

Enterprise compliance  
Acting on today's risks  
to avoid tomorrow's crises



# Enterprise compliance challenges cannot be ignored

As many retailers know from recent history, compliance failures can lead to catastrophic results for the company, executive management, and the board. These examples indicate that there is a clear and substantial risk of doing nothing to address compliance issues, especially in light of the recent, post-crisis turnover of many key retail executive leaders. Headlines abound with reports of retail companies facing significant losses in market capitalization, as well as unprecedented fines, penalties, litigation, and settlements. The impact extends beyond the immediate erosion in value. It's personal now. Senior executives and board members face unprecedented professional risks.

Strategic initiatives take a back seat as management works to right the ship, implement remediation, and restore the

company's reputation. The damage to the company's brand — one of the most valuable assets of any company, especially those with consumer-based business — can take months or even years to repair. In some cases, the reputational hit will have immediate and devastating effects on retail sales and market value.

As a result, the implementation of a more sophisticated enterprise compliance program has become one of the most important strategic imperatives for modern retailers. Traditionally reliant on decentralized programs with loosely defined accountabilities, many retailers are now looking at their overall compliance programs with a newfound respect, understanding for the first time that compliance is more than just mitigating risk and avoiding fines and penalties. They are extending their compliance and risk-management programs to their supply chains and third-party manufacturers, and they are viewing the compliance function as an engine for creating and preserving organizational value.

Effective compliance can lead to lasting value creation. In a global economy where compliance matters, a strong compliance record can become a marketplace differentiator and a competitive advantage. Simply put, retailers with strong enterprise compliance programs can focus on their strategic priorities and provide meaningful assurances to their customers and business partners.

## Retailers: the impact of crisis



**\$1.88B**

Average market value loss

**\$193.8M**

Average financial loss

## Top retail events and costs

**\$1B+** Data breach

FCPA bribery scandal **\$439M**

**\$101M** Environment violation

DEA sanction **\$29M**

Source: Deloitte research of publicly traded, crisis impacted companies (regulatory, cyber, and product recalls being the top categories) for 2012-2013.

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# Compliance challenges require decisive action



## Increased cost of compliance

Retailers are experiencing an acute increase in the costs of compliance activities. In fact, many global, complex retailers may find it difficult to even estimate their current compliance costs, much less determine how their resources are being deployed against their most critical compliance risks.



## Expansion into new geographies

As retailers seek to offset the impact of the relatively slow recovery of the U.S. economy, opportunities in new or emerging markets have become very attractive. Such expansions — whether direct or through third-party business partners — can expose the company to new regulatory requirements, or create additional risks to compliance with domestic and foreign laws and regulations. Moreover, cultural differences create challenges for managing compliance and enhance the need for a consistent approach anchored to a mature enterprise compliance framework.



## Harmonizing compliance and growth

For many retailers, the consumer experience is being enhanced by an ever-growing array of adjacent offerings. As retailers move into new segments or categories — offering health care, financial, and other services or enhanced user experiences — their compliance profile can change dramatically.

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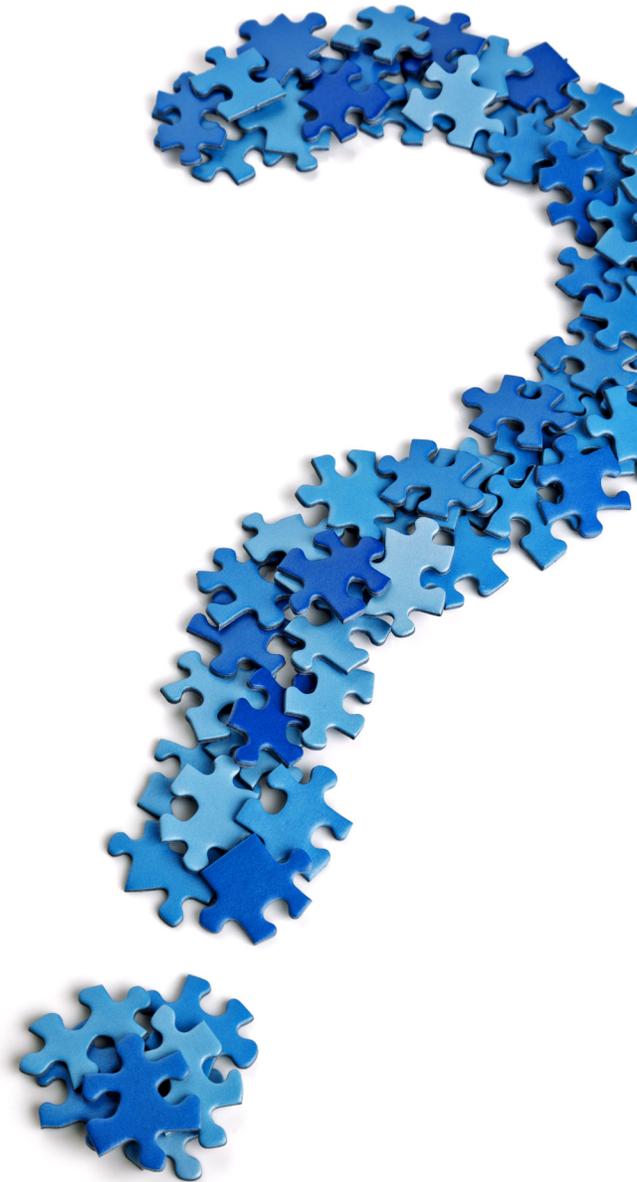
An ounce of prevention ...  
On average, non-compliance cost was found to be **2.65 times** the cost of compliance.<sup>1</sup> Prevention takes far less time and resources than remediation, while simultaneously protecting the company's reputation and brand.

# Understanding compliance risk exposure — the critical first step

## Some key questions about your exposures

There are a number of critical questions retailers should be asking related to compliance risk and the program in place to mitigate that risk:

- What kinds of compliance failures would create significant brand risk or reputational damage? Would the failures arise internally, in the supply chain, or both? What is the likely impact of that damage on your company's market value, sales, profit, or customer loyalty?
- How should your compliance program design, technology, and resource requirements change in light of growth plans, acquisitions, or product/category/service expansions?
- What kinds of compliance missteps could cause you to lose the ability to sell or deliver your products/services for a period of time?
- Are you doing enough to inform customers, investors, third-parties, and other stakeholders about your vision and values? Are you making the most of the investment as a potential competitive differentiator?
- What are your total compliance costs — beyond salaries and benefits at the centralized level — and how are costs aligned with the most significant compliance risks that could impact your brand or result in significant fines, penalties, or litigation?
- How well positioned is your compliance function, so that you have a "seat at the table" in assessing and influencing strategic decisions?
- What is the personal and professional exposure of executive management and the board of directors regarding potential failures in compliance?



# Deloitte's solutions — how we can help

Amid the ever-changing regulatory and economic environments, we recognize that many organizations are increasingly challenged to identify and address critical compliance risks, while also achieving business objectives. Deloitte is well-qualified to assist retailers in this effort. Our resources have experience that spans all aspects of compliance, both in the U.S. and around the world through the Deloitte Touche Tohmatsu Limited (DTTL) network of member firms. Deloitte has subject-matter specialists that include former ethics and compliance officers, regulators, academics, and thought-leaders in domestic and global ethics and compliance. We have developed a full suite of solutions including:

## **Ethics and compliance program design and enhancement**

- Design of new ethics and compliance programs
- Assessment of ethics and compliance programs at the enterprise functional, line-of-business, geographic, and risk level
- Holistic third-party compliance program design
- Design of compliance testing and monitoring programs
- Cost of compliance studies and controls rationalization
- Compliance diagnostic for new products, services, and markets

## **Compliance assessment**

- Qualitative and quantitative assessment of compliance risks
- Assessment of third-party program including screening and selection

## **Regulatory remediation**

- Investigation and remediation support
- Root-cause analysis and program enhancements

## **Compliance-enabler design and implementation**

- Design and implementation of enhanced risk-sensing and monitoring capabilities
- Assessment, selection, and implementation of compliance-related technologies

## **On-demand compliance advisory services**

- Real-time access to a single point of contact tapping into Deloitte's network of subject-matter specialists, to advise on compliance concerns/needs, emerging risks, and regulatory developments
- Access to tools, training, and workshops

### Deloitte solutions in action

#### Ethics and compliance program assessment —

Deloitte was engaged by a large North American retailer to perform a review of the company's ethics and compliance program. The assessment included interviews with key executives and stakeholders; reviews of ethics and compliance policies; analysis of existing reporting, communications, and metrics; and a workshop to help define the company's desired future state of its key ethics and compliance elements. The assessment output included a clear business case for proposed enhancements to the company's existing program elements, which was presented to executive leadership to support program funding and enhancements.

#### Technology assessment and enhancement —

Deloitte was engaged by a large, global retailer to inventory and assess the various technologies being used to manage critical compliance risks within each of its significant global business units. Together, Deloitte and the company identified nearly 200 different technologies. Deloitte applied a consistent methodology to assess the acceptability of the solutions being used, and suggested alternatives based on our knowledge of available GRC technologies. As a result, the company was able to reduce the number of compliance technology solutions to fewer than a dozen, and enhance the consistency and quality of the data it uses to monitor compliance risks on a global basis.

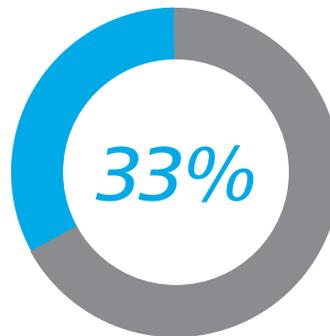
#### Capability assessment for new products and services —

Deloitte was engaged by a large, global retailer to perform an end-to-end capability assessment to evaluate its readiness to expand services to include health and wellness programs at its stores. The assessment output provided an inventory of current capabilities stacked against the required capabilities taking into account financial impact, controls, system integration, and regulatory compliance requirements. The capability assessment and implementation roadmap were presented to executive leadership to guide and obtain support for the path forward in a way that significantly reduced the likelihood of a costly compliance failure.

## Our compliance risk assessment methodology

### Mapping risk for enhanced accountabilities

Building an effective enterprise compliance program starts with a meaningful view into compliance risks. While some companies have implemented compliance risk assessment programs, many more have not.



**of retailers either never conduct a risk assessment or do so less than once every two years**

Source: Compliance Trends Survey, Deloitte-Compliance Week, June 2014.

### Understanding your top compliance risks

To help make sense of the myriad regulations impacting retailers, Deloitte has created a retail-specific compliance exposure tool. The tool helps companies map the most critical compliance risk exposures to its program elements to more effectively and efficiently manage compliance risks.

The compliance risk exposure tool identifies the sector-specific risk domains to accelerate the development of a tailored risk framework, which ultimately improves accountability, consistency, and governance.

See the next page for an overview of our compliance risk exposure tool.

**Compliance Risk Exposure Tool: An example from the retail sector**

The outer rim of the compliance exposure tool is composed of the risks that are relevant in the retail sector. These risks should be contemplated when architecting a retail ethics and compliance program. In this exercise, a company can also identify those compliance risks that cut across multiple business units, or represent strategically significant exposures to the brand or reputation. These areas may require additional investments at the centralized program level.

The compliance program framework can be adopted to apply both the enterprise-level ethics and compliance program and the risk-based programs associated with each of the compliance risk domains around the outer rim. Through this exercise, a company can identify program enhancements that are aligned with risk priorities.



Behind each risk domain, Deloitte has developed a proprietary inventory of sub-risks that often apply to that domain.

Each element is supported by a database of leading practices to help accelerate the design or improvement of the program.



Under our model, technology is an enabler that should be a part of each program element. Companies should consider the value of technology in the effective and efficient execution of enterprise compliance activities.

Deloitte’s seasoned compliance professionals can help a company quickly and effectively design a tailored compliance risk framework and related program.

The case for investing in compliance programs has never been clearer, and Deloitte is well qualified to help our clients in their efforts to improve effectiveness and efficiency.

## Contact us

Please contact one of our Enterprise Compliance Services and retail industry specialists to discuss your organization's enterprise compliance issues.

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For more information about Deloitte's Enterprise Compliance Services, visit [www.deloitte.com/us/ecs](http://www.deloitte.com/us/ecs)

## References

<sup>1</sup> The True Cost of Compliance Benchmark Study of Multinational Organizations, Ponemon Institute, January 2011, p. 8.

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