreover, a reporting relationship or job title alone does not automatically mean authority to implement an effective compliance program; that also depends on budgets, staffing, structure of the compliance department, and similar factors.

On that front, we found that a majority of companies still run compliance with relatively tight budgets and staffing. The median size of survey respondents was $1 billion to $5 billion in annual revenue, and 5,000 to 10,000 employees. Yet 52 percent said their full-time compliance staff consists of five or fewer people, and 47 percent said their annual budget for compliance—including salaries—is less than $1 million.

"Both of those numbers are very troubling to me," said Tom Rollauer of Deloitte and executive director at the Deloitte Center for Regulatory Strategies. "The 47 percent with a budget of less than $1 million tells me that those compliance programs may not be very robust."

Nicole Sandford, Deloitte's national practice leader for governance and enterprise compliance, noted that the travel requirements alone for compliance executives at global companies can take a sizeable share of a $1 million budget, since (in theory) compliance officers should be visiting local sites to understand risks and reinforce expectations. She also stressed that if compliance executives have to work with such small dedicated staffs, they absolutely must build alliances with other parts of the enterprise, such as legal, HR, or internal audit.

81 percent of respondents said that in addition to their full-time compliance staff, they have anywhere from 1 to 50 other employees working part-time on compliance—serving on compliance committees, assisting with compliance tasks, and so forth.

"If the results show only two to five people really focused on compliance, and relatively small budgets," Sandford said, "it's hard not to believe that compliance is under-resourced, in both people and money." To Sandford's point, however, a large number of respondents (81 percent) said they have at least several dozen other employees working part-time on compliance issues, and the remainder report having more.

Seventy-six percent of respondents said they employ a centralized structure for the compliance department, where one CCO oversees business-unit leaders. Another 18 percent use a decentralized structure of local compliance officers reporting to local business unit leaders. "Either model can work," Sandford said. "The trick is ensuring that the compliance officer has enough authority and bandwidth to make compliance a priority across the enterprise."

"If you don't have a lot of people whose only job is compliance," she warned, "how can you ensure that the people responsible within the business units give compliance the same attention as everything else they are responsible for?"

CHART 1: **At your business, the designated chief compliance officer (CCO) ...**

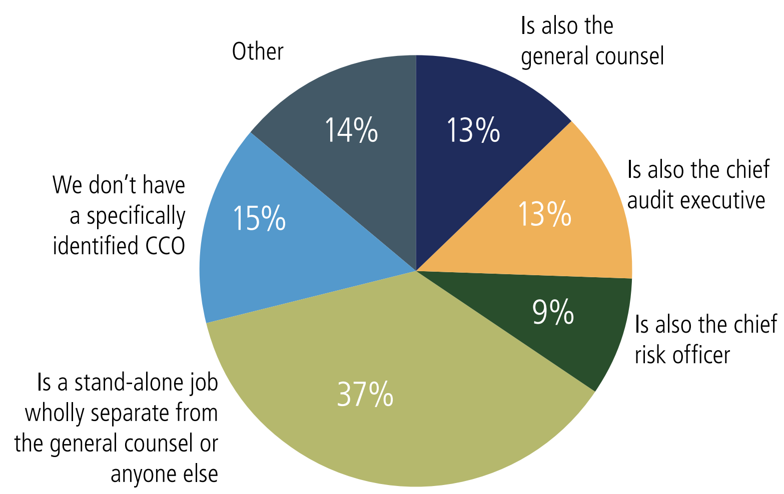


CHART 2: **To whom does the designated CCO directly report?**

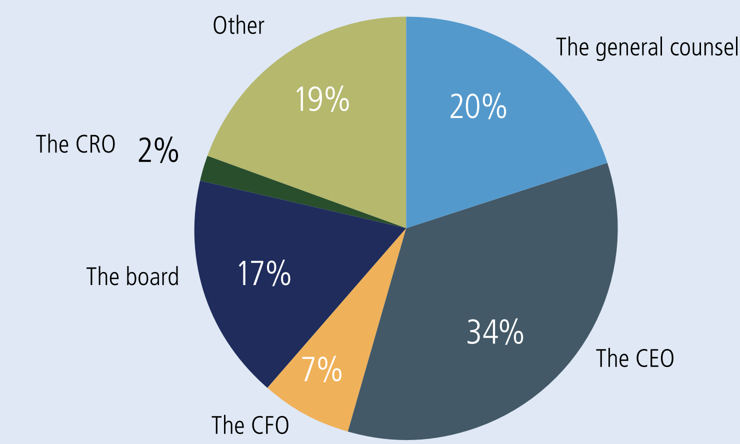
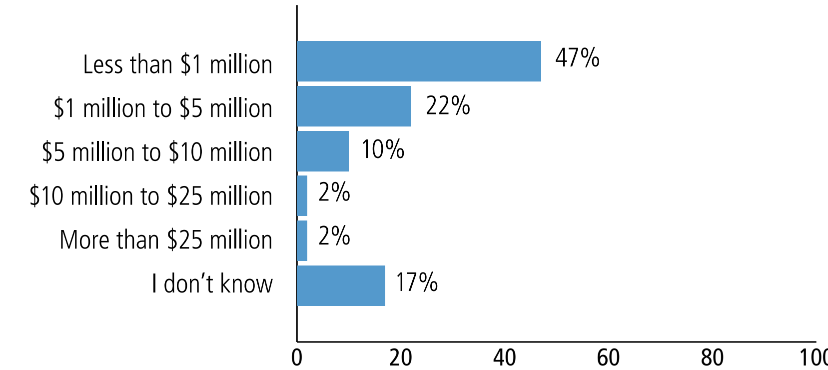


CHART 3: **What is the 2013 total budget for the compliance function(s), e.g. systems, processes, salaries for dedicated compliance staff, etc.?**



Due to rounding, some chart totals may not equal 100 percent exactly.

Are CCOs addressing the right risks?

The risks and responsibilities that occupy compliance executives' time have matured into several patterns. For the entire pool of respondents, the most common areas of responsibility are (in order):

- establishing standards for ethical business conduct;
- whistleblower protection;
- the complaints and incidents hotline; and
- anti-bribery compliance.

Those results are all to be expected, based on U.S. Sentencing Guidelines, the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, industry specific codes of conduct, and the heightened enforcement within the United States and increasingly abroad. The compliance hotline and whistleblower protections have been part and parcel of compliance with the Sarbanes-Oxley and Dodd-Frank Acts for years, and the ceaseless push of FCPA enforcement has forced businesses to elevate that priority to the highest level.

An interesting pattern emerged when we compared larger survey respondents ($1 billion or more in annual revenue) against smaller ones ($1 billion or less). We found that compliance executives at smaller businesses focused more on "tactical" goals such as audits and regulatory filings. Compliance officers at larger businesses, meanwhile, focused more on strategic issues such as setting standards of ethical conduct.

"It's a reflection of the smaller companies doing what they can, so they're in reactive mode," Rollauer said. "I think many institutions still struggle just trying to get ahead of the game and keeping up with the pace of changing regulations."

Such approaches may not be true in highly regulated fields like defense, healthcare, or financial services, Rollauer added; those industries generally are determined to stay ahead of regulatory compliance risks. Other industries, however—"if they don't have that external push on a regular basis, then they run the risk of staying in reactive mode," he said.

52 percent of respondents say they conduct an enterprise-wide risk assessment annually.

Sandford was surprised that anti-money laundering and privacy appeared so far down on the priority lists of larger companies; only 40 and 49 percent of CCOs said they had responsibility for each, respectively. "I think many companies are probably more exposed in privacy than they appreciate," Sandford said. "There are so many ways to get in trouble there."

Emerging technologies also pose new risks for companies, and not all are rising to the challenge. Forty-three percent of respondents said that while they do have a company policy on proper use of social media, they don't monitor employees to see whether the policy is followed. Another 22 percent said they have no policy on social media usage at all. Likewise, 52 percent of respondents said their company has no BYOD to work policy, although half of that group said they do provide tech support so BYOD can be done effectively.

Companies are taking a more cautious approach to "the cloud"—storing corporate data on hosted computer servers operated by another party. Forty-two percent of respondents said their businesses do not use the cloud at all, and another 27 percent said they do not store sensitive data there. Only 10 percent reported storing large amounts of data, including mission-critical information, on the cloud. (Although 15 percent said they didn't know the answer.)

"Attention to technology, particularly social media, needs to improve," Sandford said. Companies can't stop employees from airing gripes about their jobs or bosses, but they can monitor "chatter" in a meaningful way to identify potential problems in corporate culture or specific business units. Looking at those patterns over time "can be pretty powerful," she said.

CHART 1: How much is the changing regulatory landscape driving you to re-assess your third-party relationships, including partnerships, suppliers, distributors, or other business relationships?

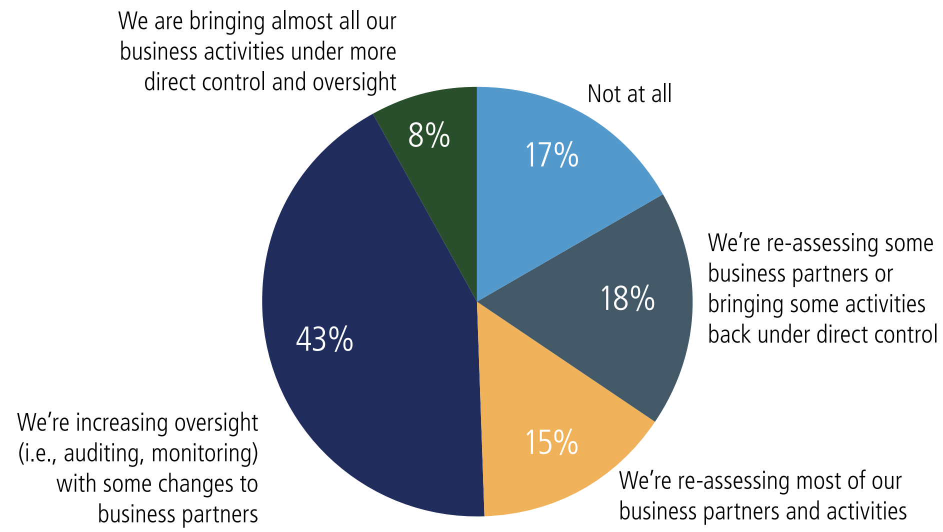


CHART 2: What are the biggest operational issues around managing compliance risks that you face today?

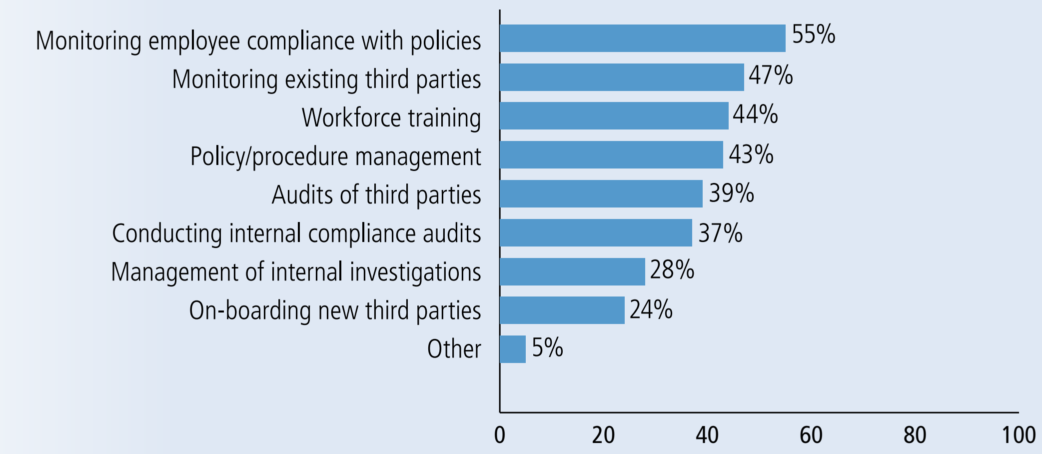


CHART 3: What are compliance officers' top responsibilities? (in order)

SMALL COMPANIES (<$1b)	LARGE COMPANIES (>$1b)
1. Complaints	1. Establishing standards of conduct
2. Whistleblower hotlines	2. Whistleblower hotlines
3. Testing & monitoring	3. FCPA compliance
4. FCPA compliance	4. Issue escalation & resolution
5. Audit & regulatory findings	5. Complaints

Due to rounding, some chart totals may not equal 100 percent exactly.

Are CCOs using the right metrics?

Effectiveness of the corporate compliance program is where a compliance executive proves his or her success—which means that the metrics compliance officers use to monitor and communicate effectiveness are crucial.

A considerable group of companies (31 percent) don't measure the effectiveness of their program at all. This is better than the results of a benchmarking survey Compliance Week conducted in 2011, when the figure was 38 percent, but still suggests that trying to assess effectiveness is difficult.

"It's tough to measure," Rollauer conceded. He gave the example of the compliance function finding and stopping a questionable financial transaction before it is executed. "That's a good thing, but nobody is going to see that in the metrics."

31 percent of respondents do not measure the effectiveness of their compliance programs.

Regulators want to see both sound compliance policies in place and efforts to track their effectiveness, Rollauer said. "If the regulators are finding compliance problems, then there may be a breakdown somewhere in the first, second, or third lines of defense in that company," he said.

Of the 63 percent who do try to measure program effectiveness, many of the metrics they use are rudimentary and possibly inadequate: volume of calls to the hotline, completion rates for compliance training, and results of internal audits. (See chart at right.) Two questions emerge, however. First, how useful are those metrics to help understand future risks, rather than to review the past? And second, do those metrics reflect the risks that compliance executives really worry about?

For example, the third largest operational concern for compliance officers was workforce training—no surprise, then, 68 percent of respondents cited completion rates for compliance training as a metric they use. But what about other operational concerns, such as monitoring employees' compliance with workforce policies (cited by 55 percent of respondents), or monitoring third parties (47 percent), or policy management (43 percent) (see chart 2 on page 11)? Which metrics work best to measure your effectiveness at fighting those risks?

"Compliance departments should strive to do a better job of figuring out the right forward-looking metrics. Most telling is how companies follow through on any problems that are detected," Rollauer said. "This is especially important during periods of rapid growth or decline, when a company's risk profile can quickly change."

Compliance departments should review results from internal audits, regulatory examinations, and business control self-assessments, as well as ethics and customer complaints, to identify potential patterns of compliance concern across the organization. "One of the worst things that could happen is when something blows up, and you had that information staring you in the face and you just did not see it," Rollauer said.

Sandford was surprised that more than 40 percent of companies do not use employee ethics surveys to measure compliance program effectiveness. "Companies should consider conducting such surveys annually—ideally using an outside party—to get candid results that can be studied over time," she said.

"You only know what people are thinking if you bother to ask," Sandford said. "When this is done right, you spot trouble areas pretty quickly. It's such a meaningful data set that I'm surprised there are still so many companies that aren't doing it and aren't looking at it. It's not an expensive or hard thing to do."

Another crucial metric for effectiveness is how much the rest of the business sees compliance as a useful, strategic function rather than a bureaucratic exercise. Thirty-four percent of respondents said compliance had an "average perception" as a value-added function; 36 percent said compliance was very much seen as value-added, and 30 percent said it was not seen that way.

"Compliance officers in lightly regulated sectors might have a tough time building that perception," Sandford said, "but the effort is worth it. That's going to give you a strategic advantage over the competitor who is arm-wrestling with the regulators or repairing compliance failures all the time," she said.

CHART 1: **What metrics do you use to measure compliance program effectiveness?**

The 2013 Compliance Trends Survey was drafted by senior Compliance Week editors and Deloitte in March, and then pushed out to an audience of senior-level corporate compliance, audit, risk, and ethics officers worldwide from March 15-29, 2013.

The survey produced nearly 200 responses. Any submission where the respondent's title was not directly related to corporate activities ("partner" or "administrative assistant," for example) was excluded from the data analysis. The result was 189 qualified responses from senior-level executives, working in ethics, compliance, audit, risk management, or corporate governance. Of those 189 respondents, 26 percent held the title of chief ethics & compliance officer.

The survey also went to a wide range of industries. Of the 189 qualified responses, the single largest industry groups represented were banking and industrial manufacturing at 8 percent each. Next were energy & utilities and life sciences at 7 percent each, pharmaceuticals at 5 percent, and more than a dozen other industries at 4 percent each or less. A total of 22 different major industries was represented in the data pool.

Respondents were asked to disclose annual revenue and workforce size within certain ranges. Median annual revenue was in the $1 billion to $5 billion range, median workforce size in the 5,000 to 10,000 range.

This was a self-reported survey from Compliance Week's audience of ethics & compliance professionals, and Compliance Week did not attempt to verify or audit the data reported by survey-takers.

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COMPLIANCE WEEK

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