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Evolution not revolution
Corporate ethics and
compliance 2014/15



Introduction

Our survey identified that clear progress is being made in establishing corporate compliance functions which are effective, trusted and well respected. Corporate compliance functions are maturing with dedicated compliance professionals, more collaborative compliance committees, and greater focus on culture and ethics.



Kirsty Searles

The vast majority of corporate compliance officers surveyed believe their organisations' exposure to compliance risks has increased in the past 12 months and our survey identified a number of key challenges facing the compliance journey ahead. Yet only a third of organisations surveyed believe that their budgets are sufficient to manage their compliance risk exposure.

Embedding an effective compliance culture is seen as one of the key priorities. The vast majority of survey participants believe their organisation has a strong compliance culture, yet the vast majority struggle to demonstrate whether this is the case. Embedding and measuring compliance culture takes time, investment and commitment but can pay dividends and help to demonstrate the value which compliance adds to the business.

Looking ahead, Compliance Officers now have a real opportunity to shift the perception of compliance from 'enforcer' to 'enabler' and to demonstrate the value and competitive advantage which compliance can bring to the business in order to secure the investment they believe is required. The majority of survey respondents expect to make multiple changes to their function in the next 12 to 18 months.

I would like to thank everyone who contributed to this year's survey. I hope this report provides useful insights and can be used to help shape the compliance agenda and priorities for your organisation.

Kirsty Searles
Partner

Key finding 1 – The compliance function is maturing

The first finding that emerged strongly from this year's research was the extent to which the compliance function is maturing. That it should be doing so is not a surprise. After all, a large number of corporates began to establish compliance functions around five years ago. So, while in 2012 only 28% of respondents worked in a function that had been in existence for five or more than years, by 2014 this proportion had risen to 45%.

In a relatively short space of time, these compliance functions are maturing into sophisticated business functions. Regardless of whether they are centralised or decentralised, the proportion of compliance functions collaborating with other assurance providers across the business remains high, at 84%.

Perhaps most tellingly, as the profession grows we are seeing the emergence of the dedicated compliance professional. As one might expect, lawyers are still very much in evidence within compliance functions: in 2012 23% of respondents were lawyers, and this year that reached 29%. However, while in 2012 only 7% described themselves as compliance or risk professionals by 2014 this had risen to 21%.

The role of the compliance committee is evolving too. While it currently tends to focus on oversight – 55% of respondents described that as its primary role – there is a shift towards these committees working more in collaboration with compliance functions. As compliance practitioners increasingly become seen by the businesses as trusted advisors so we can expect to see more business involvement in the oversight and management of compliance to ensure that the business is fully engaged in the compliance programme.

There remains no shortage of those issues for the function to address. Given that many compliance functions emerged out of working groups on anti-bribery and corruption it is little surprise that this has been the top issue for each of the three years we have run this survey. This year, data privacy has entered the top three for the first time, and, with the regulatory and data directives currently in force together with the reputational risk attached to data breaches, we can expect this to become ever more important in the coming months.

Indeed, whilst compliance functions have changed a great deal in just three years, our survey suggests an appetite remains for further change. 86% of respondents expect to make multiple changes to their function in the next 12 to 18 months. These changes will vary with some amending structure, others developing their remit, and others growing or shrinking. The message is clear: compliance has come a long way in a short space of time, but no one is ready to rest on their laurels.



The compliance function is maturing, back in 2012 only **22%** of functions had been established for more than 5 years, today that figure is **45%**.

Key finding 2 – Measuring culture remains a challenge

For most organisations a significant challenge remains embedding a culture of compliance. It is therefore encouraging that 79% of respondents believe their organisation has a strong compliance culture. However, a closer examination of results suggests that this confidence may not be entirely well founded, and this remains the area where most organisations have work to do.

62% of organisations said they are unable to measure culture and the same number said that are unable to attribute improved business performance to compliance culture.

The most popular technique for measuring the maturity of compliance culture is analysis of compliance breaches (72%) followed closely by analysis of whistle-blower reports (66%), and assurance results (45%). These reactive, after-the-event measures are more widely used than more proactive, before-the-event measures such as employee surveys, interviews and culture based assessments.

With a clearer view of culture in place, organisations will be able to move on to the more substantial issue of improving that culture. Our survey revealed a clear view of how to achieve this: respondents recognise that training, leadership behaviour and clear responsibilities and accountabilities are the key methods for reinforcing the importance of compliance in the organisation.

It begins with a clear tone from the top, zero tolerance of breaches and shared ownership of compliance across the organisation. However, driving a culture of compliance is not sufficient alone. Without ethics, compliance runs the risk of becoming an empty concept, and so embedding ethics is a necessary step. The first step must then always be to gain a clear view of what compliance and ethics mean to your organisation.



A number of techniques are being deployed to help assess the maturity of their compliance culture with the most popular being:



The top challenges to embedding a compliance culture include:

- 1 / the inability to attribute business performance to compliance culture
- 2 / the limited incentives for employees to embrace culture and values, and
- 3 / misalignment between compliance and business processes

Our survey revealed a clear view of how to improve culture: respondents recognise that training, leadership behaviour and clear responsibilities and accountabilities are the key methods for reinforcing the importance of compliance in the organisation.

Key finding 3 – There is evidence of a heightened perception of risk



For many organisations the best place to start to gain that understanding is with an analysis of the risks it faces. It is those that typically provide the sharpest spur to action on ethics and compliance. And our survey revealed that more and more organisations are recognising the extent of those risks. In 2013 57% of respondents told us that compliance risks had increased in the previous 12 months. This year that had surged to 79%.

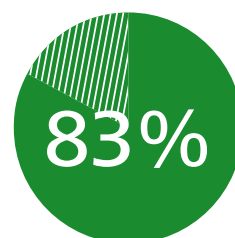
Not one respondent told us that risks had diminished in the past 12 months. This is clear evidence of a heightened perception of risk. It is less clear whether this reflects a genuinely increased risk, or is simply a function of increased awareness resulting from the aforementioned maturing of the compliance function. However, it is interesting to note that 17% of respondents do not run an annual risk assessment.



Anti-bribery and corruption has always been cited in our surveys as the area that presents the greatest compliance risk, and this is little surprise given that in many corporates it was the catalyst for establishing the function, and it remains a significant area of focus for compliance functions. Data privacy and anti-trust emerged as the other two major risks for our respondents.

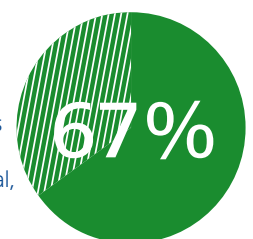
Enforcement of regulations has tightened in these areas, and with the media spotlight continuing to shine brightly on them it would seem as though our respondents are reflecting a genuinely growing risk to their organisations.

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Assessing risks remains a challenge and an annual risk assessment is the most popular technique with 83% of organisations conducting one.

In addition compliance risks are being identified more effectively across the business with 67% of organisations using a combination of central, business unit and divisional assessments.



Key finding 4 – Moving on from enforcer to enabler

Compliance has always had something of a challenge with achieving the right image. This was shown very clearly in this year's results: 32% believe the function is seen as an enforcer, and only 21% as an enabler, but 71% want to be seen as an enabler. Not one respondent wanted to be seen as an enforcer.

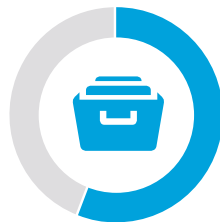
Our respondents have an equally clear view of what they want to bring to their businesses: better informed decision making, a champion of values and culture, and a competitive edge.

There are several causes of this image problem. One is that to date the committees tend to be over-represented by compliance and audit executives rather than representatives from the business. This generates too great a focus on oversight and too little effort is made to act as a working group that exists to support business in driving the compliance agenda.

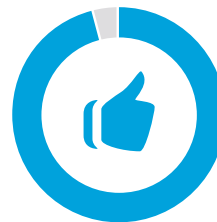
This may be changing. Our 2014 survey revealed that at least 55% of organisations have some business representation on their compliance committees. A key focus must be on developing business representation in committees and so ensuring they can provide both clear compliance leadership and rock solid compliance programmes.

Another cause may be the often historic focus of compliance on business practices and issues which is evident in the way that we have seen compliance attempting to measure compliance culture. The business is increasingly demanding a more forward looking perspective on compliance risk, emerging regulations and the impact of key business initiatives.

There are certainly positive signs emerging in this direction. In order to shift perception, more than anything else compliance functions need to embed the notion that compliance is not an issue for the compliance function, or just the CEO or CFO, or one other group within the organisation – it is an issue for everyone. And our survey suggested that this is increasingly the case. When asked whose responsibility it is, there was a fairly even spread of responses, and many respondents ticked more than one answer.

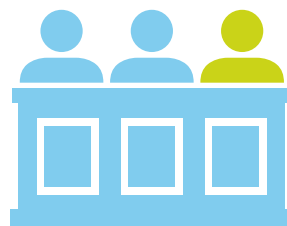


Despite this, **53%** of compliance functions feel they are still perceived as a back office function or enforcer.



Yet **96%** would like to be seen as an enabler or trusted advisor.

Looking ahead, compliance functions can take specific steps to progress this further. They must communicate regularly with the business, not only informing them of risks and the actions required for compliance, but also developing that into an internal communications programme through which they persuade colleagues of the importance of this issue and in so doing build an internal case. A key objective for every compliance officer should be to ensure compliance is an item on the agenda at every leadership team meeting.



Nearly **1/3** of compliance teams are composed of lawyers with **45%** directly reporting to a head of legal.

23% of the function now comprises of compliance practitioners compared to only **7%** in 2012, showing changing skillsets of the team.



Key finding 5 – There remains a significant need for greater integration

Although more than half of compliance officers are expecting a change in structure, team size, skill set or scope of their function in the next 18 months, only 34% of our respondents believe their organisations make a sufficient investment in compliance. This suggests that compliance is being asked to do a great deal and evolve rapidly on limited budgets.

Half of the survey respondents were not sure if their budget was sufficient to manage their compliance risk exposure and it is a concern that those tasked with making organisations more compliant do not have a clear idea of what investment is needed to accomplish that task.

It is not as if those budgets are decreasing. Far from it: only 11% saw a budget cut and 39% actually saw an increase. Only three respondents cited a reason for perceived under-investment. One blamed “cost reduction and budget constraints”, whilst the other two put it down to “Lack of education & understanding of the compliance risk exposure”.

It may be the second point that is most relevant here. Do compliance officers do enough to demand increased investment? It would be hard to do so if they lack a clear idea of what level of investment will require them to deliver improved compliance. This goes back to the issue of making a strong case internally.

Crucially, the compliance function must ensure that it becomes seen as an integral part of business strategy. We see this as the major shift that is taking place currently and which will develop over 2015. More and more organisations are achieving integration between the different aspects of compliance across the business.

The benefits of this more integrated approach are clear: it ensures greater consistency of view, brings a wide range of expertise to bear on the topic, achieves efficiencies of scale, and most vitally presents compliance as a business-wide topic, not as an issue of concern only to one or two departments.

For those compliance functions in organisations where this process is not already in train it can seem daunting to initiate it. Yet it can be done. Often the first step is to set up a working group focusing on the topic. This involves no change of reporting lines, and is simply an informal team that aims to draw the matrix, identifying synergies and ways to streamline rather than replicate. With centres of excellence and key commonalities identified it is then possible to reach out to key executives and begin to make the case for a more integrated approach to compliance.

In terms of structure **72%** of organisations now operate a combination of a centralised model with dedicated resources supported by a decentralised team and some devolved activities.



71% of respondents foresee further changes to the structure of their function in the next 12-18 months.

Conclusion

A clear picture of the effective compliance function is beginning to emerge. It is a well-resourced department that involves senior people both within the function and outside of it. It may be rebranding itself as an ethics team as part of its drive to shift perception from enforcer to enabler, but its scope encompasses more than ethics.

To paint a picture is one thing; to create a function that exhibits those qualities and secures the investment they require is far harder. Yet the rewards for those organisations that achieve it are significant. An effective compliance function can deliver competitive advantage through improved stakeholder confidence, avoidance of fines and reputational damage, and reduced time spent fixing problems and dealing with breaches.

Perhaps most importantly, in today's increasingly complex environment, the people working in these organisations need to understand not only the rules but also the organisation's ethics. This allows them get on with their jobs without continually worrying about whether they are doing the right thing. Compliance have a key role to play in providing the organisation with the simplicity and clarity they desire.

Notes

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