In Focus
Compliance Trends Survey 2014

A collaboration between Deloitte and Compliance Week

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Deloitte.

COMPLIANCE WEEK

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Welcome

Welcome to the 2014 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 risks associated with the 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 four 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 begin every winter, creating a survey to explore 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 $2.5 billion and more than 7,000 employees—in other words, a strong representation of modern, global businesses.

The 209 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.

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Executive Summary

As the full force of landmark laws such as the Dodd-Frank Act and the Affordable Care Act come to bear, the need for a strong corporate compliance function—and an understanding of what that strong function should look like—has emerged like never before. The Compliance Trends 2014 report shows that Corporate America increasingly acknowledges this idea, but in many cases companies still aren't investing enough to support a strong compliance function in practice.

Fifty percent of respondents said their top compliance job is a stand-alone position.

On the positive side: Out of the 209 respondents to the Compliance Trends 2014 survey, 50 percent now have a stand-alone chief compliance officer, up from 37 percent last year. Far more respondents report compliance budget increases than decreases (by a ratio of 3-to-1) driven foremost by salary increases and more staff. And CCOs meet frequently with their boards; the majority say they meet quarterly or more often. All that suggests that CCOs today may have a higher degree of independence, visibility, and organizational support, which is fundamental to the success of any compliance program.

CCOs themselves are also growing comfortably into their jobs. Twenty-nine percent of respondents said they have been with their current organization six to 10 years; another 21 percent have been there 11-20 years. Nearly one-third of respondents say they have been in their current role three to five years, and another 22 percent have been doing their job six to 10 years. The single largest area of functional expertise for compliance officers: the legal field (28 percent), followed by internal audit (22 percent). In other words, many corporate compliance leaders today know their jobs, know their companies, and know the skills they need to get the job done.

Budget, staff, and genuine power, however, seem to have hit a plateau. Forty percent of respondents say their compliance budgets (including salaries) are $1 million or less; 45 percent have staff of five or fewer employees. Nearly half of those who say they hold the top compliance job at their company do not have a seat on the executive management committee, which may undermine their authority. Little surprise then, that only one-third believe they are perceived as business partners throughout the whole enterprise. More concerning might be a related finding: 58 percent say they are perceived as business partners across the enterprise "in certain aspects"—but true, enterprise-wide support for strong compliance remains elusive.

Is compliance considered in the measurement of senior managers' performance and discretionary compensation?

YES: 27 percent

NO: 46 percent

Only about half of respondents had a high degree of confidence in the metrics they do track ... 18 percent were not confident that their IT systems captured and reported all compliance data.

That same theme of awareness of the need for a strong compliance program, but hesitancy to make far-reaching changes to implement one, can be seen in data about the risks that occupy CCOs' time. The biggest worry responding CCOs have—to nobody's surprise—is third-party risk. And clearly compliance officers think about third parties quite a lot: 85 percent of respondents said they are somehow reassessing their businesses' relationships with joint ventures, suppliers, distributors, agents, and the like.

Only 5 percent say that "re-assessing" third-party relationships will lead to bringing more of those activities back into the corporation; most say they will step up monitoring and due diligence of third parties. Interestingly, given the level of perceived risk, the most common form of managing third-party risks is only to provide those third parties a copy of the Code of Conduct. More active forms of third-party oversight are less common; less than one-third of respondents said they perform extensive background checks on third parties, and 17 percent said they hardly ever do.

The good news is that the number of compliance officers who try to measure the effectiveness of their programs continues to increase (up to 68 percent, from 63 percent last year), but the challenge of succeeding in those efforts remains. The most common metrics CCOs use to gauge effectiveness are interally focused: internal audits, analysis of hotline calls, completion rates for training programs. Metrics that incorporate external information—say, reviews from regulators or benchmarks against peer groups—were less common. So again, we see compliance executives aware of the need (to measure effectiveness), but still mostly doing what they can, rather than what they ideally should.

Only about half of respondents had a high degree of confidence in the metrics they do track. In a related area, 18 percent were not confident that their IT systems captured and reported all compliance data necessary to get a good sense of effectiveness. That might be because many compliance tasks—policy management, document management, risk assessments, regulatory reviews—still rely heavily on desktop software applications. Only in more dedicated compliance tasks (employee surveys, case management, training) did companies use third-party software from GRC vendors to any great extent.

Deeper questions about the capabilities of the compliance function appear to indicate a profession in transition. When asked to describe the maturity of 10 basic compliance tasks—risk assessments, policies & procedures, reporting, controls & monitoring, IT systems, and more—the most common answer for all 10 was "evolving." For several elements the choice of "proactive" placed a somewhat close second (culture was the closest, where 32 percent described themselves as proactive, 34 percent evolving), but across most other tasks, "evolving" was the go-to adjective. Again, that is in step with CCOs' use of technology (where use of specialty GRC software still remains uncommon) and CCOs' perception of how valued they are across the enterprise (58 percent who are partners "in some respects").

Despite the challenges, however, a solid majority described the alignment between their organization's behavior and professed values as above average or better. The one slice of the organization where CCOs fear the biggest gap between culture and values: middle management. This is cause for concern, since tone from the top is little more than aspirational if the mood in the middle doesn't support performance with integrity.

EFFECTIVENESS & METRICS

68% of CCOs try to measure effectiveness of the compliance program.

42% say they are only 'somewhat confident' or 'not confident' that the metrics they use give a true sense of program effectiveness at all.

Do CCOs have enough authority?

"Authority" for a compliance officer can be defined with three elements: freedom to act without fear of organizational backlash; sufficient resources to run the compliance function effectively; and access to the CEO or board to discuss ethics and compliance issues as the need arises. The Compliance Trends 2014 report shows that compliance executives are mostly moving in that direction—although the pace of that movement has slowed, and a fair number of companies still haven't moved much in that direction at all.

On the positive side, a full 50 percent of respondents say their company now has a stand-alone chief compliance officer, up from 37 percent last year; that suggests that more companies are taking compliance more seriously. That jump in stand-alone CCO jobs seems to be driven by two related factors: fewer companies saying they combine compliance with risk and audit responsibilities, and fewer saying they have no designated CCO at all. When the CCO role is combined with another job, it's most often also the general counsel (cited by 17 percent).

37 percent say the CCO holds a seat on the executive management committee; 48 percent say the CCO does not.

The size and maturity of a company also drive how much authority the CCO has. The larger the company, the more likely it is to have a stand-alone CCO: 39 percent of respondents with less than $1 billion in annual revenue, 57 percent of those with $10 billion to $50 billion, 69 percent of those with $50 billion or more in annual revenue.

In addition, top compliance officers generally have the right reporting lines to maintain their independence. Forty-four percent report to the CEO or the board, down from 51 percent in 2013. That is a somewhat sharp drop, compared to conventional wisdom that more CCOs are reporting to the CEO or board, and seems likely to be partially explained by some changes in the demographics of the survey respondents. The majority meets with the board quarterly or more often.

Yet other trends suggest that compliance is not getting the resources it needs to do its job well. Forty-five percent of respondents have five or fewer full-time staff devoted to compliance and ethics; 40 percent have budgets of $1 million or less, including salaries. While larger companies ($1 billion or more in annual revenue) tend do better on these measures, 57 percent still count less than 10 full-time compliance employees.

Those budget and staff numbers aren't materially different from our 2013 report. But the demand for greater attention to ethics and compliance—from regulators, business partners, investors, the board, and in some sectors, customers —has increased, so the lack of additional resources seems out of step. "It's perplexing that staff and budget numbers have not moved that much, given that the regulatory environment in Corporate America keeps getting more difficult," says Tom Rollauer, executive director at the Deloitte Center for Regulatory Strategies (And as another telling sign of how difficult it can be to pull together proper resources for compliance, 18 percent of respondents said they weren't even entirely sure how large their budgets are—a nod to the widespread reality that many compliance departments rely on other parts of the enterprise to help fulfill their mission.).

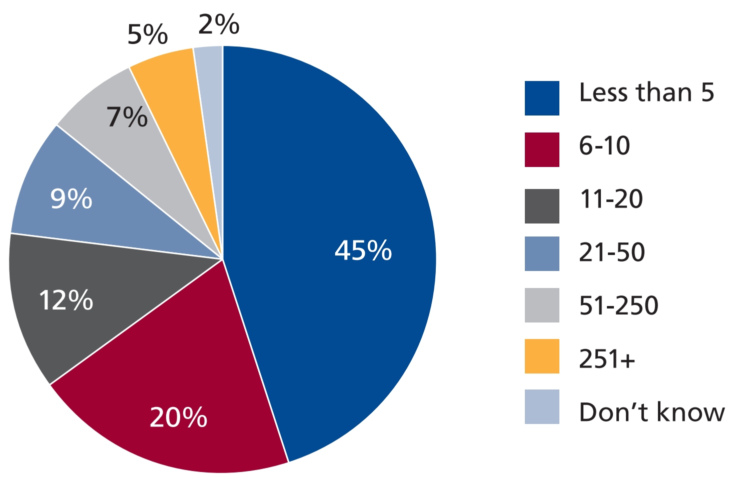
"In light of the increasing regulatory scrutiny and heightened reputational risks, the continued underinvestment in this space is surprising, and for some organizations potentially shortsighted," says Maureen Mohlenkamp, a principal and deputy ethics officer for Deloitte LLP.

One promising sign: Nearly half of respondents expect budget increases in 2015 and beyond, roughly the same expect no change, and virtually none expect budget cuts. That would appear to continue the trend of spending in 2014, where budget increases outnumbered decreases by 3-to-1, driven by salary increases, hiring, and changes in regulatory requirements. "Anecdotally, we're seeing compliance staffs grow within highly regulated industries, such as financial services, energy, and healthcare," Rollauer says. Indeed, even excluding the heavily regulated financial sector, 41 percent of respondents reported rising budgets in 2014, compared to 30 percent who said budgets are falling (the remainder reported no change at all). And only 6 percent of that non-financial group expect compliance budget cuts in 2015 or beyond.

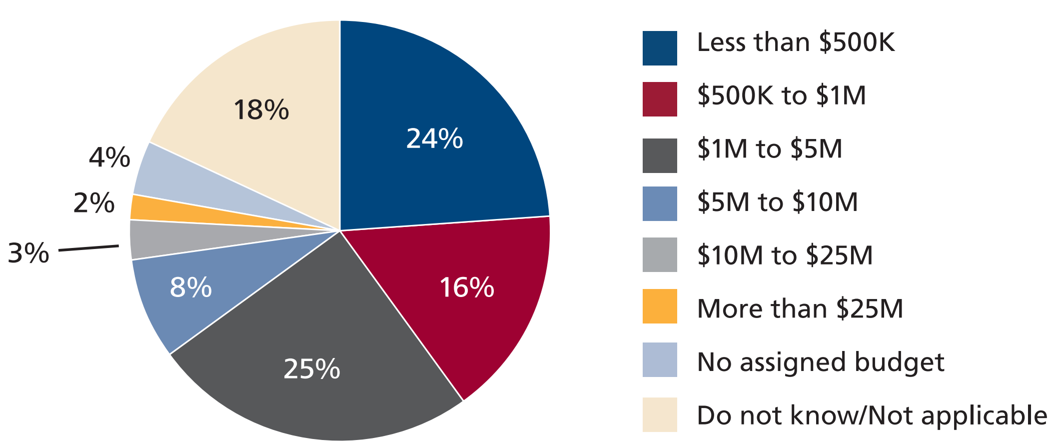
A few other statistics also imply that CCOs have to do a bit more fighting for the power and visibility they should have. Nearly half of respondents (48 percent) said the CCO does not hold a seat on the executive management committee, outnumbering the 37 percent who do. And only one-third of respondents say compliance is seen as a business partner across the enterprise, although 58 percent say they are considered business partners "in some respects."

"Overall, it's encouraging that a solid percentage of compliance professionals believe the compliance program is supported as a business partner in the organization," says Nicole Sandford, partner and leader of the Governance and Enterprise Compliance practice for Deloitte & Touche. "But building stronger support with middle management—where compliance programs must be operationalized to be effective—should be a high priority going forward. The tone-at-the-top is nothing more than an aspiration if the organization isn't living and breathing its values every day."

How many people work full-time on ethics and compliance at your organization?



What is your total 2014 budget for enterprise-wide compliance, including salaries?



Are CCOs addressing the right risks?

Compliance officers have a wide range of responsibilities, from privacy to policy management, investigations to anti-bribery training, and much more. The Compliance Trends 2014 report identified four "core" responsibilities, each one cited by at least 80 percent of respondents:

- Compliance with domestic regulation;
- Compliance training;
- Code of conduct;
- Complaints and whistleblower hotlines.

Those four basic duties are the same for small and large companies alike, which suggests that a consensus is emerging on what compliance departments should oversee on a practical, daily basis, even if other, more specific risks vary greatly from one company to the next.

Responsibility for several "regulation-specific" risks, such as the Foreign Corrupt Practices Act and anti-money laundering rules, edged down this year compared to 2013: from 62 percent to 58 percent for the FCPA, and from 40 percent to 38 percent for AML programs. (For an expanded list of compliance responsibilites, see lists on Page 11.)

"Bifurcated compliance responsibilities may be a practical reality for many companies, given the relatively small staff of the compliance departments, but it comes with risks," Sandford says. "Compliance officers really need to ask themselves: if something goes wrong in one of the areas that I don't control, will I still be held accountable by the board, the executives, or the regulators? If the answer is yes—and history has shown that to be the case in many instances—then CCOs should make a concerted effort to insert themselves into the process in a meaningful way."

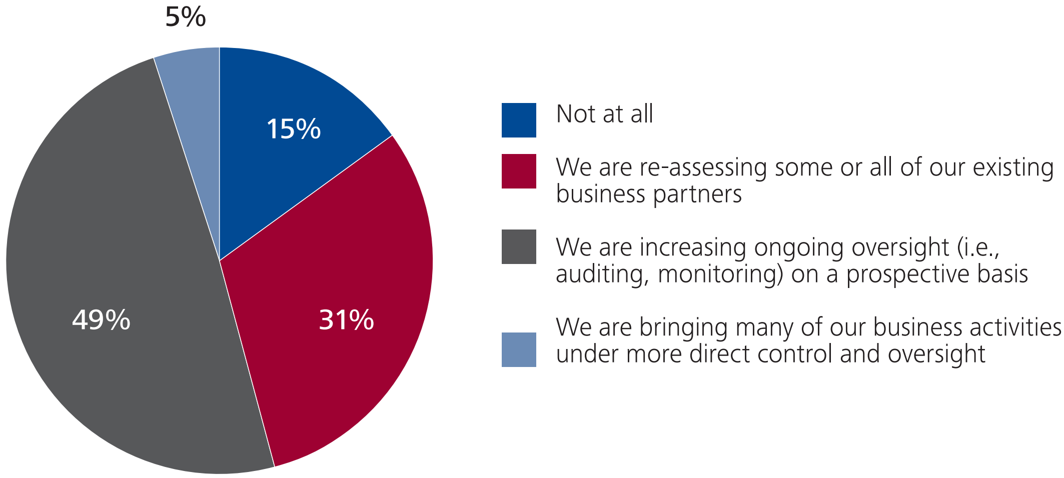
Third-party relationships continue to be a prime source of anxiety for small and large companies alike. A sizeable 85 percent of all respondents said they are somehow re-assessing their business links with joint-venture partners, suppliers, distributors, agents, and the like—although the vast majority of that number are either reviewing their risks with third parties, or increasing their monitoring of them. Only 5 percent are specifically reducing third-party relationships and bringing those activities back in-house.

That's not to say that many compliance departments exercise vigorous oversight of third-party risks. Seventeen percent of respondents said they "rarely or never" conduct background checks on third parties; 48 percent "sometimes" do. What's more, the most common methods of oversight were passive: providing contractors with codes of conduct (48 percent of respondents) or requiring anti-corruption language in contracts (39 percent). Practices related to more active steps, such as training third parties on compliance programs or audits of third-party compliance, are somewhat inconsistent. Forty-two percent said they rarely or never provide third parties with compliance training, while 43 percent say they "sometimes" audit third-party compliance and 16 percent "always" do.

The financial sector does take more vigorous steps to address third-party risks. For example, while only 16 percent of all respondents say they always audit third parties for compliance, that number was 23 percent in the financial sector. Likewise, they perform background checks more often (40 percent saying "always" versus 27 percent of the entire survey pool).

"Regulators expect companies to do a lot more regarding their vendors and other third parties," says Rollauer. "It's not just about giving out their code of conduct; it's about rigorous due diligence, training, oversight, and performing periodic compliance reviews."

How much is the changing regulatory landscape driving you to re-assess your third-party relationships, including joint ventures, suppliers, distributors, agents, or other business relationships?



What are the most common responsibilities for CCOs ...

1. Compliance training (87.1%)
2. Code of Conduct (83.7%)
3. Whistleblower programs (81%)
4. Compliance with domestic regulations (79.4%)
5. Compliance strategy & process (77%)

... and the least common responsibilities?

1. Regulatory filings (38.3%)
2. Regulatory relationship management (28.2%)
3. Records management (27.3%)
4. Culture assessment (26.8%)
5. Business continuity (12.4%)

Are CCOs using the right metrics?

70 percent of respondents say their company's culture and values align 'very well' or 'above average' ... Only 4 percent rated alignment as 'poor' or 'below average.'

Compliance officers have long struggled to find the right way to measure the effectiveness of their compliance programs. Four years ago, in the first incarnation of this survey, 38 percent of respondents said they did not measure effectiveness at all. That number has since fallen to 23 percent today (down from 31 percent in 2013), but other evidence still suggests CCOs aren't wholly comfortable with the metrics they use to get that sense of confidence.

What are the metrics compliance officers use to gauge effectiveness? The most popular ones tend to be internally focused: analyzing internal audit findings; analyzing hotline calls; tracking completion rates for required compliance training—each was cited by roughly 70 percent of respondents as a metric they use. Comparisons to external data (independent evaluations, benchmarking studies, analysis of regulatory reviews, and the like) were considerably less common, all notching only 45 percent or less.

"While compliance officers should take advantage of the Big Data within their own organizations, it would be a mistake to not look outside for new insights to make sure your program doesn't become insular," says Mohlenkamp. "When I worked as an in-house compliance professional, some of my best ideas came from time spent with my peers and external benchmarking."

Another interesting dynamic emerges when you dive deeper into the respondents' answers: Staff-level compliance professionals (managers, directors, vice presidents) are actually more confident in their companies' measurement of effectiveness than C-level compliance executives. The total pool of respondents broke down almost 50-50 into those two groups, and their differences of opinion were striking:

- 64 percent of staff-level compliance professionals are "confident" or "very confident" that the metrics they use give them a true sense of how well the compliance function works, compared to only 52 percent of chief compliance officers;
- 26 percent of chief compliance officers are not confident in their IT systems' ability to fulfill all compliance and reporting requirements, but only 11 percent of staff-level compliance officers say as much.

The differing opinions may be driven by a lack of adequate communication—perhaps the staff may have greater access to or understanding of the details behind the overall KPIs reported to the CCOs. Or it could mean that CCOs are looking at the more strategic or high-impact risks—the ones that represent significant reputational risks to the company—while the staff is focused on the more tactical risks in formulating their opinions about the adequacy of metrics.

"The survey underlines a continuing challenge many companies face in measuring compliance effectiveness, and demonstrating that to stakeholders," says George Hanley, director in the financial services risk consulting group at Deloitte & Touche. "Compliance officers are using a mix of process-activity measures, and outcome- or results-based measures, which have different values."

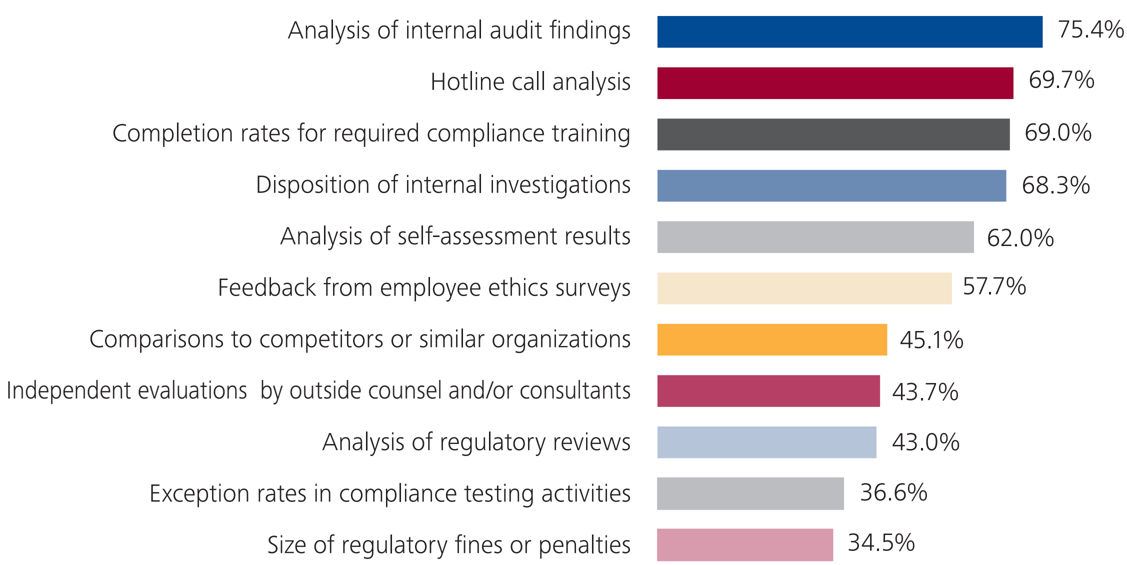
Ultimately, compliance departments are effective (and compliance officers are achieving their strategic goal) when the rest of the enterprise believes that corporate behavior aligns well with the company's professed values—and the 2014 Compliance Trends report has good news on that front: 70 percent of respondents say their company's culture and values align "very well" or "above average," with little variation between C-level and staff-level compliance officers. Only 4 percent rated alignment as "poor" or "below average."

Both groups agree that middle managers are a major source of tension, with about one-third citing this group as the cause of misalignment. Executives are a bit harder on themselves than their staff, however. Seventeen percent of C-level respondents say the biggest gap between what the organization says and does exists at the executive level, while only 7 percent of staff point the finger upward.

Where these opinions come from, however, isn't entirely clear, as only slightly more than half of respondents use the results of employee surveys as a key metric in measuring effectiveness. A well-crafted and executed employee survey is one of the best tools a CCO can use to determine how well-understood compliance risks and policies are, how effectively key messages reach the people on the front lines of compliance risks, and attitudes and perceptions related to ethics and compliance. What other metrics are compliance professionals relying on to gain confidence in their program and the alignment of behavior with professed values?

"If the absence of a major compliance failure is the key metric that's used to understand compliance culture and the adequacy of compliance efforts overall, then companies may be living in a fantasy land, relying on luck rather than robust, effective programs," Sandford says.

How do you measure compliance program effectiveness? (Select all that apply.)



Methodology

The 2014 Compliance Trends Survey was drafted by senior Compliance Week editors and Deloitte in January, and then pushed out to an audience of senior-level corporate compliance, audit, risk, and ethics officers worldwide in February and March.

The survey produced 218 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 209 qualified responses from senior-level executives, working in ethics, compliance, audit, risk management, or corporate governance. Of those 209 respondents, 28 percent held the title of chief compliance officer, 10 percent had the title of chief ethics & compliance officer, and the rest had a wide range of related titles: chief ethics officer, deputy compliance officer, general counsel, chief audit executive, VP of compliance, and the like.

The survey also went to a wide range of industries. Of the 209 qualified responses, the single largest industry group represented was financial services at 25 percent. Next was life sciences & healthcare at 19 percent, consumer products at 13 percent, energy at 11 percent, and a dozen other sectors in total.

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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About the Deloitte Enterprise Compliance Services (ECS) practice

The ECS professionals within Deloitte & Touche LLP work closely with chief compliance and ethics officers to assess, design, and implement effective and efficient enterprise-wide compliance programs. Cutting across multiple business units, these programs are built from the top down and help organizations use their people, processes, and information technology to address the rapidly changing compliance landscape. The managed regulatory compliance practice within ECS executes critical regulatory compliance activities on behalf of our clients, extending the company's resources and offering a cost effective alternative to traditional, in-house compliance models.

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COMPLIANCE WEEK

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