pwc.com/us/stateofcompliance

Moving beyond the baseline

Leveraging the compliance function to gain a competitive edge

State of Compliance Survey 2015

pwc

Welcome

Welcome to our State of Compliance report for 2015—PwC's fifth annual survey designed to give corporate compliance officers the benchmarking data they need in order to understand common industry practices today and plan for more-effective, more-efficient compliance operations in the future. Launched in 2011, this annual report aims to give compliance function leaders a comprehensive view of how their peers structure and staff their organizations, the scopes of their responsibilities, the risks they target, the processes they follow to manage their compliance programs, the resources at their disposal, and more.

We evolve the survey each year by studying feedback from our clients and incorporating insights from the previous year while keeping some core questions the same for comparison purposes.

We have organized the responses into five themes, focusing on the current challenges that chief compliance officers and chief ethics and compliance officers (collectively, CCOs, compliance officers, or compliance chiefs) face and how they can expand their roles to become partners to the business, contributing actively to the organization's strategy and direction.

We received 1,102 responses to our 2015 survey from compliance executives—roughly the same total as in 2014. Survey responses were received from a broad cross section of companies from 23 industry sectors, whose revenue ranged from under $500 million to over $25 billion, which provides a comprehensive view of the compliance function in a wide variety of organizational settings. The profile of the companies included in this year's survey is weighted toward larger organizations to a slightly greater extent than last year.

This report is part of a more detailed analysis that will include certain industry results in separate addenda. Once you've reviewed this report, we encourage you to delve into our analysis of industry results, which will be made available at www.pwc.com/us/stateofcompliance. Please note that this report highlights only a portion of the State of Compliance 2015 Survey data. The full results of our survey, including charts depicting all 21 Survey questions, are available at the same site: www.pwc.com/us/stateofcompliance.

We hope you find the information in this PwC State of Compliance 2015 Survey report insightful and valuable. Our intention is that the report serve as a useful tool to help you improve the effectiveness of your organization's corporate compliance function.

Sincerely,

Sally Bernstein
Principal, PwC
sally.bernstein@us.pwc.com
+1 617 530 4279

Andrea Falcione
Managing Director, PwC
andrea.falcione@us.pwc.com
+1 617 530 5011

Delve into the full analysis of the State of Compliance 2015 Survey at pwc.com/us/stateofcompliance

Table of contents

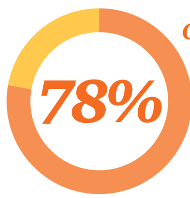
Introduction

In today's dynamic business environment, with rapidly emerging trends driving new compliance risks and impacting legal regulation, it's more challenging than ever for companies to understand and meet baseline obligations. This includes complying with all applicable laws, regulations, and compliance requirements across the organization as well as fulfilling a broad range of voluntary commitments.

Baseline compliance remains a big responsibility for compliance officers, and we recognize the challenges involved, especially for companies in highly regulated sectors that fall under increasing scrutiny by regulators, consumer advocates, and shareholder activists.

Our 2015 Global CEO Survey highlights the challenges that CEOs face in managing a fast-changing environment. It's not simply economic fundamentals that worry CEOs. Over-regulation is cited by 78% as a concern[1]. And this concern is not limited to industry-specific regulations but goes much broader into areas like trade and employment. Yet, despite the prevalence of broad and pervasive business trends, our 2015 survey suggests that the ethics and compliance function (hereinafter referred to as the compliance function) has experienced only modest incremental change.

This environment provides both threats and opportunities to compliance officers. While some compliance officers may take a wait and see approach, looking to follow the leaders, others will recognize the opportunity to move compliance beyond maintaining baseline requirements to pursue more strategic objectives that derive incremental value to the wider organization.



of CEOs around the world view increasing regulation as the top threat to business growth.

But they need to adapt as quickly as the business, political, and economic environment is shifting around them in order to maximize this opportunity. 54% of CEOs have entered or are considering entering a new sector, driving even further complexity and regulatory uncertainty for compliance leaders.

Compliance leaders can—and in many cases are ideally positioned to—proactively contribute to strategic decisions and direction, align more closely with the business, assist in driving company culture, and help manage risks associated with the company's overall strategy and key initiatives. By leveraging the power of the compliance function to manage current and emerging risks more effectively than their peer organizations, companies have a compelling means of gaining competitive advantage.

All companies must grapple with hyperregulation. Laws and regulatory requirements of course vary from sector to sector and across geographies. But all companies in the same sector and/or operating in the same regions face the same or very similar regulatory pressures. How can companies facing similar rules and regulations gain competitive advantage over their sector peers? By doing a relatively better job of managing compliance-related risks. For instance, a cloud provider that can demonstrate a higher level of compliance with data security standards may be better positioned to attract new customers than its peers are. Similarly, companies that more efficiently manage their compliance-related risks may be able to pass associated cost savings along to customers, in the form of lower prices, and to investors, in the form of greater returns.

Companies face a range of risks as they pursue strategies and initiatives to drive growth and profitability. For instance, many companies focus on innovation initiatives by launching new products and improving the customer experience. And they're looking to new partners, new markets, and even new industries to enter to sustain their growth. But such strategies are fraught with compliance risk that should be on the business agenda—not just the compliance department's agenda. If not managed effectively, compliance-related risks can derail even the most-thoughtful and best-conceived corporate strategy.

Compliance chiefs should be routinely working alongside other company

1 "A marketplace without boundaries? Responding to disruption," 18th Annual Global CEO Survey, PwC, January 2015

leaders to think through certain compliance risks involving corporate strategy and related initiatives. That way, relevant risks can be considered throughout the planning cycle rather than during implementation (or worse, post implementation, after an unexpected compliance problem emerges). Compliance chiefs can also help other company leaders think through the organization's risks and can implement a risk management framework to ensure the success of the overall corporate strategy.

In our State of Compliance 2015 report, we explore five themes on how the compliance function can move beyond its traditional responsibilities for meeting baseline legal and regulatory requirements and toward a more strategic role in the organization.

1. The compliance function should actively participate in the setting of corporate strategy.
2. Owners of compliance obligations should be aware of what "compliance" entails across the organization as well as understand the scope of their own responsibilities.
3. The compliance function should collaborate with business owners of compliance obligations.
4. Compliance leaders should evaluate and potentially reimagine the identity of their function.
5. Compliance officers should explore ways to increase operational efficiency and effectiveness

PwC Research to Insight (r2i) conducted the State of Compliance 2015 Survey in February and March 2015, targeting senior executives with responsibility for compliance, such as CCOs, chief risk officers, chief legal counsel, and chief audit executives.

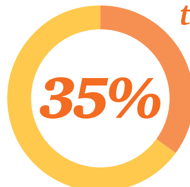
The aim of the research is threefold: to explore how organizations have developed their compliance functions, to better understand how compliance functions manage the increasing demands of numerous stakeholders, and to determine how compliance organizations are positioning themselves for the future.

This year's survey took a deeper dive into scope of responsibility, cost of compliance, risk assessment, and the compliance function's use of technology.

Respondents to the online survey included both PwC clients and non clients. In total, PwC received 1,102 responses over a four-week period. Percentages may not add to 100 due to rounding and/or the exclusion of "Don't know" responses.

1 *Actively participate in the setting of corporate strategy.*

The PwC 2015 Global CEO Survey shows that increasing regulation is the top threat to business growth prospects. Around the globe, the vast majority of CEOs (78%) express concern about overregulation and its impact on their ability to achieve companies' strategies and goals[2], yet only about one-third of companies (35%) report that CCOs are involved in helping develop or implement corporate strategy.



CEOs around the globe say they're concerned about the impact of hyperregulation on their ability to achieve strategic objectives but only 35% of CCOs are involved in strategic planning.

This is a surprising disconnect. Given their growing concern over the impact of regulations on corporate strategy, CEOs should be turning to their CCOs for help in guiding that strategy. After all, the compliance function is ideally equipped to identify and manage compliance risks—including regulatory risks that pose threats to the achievement of strategic goals—yet many CEOs are not gaining the benefits they could from their compliance functions. As one survey respondent said, "There's no true buy-in on compliance by our CEO or COO—only lip service."

Q ***How is the chief compliance officer/corporate compliance function engaged in the development of your organization's business strategy?***

35% As part of the annual business strategy development meetings

18% Assists in the implementation of business strategy once decisions are made

15% Addresses issues that arise after business strategy is implemented

17% Not involved in developing or implementing business strategy

[2] "A marketplace without boundaries? Responding to disruption," 18th Annual Global CEO Survey, PwC, January 2015

Compliance professionals as strategic partners

Compliance professionals can offer valuable insights into the key business decisions that affect a company's growth targets and other strategic imperatives. Just as the presence of brakes give automobile drivers the confidence to accelerate, knowing they can stop when needed, effective compliance management gives CEOs and other senior leaders the ability and confidence to take the risks required to implement their growth strategies—and to do so more rapidly than their competitors do. In that capacity, the compliance function goes beyond simply meeting baseline requirements by providing a significantly stronger platform upon which to push boundaries and seize opportunities. And that creates a natural opportunity to build productive working relationships between compliance and business managers. Rather than viewing the compliance function in tactical, defensive, and, often, negative terms (e.g. as the department of "no"), the business comes to view the function in more collaborative, proactive, and positive ways (e.g. as the "art of the possible").

Compliance officers can help the business think through compliance issues related to corporate strategy and initiatives and thereby help build solutions up front rather than waiting for issues to emerge after execution. Said one compliance chief: "Compliance leaders need to demonstrate knowledge of the business and their priorities and be able to bake compliance requirements into business processes versus adding them on after the fact." Doing so "helps drive the view that compliance is a valued partner versus something to be afraid of."

"Our compliance department should develop a greater understanding of strategic direction and business operations of [the] organization in order to function as a value-added asset rather than as a watchdog."
—2015 Survey respondent

If leveraged strategically, the compliance function can be part of how the organization differentiates itself in the marketplace. For instance, in the current cybersecurity environment, a retailer that can show it invests in governance and compliance leading to lessened vulnerability to security breaches can use that message to persuade consumers to shop at its stores rather than a rival's. Or a bank that can promote its compliance with proposed new rules requiring financial services firms to act in the best interest of their clients when selling retirement investment products may find that consumers are more willing to entrust the bank with their money. (Indeed, some firms have already begun marketing themselves based on a similar premise.)

"Compliance is valuable for attracting and retaining new customers. We can do a better job of tying compliance efforts directly to sales wins in order to promote the value of compliance within the organization."
—2015 Survey respondent

The compliance function can be particularly valuable to companies seeking growth outside their core industries. Our CEO survey reveals that 56% of CEOs globally say their companies are likely to compete in new industries over the next three years[3]. As companies from less-regulated industries, such as technology and retail, move into more-regulated industries, such as healthcare and financial services, the ability to comply with sometimes complex regulations will be critical to their success.

[3] "A marketplace without boundaries? Responding to disruption," 18th Annual Global CEO Survey, PwC, January 2015

2 Be aware of what "compliance" entails across the organization as well as understand the scope of responsibilities.

The scope of the compliance function can vary significantly from one organization to the next, based on such factors as company size, sector, and culture, but there should be consensus on the definition of scope. Compliance officers and all others in the organization who oversee compliance obligations must not only understand the scope of their own responsibilities but also come to agreement on what compliance entails across the organization—from compliance with legal and regulatory requirements to meeting internal operational and other strategic obligations. Just as chief financial officers know where every dollar is spent but don't themselves spend every dollar, CCOs should know how their organizations manage all compliance obligations and issues throughout the company, even though they don't own all of the compliance responsibilities or mitigation activity.

Coming to an understanding of compliance obligations, where those obligations sit in the organization, and how they get tracked and reported is an important step in maturing the compliance program and enabling the compliance function to add more value to the organization. By understanding who manages which compliance obligations within the business, compliance officers can identify opportunities to add value enterprise wide.

In some sectors (e.g. financial services), CCOs may have a deep understanding of business operations; but in other sectors, CCOs may depend on so-called specialists in the business who have the responsibility to determine that the company is in compliance. CCOs should expect clear explanations from the business about how compliance is being managed and should not accept cursory assurances (e.g. "John is handling it ").

Q ***Please indicate whether the corporate compliance function has direct, primary ownership or accountability for each of the following at your organization:***

	Direct ownership
Code of conduct	86%
Ethics Program and Controls	84%
FCPA/ Anti-bribery and Anti-corruption	76%
Investigations	71%
Hotline	68%
Compliance Audit	68%
Policy Process Management	63%
Privacy and Data Protection	60%
Third Party/Vendor Compliance	52%
Records Retention	49%
Enterprise Risk Management	43%
Export compliance	32%
Internal Audit	31%
Import/ Customs Compliance	29%

At most companies, many of the compliance obligations are fully or partially managed outside the corporate compliance function. For instance, operational areas of compliance—such as data privacy, trade compliance (imports and exports), and conflict minerals—are more likely to be managed directly by the business, with the compliance function only providing oversight and assistance and in many cases, reporting on those areas to the board. That said, those roles may differ depending on the organization.

Ask yourself, "Who is responsible for each area of compliance in my organization?" If you can't answer the question easily or if various stakeholders in the company might answer it differently, compliance responsibilities need clearer definitions.

Once scope has been defined, CCOs must communicate expectations clearly to compliance owners across the company. And there must be clarity about compliance roles—who leads, who follows, and who executes. Unfortunately, our survey data and our interactions with clients suggest that, as in past years, the scope of compliance usually is not clearly defined and/or communicated across the organization. As a result, there may be gaps in compliance management, or there may be poorly executed or poorly monitored compliance activities that could result in the emergence of unforeseen issues.

The crucial role of oversight

Regardless of who owns which obligations, the central compliance function must ensure that all compliance risks are being managed effectively across the organization. For that reason, all areas of compliance should be in the purview (although not necessarily the direct responsibility) of the CCO and managed under a shared framework, with consolidated oversight by the compliance function. Consolidated oversight will enable the CCO to provide the CEO and board with a direct line of sight into all key compliance responsibilities across the organization. It will also help ensure that exceptions and issues get quickly reported up the chain of command so they can be handled appropriately.

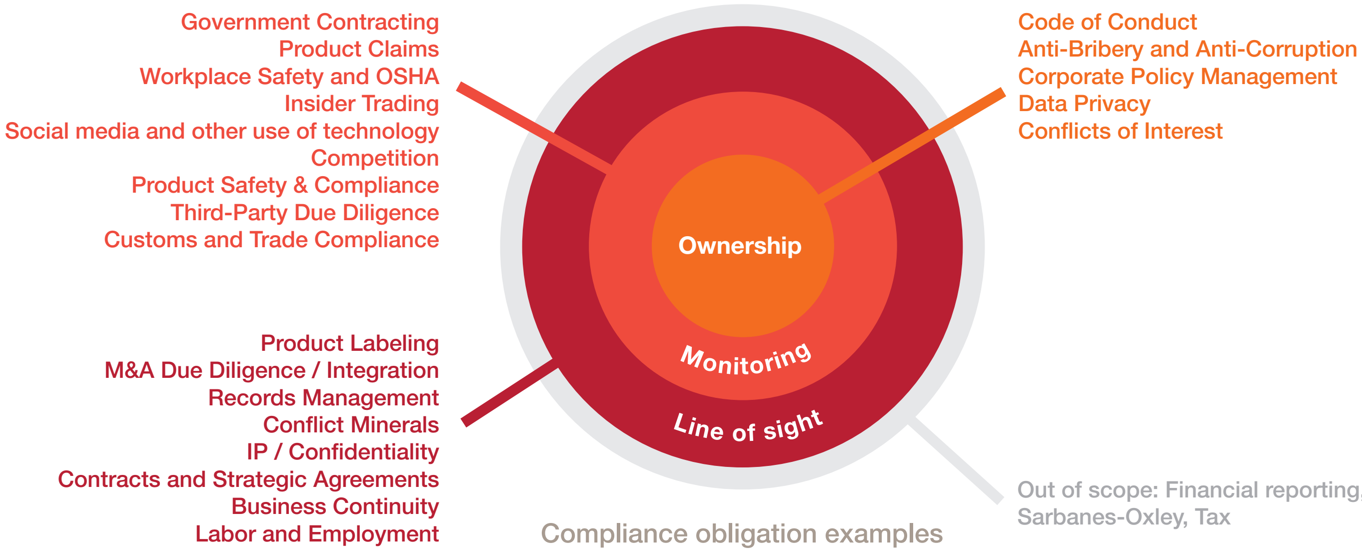
Tools to aid in understanding scope

A variety of tools and aids are available to assist an organization in documenting the scope of compliance, from assurance maps to compliance risk inventories and dashboards. Those tools and aids can be good starting points for internal conversations or negotiations about who is responsible for which compliance obligations.

We provide one example of such an aid, which we call the bull's-eye chart (see Figure 1). The center of the chart shows the areas that are often managed directly by the compliance function, from the organization's code of conduct to conflicts of interest. Radiating outward from the center are areas that the function may not manage directly but has a role in monitoring, such as government contracting, product safety and compliance, and third-party due diligence. The next outer ring comprises areas often in the direct line of sight of the compliance function as well as areas for which the function provides frameworks for managing compliance issues and/or is engaged when issues arise. This may include, for instance, product labeling or records management. Beyond the bull's eye are areas that are typically fully managed outside the purview of the compliance function, such as tax compliance or compliance with the Sarbanes-Oxley Act.

The following bull's-eye chart is illustrative only and should be modified to suit an organization's needs. Indeed, the chart might change as the organization's business and related compliance risk management responsibilities shift and grow. The goal of the tool is simply to gain clarity around where compliance management is occurring throughout the organization.

Figure 1: Identifying compliance scope, illustrative tool



Compliance obligation examples

Compliance function: Example roles

The roles and responsibilities of the compliance function can vary dramatically from one organization to the next and are usually determined by organizational culture. We have seen a variety of ownership and responsibility structures. Following are two example models.

A legal-oriented compliance function.
At one larger company, the CCO focuses solely on managing external legal and regulatory obligations. Certain other compliance activity has been assigned to the business–for example, technical compliance with International Organization for Standardization standards and certain voluntary environmental standards. Historically, unless a compliance obligation was explicitly driven by or linked to a specific legal requirement or regulatory obligation, it was assumed that the business would take responsibility for managing the risk—with little or no involvement on the part of the central corporate compliance function. With no clear guidance, that situation led to real potential for compliance gaps.

At this company, the focus of the compliance function is strictly on the law; the mind-set of protecting the business dominates. At such companies, the compliance function's oversight of compliance activities within the business is challenging and may well be out of reach.

Compliance incubation.
At another company, the CCO conducted an extensive assessment of compliance risks and related controls and identified several new key risks that were not being managed effectively. After conferring with a few key allies in the business and after building consensus with colleagues in senior leadership, the CCO hired more resources to manage the compliance risk areas in question. The risks are largely operational in nature and thus typically would be managed within the business. In this case, however, the business was simply not ready to own either compliance risk management or the related controls in those areas. That's why the newly hired resources now reside within the compliance function, where the risk areas will incubate until the time is right to move those compliance management obligations out into the business, which ultimately will own them.

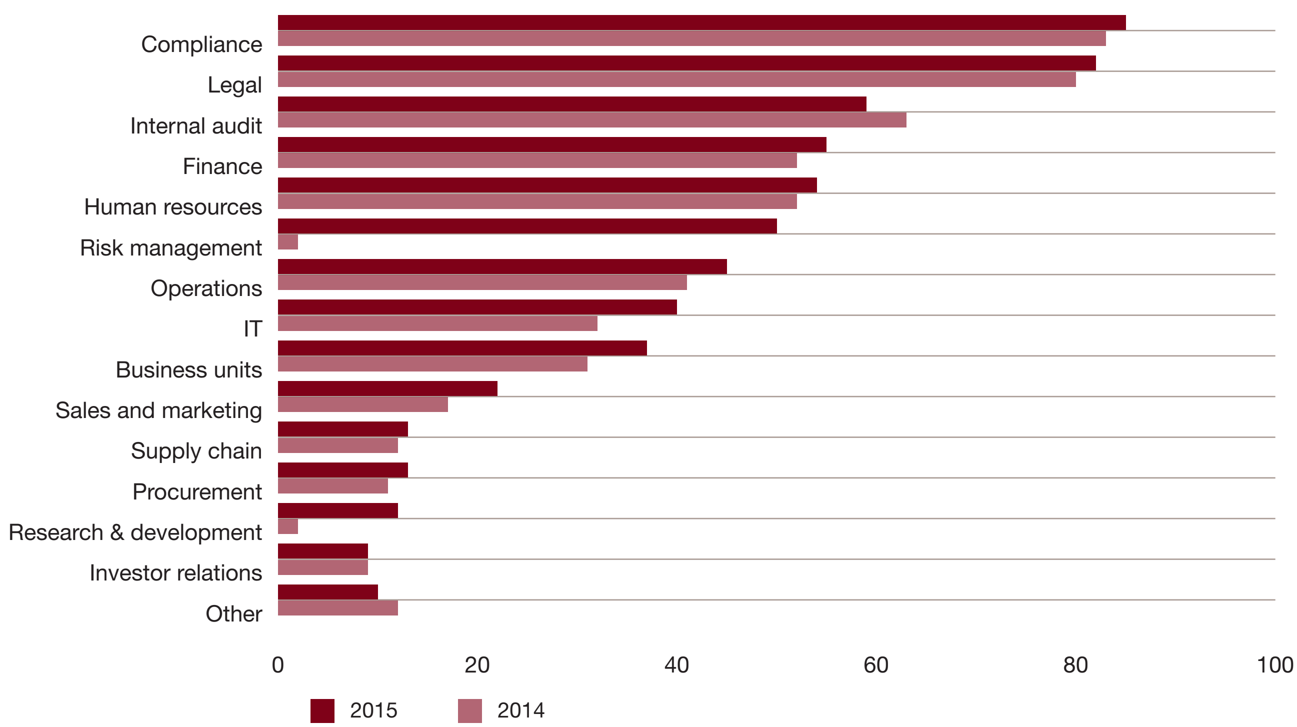
3 Collaborate with business owners of compliance obligations.

Once scope has been defined and communicated, the compliance function must make sure that all of the main compliance-related risks and activities across the organization are being managed effectively regardless of where the compliance function sits within the organization. It requires collaborating with the business, where the vast majority of compliance obligations are typically managed. Mechanisms must be in place to facilitate collaboration and coordination of activities between the central compliance function and compliance owners within the business, and clear accountability for compliance obligations must be demanded throughout the organization.

Many areas require collaboration to ensure that critical risks get managed effectively. Consider cybersecurity, a high-priority issue for many organizations. The technology or security officer typically owns cybersecurity risk, but because it is a complex issue, its many different elements are usually managed by many different players, from compliance officers and business managers to the legal department—often with little or no coordination.

Such lack of coordination creates gaps that cybercriminals can exploit. And indeed, respondents to our 2015 Global State of Information Security Survey reported that the number of detected incidents had soared to almost 43 million, a 48% increase over 2013. As incidents increased, so did costs: the total financial losses attributed to security compromises rose by a third (34%) in 2014 compared with the previous year[4].

Q *Which of the following departments or functions serve on the compliance committee?*



[4] PwC, *The Global State of Information Security 2015*

Rethinking siloed approaches

The rising incidence and cost of security breaches have made many companies rethink their siloed approaches to managing cybersecurity. Effective management of cybersecurity risk requires collaboration among teams that have technology acumen, legal knowledge, compliance expertise, risk management experience, and business understanding. It requires a federated model with, for example, the information technology and legal departments, the compliance function, business managers, and external stakeholders all working together effectively to protect the business.

Supply chain risk is another area of concern—especially for companies that plan to expand into new geographies—and another area that requires collaboration with the compliance function. Supplier or third-party compliance has risen rapidly as a top future perceived risk, with 22% of respondents placing it among their top three future risks—double the percentage who gave it that ranking in 2014. This important risk area is often shared among several competencies—such as the compliance function, procurement, distribution, and supply chain managers—as companies struggle to manage a wide range of vendor resiliency, compliance, and related business continuity risk.

Who is managing the organization's critical risks?

Despite the growing threat of supplier problems, supply chain personnel are represented on compliance committees only 13% of the time—a minimal gain over last year's 12%. Is this high-priority issue being managed elsewhere, and if so, does it involve a collaborative relationship with the CCO? We hope the answer to both questions is yes and that the CCO is engaged appropriately, even if supply chain risk is managed or overseen outside the traditional compliance committee structure. But the absence of supply chain representation on the compliance committee makes this difficult to determine from our data.

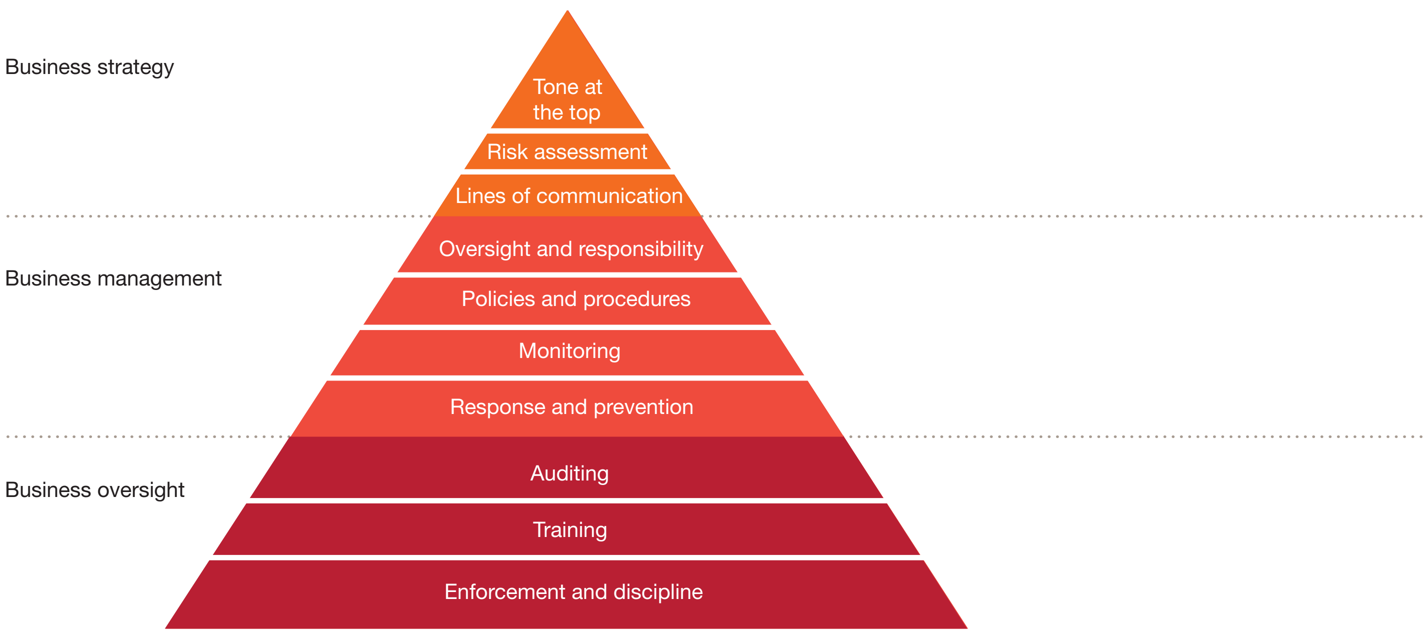
Supply chain is just one example. We also continue to see other high-risk areas (e.g. sales and marketing, procurement, and R&D) not represented on most compliance committees. If compliance risks in those areas are not being addressed by business representatives on the compliance committee, where are the risks being managed? And is the compliance function overseeing the management of those risks? If not, how can the company be sure that all compliance owners are following a shared framework and that risks are being managed effectively?

Providing a framework for business owners

We're not suggesting that supply chain, cybersecurity, and other critical risks should always be the direct responsibilities of the compliance department, but we do suggest that management and oversight of such risks be considered and addressed proactively. The compliance function should develop a framework that helps the business manage compliance issues and that provides oversight to ensure the framework is being adhered to.

A compliance framework (see Figure 2) gives a structured approach to the management of individual risks (e.g. fraud, corruption, privacy and security risk). Among other things, a framework should encompass policies and processes; monitoring that facilitates timely oversight and ensures that processes are achieving stated goals; and auditing that makes sure processes get implemented as designed. A compliance framework for all business owners of compliance responsibilities helps ensure a consistent approach to risk management. In our experience, such a framework can be an effective tool that CCOs can use to engage with their business peers throughout the organization.

Figure 2: PwC's compliance framework, which maps to Federal Sentencing Guidelines



The compliance function should develop a framework to help the business manage compliance issues. The framework is an effective tool that CCOs can use to engage with business peers throughout the organization.

4 Evaluate and potentially reimagine the identity of their function.

"Most individuals see the CCO as the bad guy [who is] around only when something is wrong."

—2015 Survey respondent

Hyperregulation is sometimes viewed as the greatest threat to business growth, but it also represents the biggest opportunity for CCOs to assert the value of the compliance function within their organizations. With risk increasing, change accelerating, and regulations multiplying, the opportunity for CCOs to elevate the profile of the compliance function—and their own status in the organization—has never been greater. And in our view, the CCO's role and the role of the function will grow even more important as business and regulatory environments become more closely connected in the coming years and the penalties for getting it wrong both tactically and strategically increase[5].

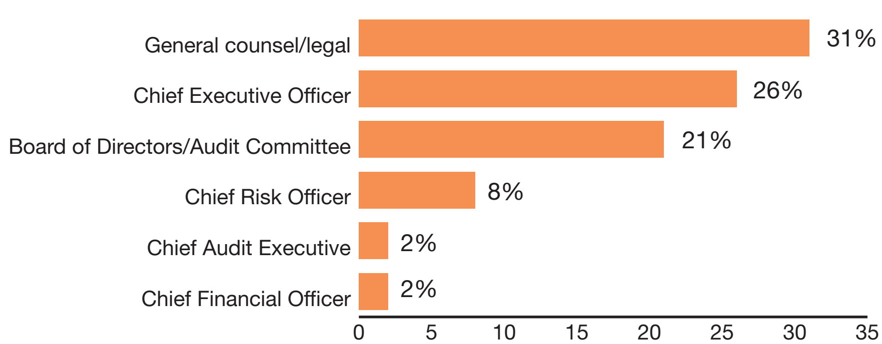
With risk increasing, change accelerating, and regulations multiplying, the opportunity for CCOs to elevate the profile of the compliance function—and their own status within the organization—has never been greater.

Overcoming barriers to a more strategic role

Narrow focus on the legal aspects of compliance

Even though we envision a more strategic role and a stronger identity for the compliance function of the future, in many organizations the clear functional focus remains largely on the legal aspects of compliance. This makes sense and is explained partly by the fact that at many companies, the compliance function continues to sit within the legal department. This year's State of Compliance data indicates that the compliance function skews even more toward legal than we may have expected, because the general counsel is the de facto CCO at 48% of companies that do not have a named CCO, as shown in the following graphic. Named compliance chiefs report to the general counsel at roughly one-third of companies we surveyed (31%) and report to the CEO

Q ***To whom does your chief compliance officer or chief ethics and compliance officer (CECO) report?***



[5] We discuss in detail why the CCO's role in strategy will become increasingly important in the coming years in "*The surprising truth about the C-suite star of 2025*," Resilience: A journal of strategy and risk, PwC, 2014

at 26% of companies. In many cases, CCOs who report to the CEO are dual hatted; that is, they're both general counsel and CCO.

Having the compliance function reside within the legal department may well be a pragmatic solution for some companies, and there are advantages to that model. For instance, many compliance subject matter experts reside in the legal department, which may make compliance management more efficient.

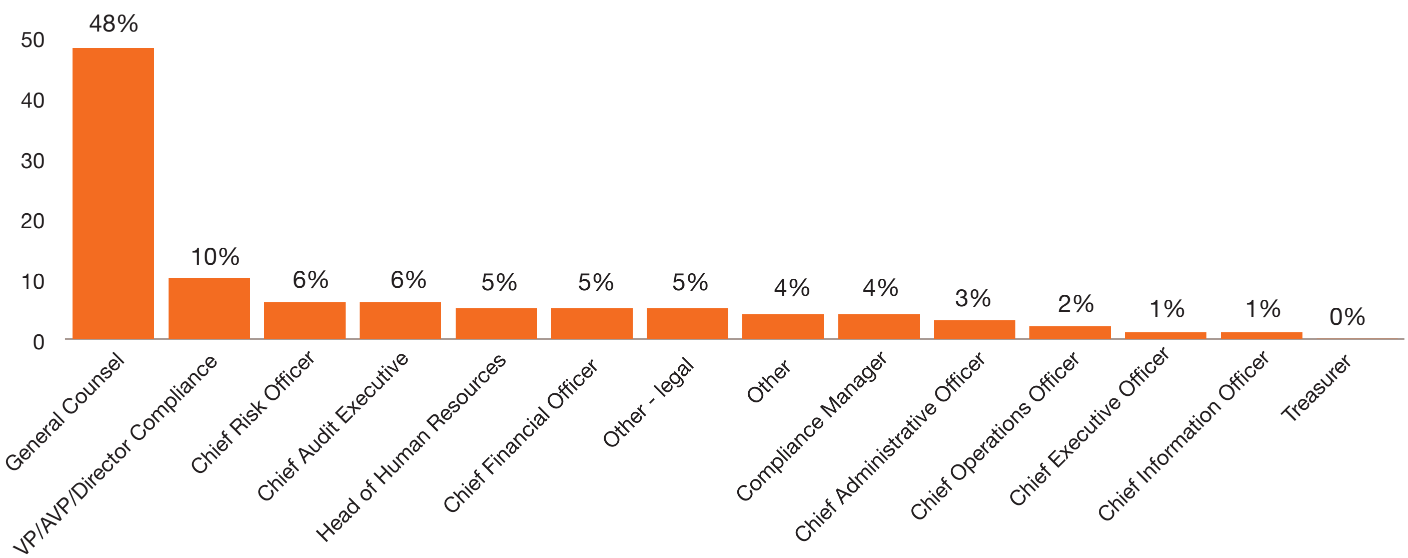
That said, we have noted the benefits of expanding the compliance function beyond its traditional focus on the legal aspects of compliance, which may be more difficult to do when the function is housed in the legal department. General counsel and other company legal representatives are rightly focused on protecting the business. However, it's not hard to see the natural tension that this model presents, because the need to protect the business is balanced against the need for compliance transparency. As one respondent stated, "We need to be sure that raising awareness and communication of compliance concerns are not suppressed by the legal function due to concerns about increasing legal risks and maintaining attorney-client privilege."

In a perfect world, we would recommend that the compliance function be a stand-alone group that reports to the CEO and has a dedicated, executive-level CCO. That closer link to the CEO's agenda would enable the CCO to be more proactive and engaged in strategic decision making. By contrast, if business managers view the compliance function as a legal watchdog, it may be harder for them to view the CCO as a strategic partner who can provide valuable insights. Compliance chiefs who sit in the legal department should recognize the added challenges they face in contributing strategic insights to the organization.

Lack of compliance team diversity in skill areas, experience, and operational backgrounds

Regardless of where the compliance function resides in the organization, we continue to see the same types of skills and experience represented in the function—namely, compliance, ethics, and legal. Data analysis experience, technology acumen, business operations experience, industry expertise, and other skill sets

Q *Who functions as your organization's compliance officer?*



and backgrounds that could make the function more well rounded—and better able to contribute to corporate strategy—are still not as well represented as they should be in today's compliance departments. That said, 55% of respondents indicated that their compliance departments include members with industry expertise and business operations experience, each of which is very helpful in ensuring that their compliance programs are meaningful and relevant to the business.

The composition of compliance teams varies depending on the extent of regulation. The majority of companies in regulated industries have more-diverse compliance teams that incorporate ethics, legal, audit, regulatory, and industry experience. By contrast, compliance functions in less-regulated organizations are typically composed mostly of individuals who have legal and ethics expertise, with other types of expertise represented in only about half of the less-regulated companies we surveyed.

Broadening the mix of compliance talent

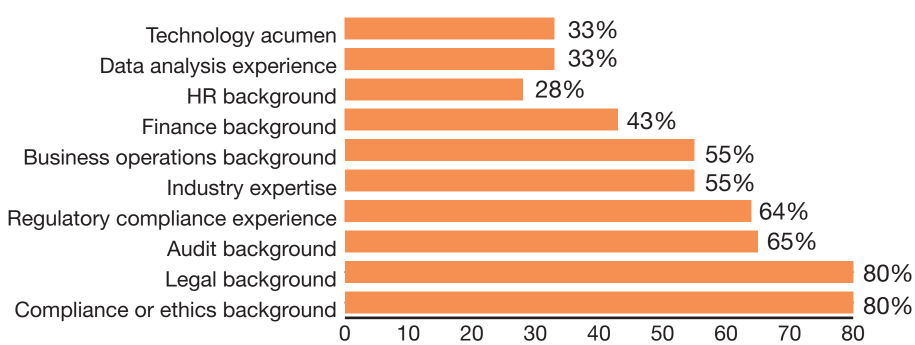
To raise the profile of the compliance function in the eyes of business leaders, CCOs should broaden the mix of talent on their compliance teams. With compliance becoming more complex and more critical to executing business strategy, CCOs would do well to add resources with business, sector, complex data analysis, and technology skills and knowledge to their teams. Doing so will help the compliance function play a more strategic role in the organization. After all, it's the people in the department who help drive the function's identity across the company.

In some industries, the traditional skill profile of CCOs themselves may have to change as well. For instance, compliance functions in the financial services industry have ballooned in size in the past few years, and the function has had to manage large projects, such as remediations and lookbacks. That puts CCOs with heavy change management experience and experience in leading large organizations at a distinct advantage. We're likely to see that evolution in skills continue as the regulatory environment becomes more and more complex.

To establish the compliance function as a dynamic and vibrant option that will attract top talent—the stars of the future C-suite—CCOs should consider new ways to expand career opportunities for their staffs. Some CCOs admit there's a challenge in positioning the compliance function as a desirable option for potential recruits. One respondent noted: "Ethics and compliance [E&C] is not viewed as an attractive functional rotation. In order to recruit talent, E&C must be able to demonstrate that people can come in and get promoted back to the business." Another respondent said, "I suggest mandatory rotation into the compliance functions at all levels in the organization before general management roles at the different levels in the organization can be assigned."

Those suggestions may be worthy, but our survey shows that most companies aren't taking steps to recruit qualified candidates. In this year's survey, we asked how organizations are attracting talent. The primary approach is to offer competitive compensation and benefits. We saw limited evidence that companies are considering other, innovative ways to attract and retain the talent required to establish effective programs and bring a broader perspective to the

Q *Which of the following skillsets and experiences are represented in your organization's Corporate Compliance function?*



function. For instance, only 23% are establishing formal career paths from key compliance roles to senior-level positions; only 13% are actively recruiting talent from targeted undergraduate and graduate programs; and only 9% are offering attractive tours of duty for compliance personnel into the business.

Forward-thinking CCOs can capitalize on these survey findings by developing more innovative ways to recruit talented candidates for their compliance teams. If they did so, they could gain competitive advantage in the talent market.

objectives. Building a more diverse team that includes business, sector, and technology skills and knowledge will signal that the compliance function is not just a legal watchdog but also a strategic partner focused on business outcomes, and that will help gain support from the C-suite.

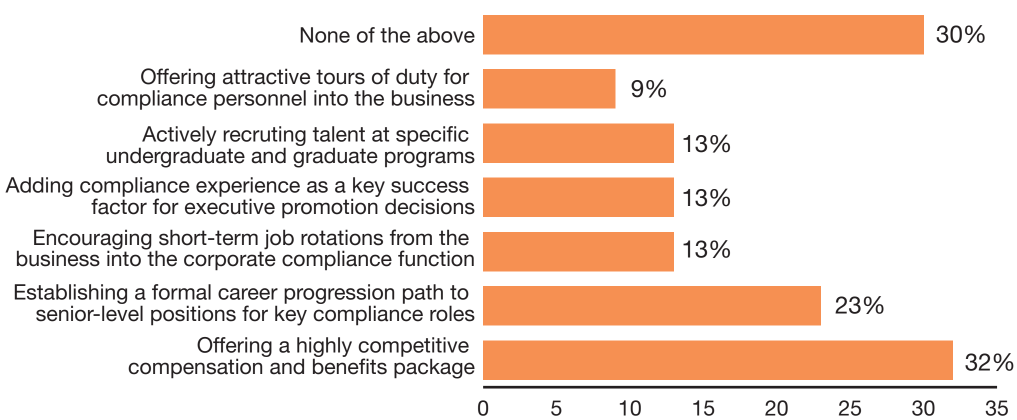
To raise the profile of the compliance function further, CCOs should seek to build trust and nurture strategic partnerships with business leaders throughout the organization. In addition, they must continue to explore ways of establishing the value of the compliance function in moving the

examine and mitigate compliance-related risks could severely limit the company's ability to grow profitably and compete effectively.

We recognize that at many organizations, the CCO may not have a seat at the table today. But we also hear consistently, across sectors that CCOs may not want that seat, because staff reductions and increased duties have combined to make their jobs more difficult, leaving little time for playing that more strategic role.

We believe CCOs should advocate for a seat at the table, but we recognize it

Q *What actions, if any, are you taking to attract talent to compliance roles within your organization?*



Gaining C-suite support

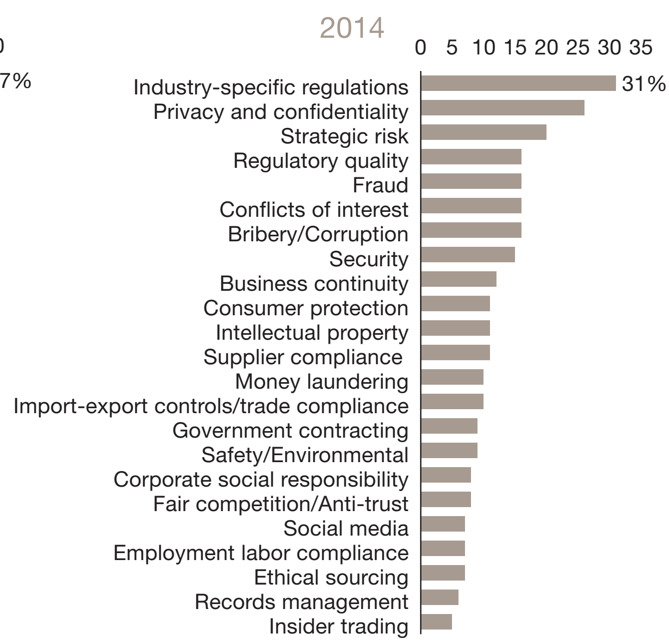
CCOs should view the current environment as an opportunity to strengthen the identity of the compliance function by articulating to the CEO how the function can help the company achieve its strategic

business forward and supporting growth goals in an ethical, cost-effective, and efficient manner—above and beyond the value of keeping executives out of jail and the company out of the headlines. And they must communicate the fact that failure to

may not always be possible, depending on the level at which the compliance function resides in the organization. That level depends heavily on the sector and the regulatory environment. Nevertheless, if CCOs do not feel comfortable asking to play a more strategic role, it could be that senior leaders, focused more on growing revenue and less on support functions, are not taking advantage of the full potential of the compliance function to help the company achieve its strategic objectives. In an era of growing complexity and increased business risk, a strong compliance leader is a major asset to any business.

By establishing better clarity over the scope and roles of the compliance function and by collaborating with business owners of compliance obligations—two key imperatives we discussed earlier—the CCO will come to be viewed as a trusted broker of knowledge of all compliance risks and thus become inherently more relevant and useful to the CEO. To further gain C-suite support for a more strategic role for the compliance function, CCOs should focus on the key compliance issues that are also top of mind among CEOs. For instance, data security (new to this year's survey) far outpaced other areas as a perceived future risk, with 47% of respondents including it as a top three risk. This aligns with the PwC 2015 Global CEO Survey, which shows that 61% of CEOs globally are "somewhat" or "extremely" concerned about cyberthreats, including lack of data security.[6] By engaging with the CEO in a conversation about this or other critical risks and about how the compliance function can help manage them, CCOs can begin to demonstrate the strategic value the function offers.

Q ***Please select your top 3 areas in terms of future perceived level of compliance-related risk to your business over the next 5 years (i.e. to 2020)?***



[6] *A marketplace without boundaries? Responding to disruption*, 18th Annual Global CEO Survey, PwC, January 2015.

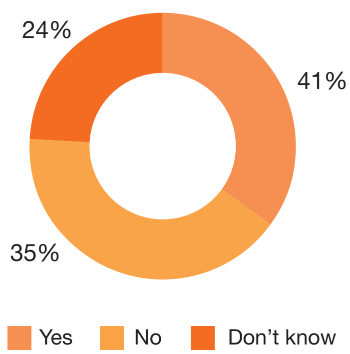
5 Explore ways to increase operational efficiency and effectiveness.

In a challenging revenue environment, some compliance organizations (including 8% of our survey respondents) have seen budget reductions, even as regulatory requirements are increasing. To meet the growing number of demands they face while keeping costs in check, compliance teams must search for ways to increase operational efficiency and effectiveness.

There continues to be a drive, across all areas of the business, to understand and align value for spend. However, defining what is included in overall compliance spend is difficult, because compliance scope and activity are defined and executed differently at different organizations.

Compliance, for example, can be defined as activities connected with the act of complying with laws and regulations, or it can mean money spent responding to compliance issues. Compliance costs can be categorized into a number of buckets, including affirmative spending on compliance activities (some required, others preventive) and defensive spending associated with handling acute noncompliance issues and cost avoidance (e.g. fines avoided). But even these buckets can vary.

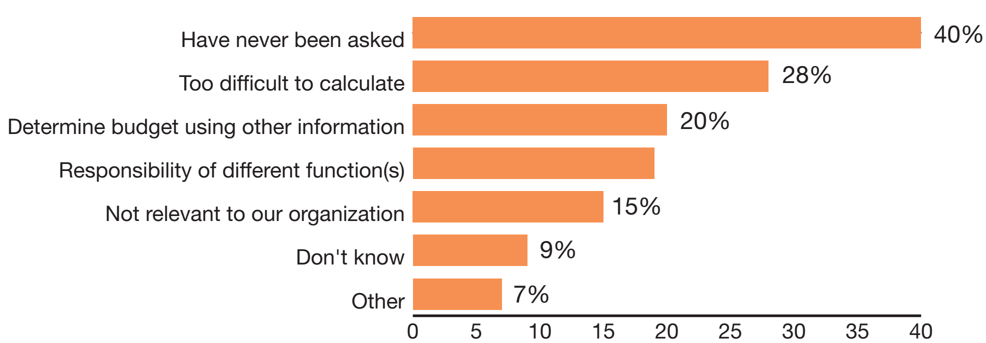
Q *Does your Chief Compliance Officer/ corporate compliance function actively measure compliance cost to your organization?*



Q *What elements does your corporate compliance function consider to help define aggregate compliance cost when determining budgets or articulating program value?*

Direct operating costs	74%
Compliance-related initiatives	69%
Systems and tools	57%
Third party (e.g. contingent workers, contractors, consulting fees)	55%
Indirect operating costs	51%
Direct cost of non-compliance	36%
Other	2%
Don't know	12%

Q *Why doesn't your corporate compliance function actively measure aggregate compliance cost?*



In part due to these challenges, our survey results show that only 41% of CCOs measure compliance cost, whereas 35% do not even attempt to do so. But despite the difficulties, it's important to identify areas where compliance-related costs could be better managed, as our 2015 CEO Survey shows that CEOs continue to view cost reduction as a high priority.[7]

Gaining efficiency in three areas

Given the complexity of operating in numerous jurisdictions, the fact that only 33% of compliance departments have budgets greater than $1 million and that compliance budgets did not increase as much last year as in prior years, direct cost reductions will be difficult. We believe there are opportunities to be more productive and gain cost efficiencies in three key areas:

- Risk identification and assessment
- Compliance monitoring and testing
- Technology solutions

Risk identification and assessment

A majority of companies (67%) conduct compliance risk assessments annually; only 11% of companies indicated they conduct assessments less frequently. More than two-thirds of companies (67%) engage with senior stakeholders to conduct risk assessments—an approach we believe all compliance functions should follow. Many companies follow a variety of other practices as well, such as analyzing business compliance key performance indicators (KPIs) and conducting focus groups.

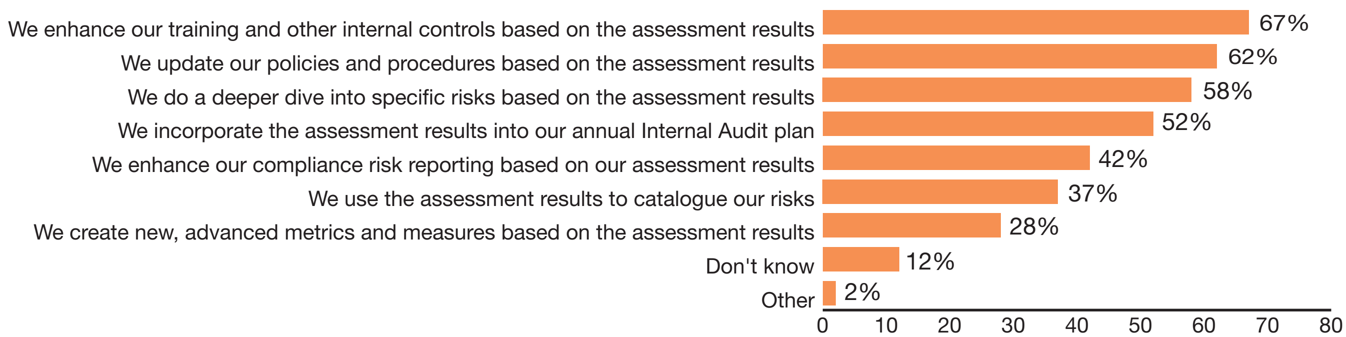
Most companies are conducting compliance risk assessments at the right frequency level, but they're not necessarily using the results to determine whether compliance risks are increasing or decreasing—information that is needed to support the business strategy. Instead, many companies use the results for training and internal controls, for updating policies and procedures, and/or for updating internal audit plans.

Q *How do you conduct your compliance risk assessment?*

[7] *A marketplace without boundaries? Responding to disruption*, 18th Annual Global CEO Survey, PwC, January 2015

Q

How does your organization use its compliance risk assessment results to effectively manage risk?



This year, we explored how multiple types of risk assessments get managed in organizations, because we've found in our work with clients that many companies struggle with siloed, uncoordinated, and overlapping activities in this area. The compliance function is more likely to manage regulatory compliance and ethics risk assessment activities than to manage activities associated with fraud, enterprise resource management, and cultural assessments. The data indicates an even split among organizations that integrate many of those activities and organizations that manage them as wholly separate activities. We also learned that companies may be conducting at least six separate compliance-related risk assessments, suggesting a lack of coordination and collaboration that may be frustrating to business partners who are tasked with responding to multiple requests for similar information. From a compliance and business performance perspective, we advocate closer collaboration and more integration of compliance-related assessments so as to help drive efficiency and reduce costs by eliminating overlapping and redundant assessments.

Compliance monitoring and testing

We continue to note a growing need for increased monitoring and testing around compliance-related issues—in part to demonstrate the ongoing effectiveness of compliance initiatives and activities. The challenge continues to lie in ways to execute efficiently and effectively. Business owners should be monitoring their compliance management activities and reacting in real time to changes or threats. But the way they do that, the efficacy of their efforts, and whether and how that activity gets tracked and communicated back to compliance are less clear.

In addition, due to the wide array of compliance management activities taking place across organizations, centralized testing of effectiveness (which would also increase efficiency) remains a significant challenge. It's partly because, for many businesses, the activities that require monitoring and testing occur in the field and are therefore difficult to efficiently monitor and test from a centralized compliance function. That challenge is exacerbated because testing typically requires subject matter knowledge that the compliance department may not have, which could limit the effectiveness of testing.

We often see overlaps or gaps in the ways monitoring and testing are performed, which suggests an opportunity to gain immediate process efficiencies and drive further cost reduction. Today, robust compliance dashboards consolidate data in a manner that supports easier presentation and analysis of compliance data. Such technology could enable broader coverage of testing.

Whereas 44% of respondents fully outsource hotline intake, a minority of companies currently outsource monitoring (6%) and testing (10%). We are, however, starting to see that companies in certain sectors (e.g. financial services and pharma/life sciences) are beginning to outsource more activities in this space—to take advantage of specialist skill sets and dedicated resources. Real-time monitoring is the next frontier for compliance risk management, with companies in less-heavily-regulated industries poised to follow the lead of organizations in more-heavily-regulated sectors.

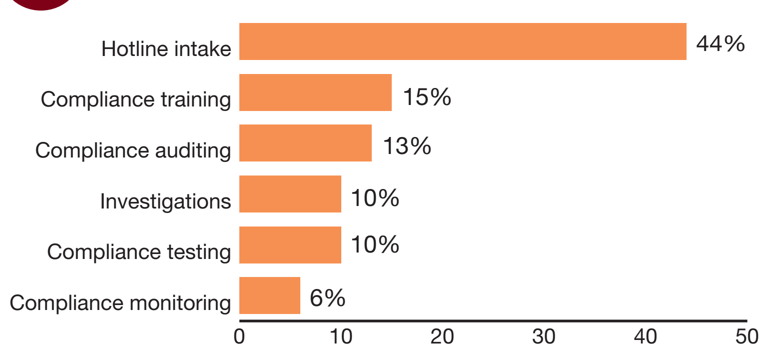
Technology solutions

In theory, technology can enable companies to increase the efficiency and reduce the costs of compliance management (and related governance and risk management activities) by automating and streamlining processes. However, the perception of many compliance professionals seems to be that governance, risk, and compliance (GRC) technology has not made great strides. Only 21% of CCOs we surveyed use a dedicated GRC tool. More than one-third of respondents (36%) say they're getting by with other in-house tools, and about one-quarter (27%) report that GRC technology is not a priority for them.

Technology has the potential to add significant value to compliance management, but the compliance function is struggling with how to extract that value from existing technology tools. One challenge is that although GRC tools work well with well-defined processes and clear requirements, often the compliance function or other departments rush to purchase a tool to drive efficiency before related requirements and processes have become fully understood and developed. In addition, it can be difficult to access the data needed to use the tools effectively—in part because the data is dispersed throughout the organization.

A bigger challenge, in our view, is that many organizations have not identified the data they need for measuring how well the business is managing compliance risk and how well the compliance function is contributing to other business-related objectives. Instead, many companies focus on the number of employees trained or the amount of call center volume. This focus tends to drive the tools the function requires.

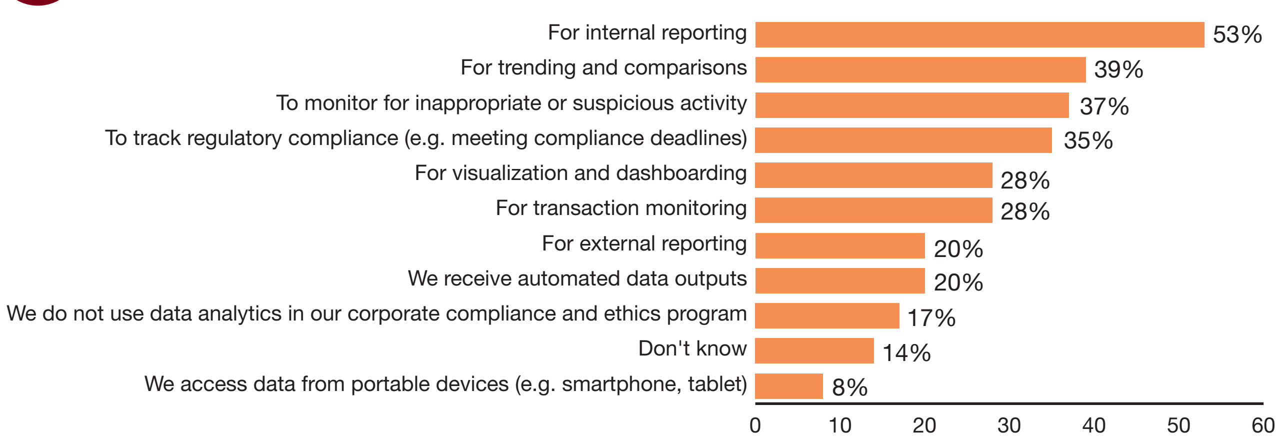
Q *Do you fully outsource any of the following?*



For technology tools to be useful, compliance teams need data that measures how well the business manages compliance risk and how well the compliance function helps achieve other business-related objectives. Traditional data, such as number of employees trained or call center volume, doesn't measure how well specific risks are being managed.

GRC tools may not be panaceas, but we're seeing growing use of data analytics tools. These new tools vary in complexity, are system agnostic, and can work with any data set. They include simple tools that can provide broader coverage—for example, testing a full, 100% of time and expense reports rather than a small sample; linking the reports with roles or locations; and searching for outliers. Such data analytics tools may provide quick efficiency gains for compliance functions—and at reasonable cost.

Q ***How, if at all, does your organization use data analytics in its corporate compliance and ethics program?***



Conclusion

With overregulation, cybersecurity, and other compliance-related threats to business growth top of mind among CEOs worldwide, the time is ripe for compliance chiefs to elevate their status within their organizations by demonstrating how the compliance function can help manage risks and contribute to achieving strategic goals.

Compliance with all applicable laws and regulations will always be a primary responsibility of compliance officers. But the compliance function can be so much more. By acquiring a deeper understanding of the business, forging relationships with key business leaders throughout the company, and contributing insights to help guide strategic direction and decisions, compliance professionals can transform their traditional identity as legal and regulatory watchdogs and come to be viewed by the business as strategic partners. By expanding their views of the role of the compliance function and the strategic value it can offer the business, CCOs can become valued members of the executive team—and future stars of the C-suite.

Top 5 ways compliance professionals can become C-suite stars:

1. Participating in strategy decisions, and proactively articulate to the CEO the strategic value that compliance can deliver.
2. Review the strategy plan and develop ideas for handling new or unusual compliance risks or for leveraging them to gain competitive advantage.
3. Forge close relationships with key business leaders throughout the company. Offer insights to help the business identify and mitigate risks related to compliance issues.
4. Define or redefine the scope of compliance across the organization and build partnerships with compliance owners within the business to ensure that all issues are being managed effectively.
5. Implement efficiency initiatives to improve the effectiveness of the compliance function and reduce compliance-related costs.

Contacting PwC

To have a deeper conversation about how compliance officers can expand their roles to become partners to the business, please contact:

Principal contributors

Sally Bernstein
Principal
(617) 530 4279
sally.bernstein@us.pwc.com

Andrea Falcione
Managing Director
(617) 530 5011
andrea.falcione@us.pwc.com

Supporting contributors

Barbara Kipp
Partner
(617) 530 4602
barbara.h.kipp@us.pwc.com

Michael Besly
Director
(408) 817 4197
michael.j.besly@us.pwc.com

www.pwc.com/us/stateofcompliance

pwc.com

© 2015 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the United States member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. 27900-2015 State of Compliance 2015