

What it means to be a “chief” compliance officer: Today’s challenges, tomorrow’s opportunities

State of Compliance
2014 Survey



Welcome

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2014 State of Compliance Survey at
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Welcome to our State of Compliance report for 2014—PwC's fourth annual survey designed to give corporate compliance officers the benchmarking data they need to understand common industry practices today, and to help plan for more effective and more efficient compliance operations in the future. Launched in 2011, this annual report aims to give leaders of the compliance function a thorough view into how their peers staff and structure their organizations, the scope of their responsibilities, the risks they target, the processes they use to manage their compliance programs, the resources at their disposal, and more.

In 2014, we again expanded the scope of our survey to include non-U.S. based companies, reflecting the multinational nature of many organizations today. Based on the overwhelming response to our 2013 survey, we revisited the findings and feedback and expanded the 2014 questionnaire. Our goal was to explore a wider range of issues confronting today's compliance organizations. We continue to evolve the survey each year, incorporating insights from the previous year while keeping core questions the same.

We have organized the responses into seven themes that focus on the current challenges Chief Compliance Officers (CCOs) face and how they can expand and redefine their roles to become more valuable to their organizations in the future.

We received 1,056 responses to our 2014 survey from compliance executives—a 35% increase over 2013. We believe the continuing year-over-year growth in study participation may be attributable, in part, to an increased focus on compliance as a function and on growing interest in the topic as a whole, as companies seek insight on effective compliance functions and the associated need for staffing and budgets.

Survey responses were broad-based, with participants from 20 industries¹ whose companies range in revenue from under \$1 billion to over \$25 billion, providing a comprehensive view of compliance in a wide variety of organizational settings. Many findings are consistent regardless of size and industry, but a number of responses differ across these categories, and we provide perspective about some of the differences in this year's report.

This report is part of a more detailed analysis that will include certain industry results in separate addenda. Once you have 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.

We hope you find the information in this State of Compliance 2014 survey report insightful and valuable. Our intention is that the report will serve as a useful tool to help you improve the effectiveness of the corporate compliance function within your organization.

Sincerely,

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1. Nine study participants listed "other" as their industry.

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Introduction

Compliance is at a tipping point. The role of the chief compliance officer has gained more prominence over the last decade and is evolving rapidly. Today's CCOs are in a position similar to that of CFOs 15 years ago, and face a similar opportunity and challenge: how to become a more strategic partner in the organization, a vital member of the C-suite.

Compliance officers have been tasked with an increasing number of responsibilities, have been asked to manage a complex variety of compliance risks and have exceeded expectations in many areas. CCOs' successes have often come despite a relative dearth of resources—in both monetary and human capital form. Although it may sound cliché, CCOs have done a yeoman's job in the face of many obstacles. Let's face it: it's difficult to be “chief” in the current environment. The business and regulatory landscape is becoming more complex, and management and boards are pressuring CCOs to deliver better information to help them identify and manage a growing list of organizational risks. Many CCOs are understandably challenged to meet the new demands placed on them.

To assume a more strategic role in their organizations, CCOs should engage with the business in more meaningful ways. They should strive to understand the needs of the business and the role of compliance

in helping to address them. To gain greater attention—and additional respect—of boards and senior management, they should make their reporting more relevant, moving beyond citing training and hotline statistics to demonstrating how the compliance function contributes to the successful execution of the corporate strategy.

Despite the obvious need for a strong compliance function in today's complex environment, our survey revealed that a significant percentage of companies—often smaller companies and those in less regulated industries—have not named a CCO. And in many organizations, the CCO has a dual role; often compliance is a secondary responsibility of the general counsel. When the CCO wears two hats, the primary role usually has significant time demands by itself,

naturally, non-urgent compliance issues often get relegated to the back burner, as one of our study participants noted.

On the other hand, we note that staffing and budgets are increasing, reflecting a growing recognition of the important role that compliance plays in a complex, risk-filled environment. Our hope is that CCOs will use some of the budget increase to build cross-functional teams as a way to become closer and more relevant to the business. The compliance function cannot fully evolve if CCOs continue to staff their teams solely with lawyers and compliance experts.

In our State of Compliance 2014 report, we explore these and other challenges facing today's CCOs, and we lay out our vision for the future of the role.

PwC's International Survey Unit conducted the State of Compliance 2014 survey in March 2014, targeting senior executives with responsibility for compliance, such as CCOs, chief risk officers, chief legal counsels, and chief audit executives.

The aim of this 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.

Respondents to the online survey included both PwC clients and non-clients. In total, PwC received 1,056 responses over a four-week period. We analyzed the results by industry sector and company size. Percentages may not add to 100 due to rounding and/or excluding “Don't Know” responses.

1 *A decade after the CCO role emerged, compliance officers still find it challenging to be “chief”*

The role of “chief compliance officer” is still in its relative infancy. Although the role barely existed a decade ago, it has evolved rapidly. Today CCOs are expected to oversee a broad range of compliance activities throughout the organization, and to provide the board and senior management with insights into the effectiveness of compliance programs, and their impact on the business. CCOs have enjoyed many successes in the past 10 years, but their expanding role does present a challenge.

Our survey suggests that the typical CCO focuses on areas that the compliance function has traditionally “owned,” such as detecting and preventing bribery and corruption and enforcing the organization’s code of conduct. Many compliance

officers are still evolving into the role of Chief—a title that implies an enterprise-wide focus and close integration with business operations.

Compliance must be linked more closely to the business

We often hear CCOs mention their desire to have closer ties to the business. For instance, in response to a survey question about what would make their jobs easier, one compliance professional cited “[i]ncreased ... collaboration between the business units and functions, and improving the understanding throughout the company that compliance is everyone’s responsibility,” while another respondent stated there is “a complete disconnect from the business line activities.”

Similarly, business unit leaders often tell us they are eager to have compliance professionals learn more about the business. But when CCOs do collaborate with the business, many tend to focus on the familiar compliance topics they have mastered, rather than on risks related to strategic goals or emerging compliance risks, such as those related to global expansion or fast-changing regulations.

This emphasis on familiar topics was reflected in our survey results. We asked compliance professionals what they view as the most important risks to their organizations today. The top three risks identified by respondents are the same as those cited in our 2013 survey. Two of the top three—privacy issues and bribery and corruption—are areas of risk that CCOs traditionally own. (The third is industry-specific regulations.)

Relatively few respondents ranked business-related risks, such as supplier compliance, ethical sourcing and social media, among their top three concerns. By expanding focus to include current and emerging risks to the business, CCOs have the opportunity to play a more strategic role in the organization, and enhance their profiles in the process.

CCOs continue to focus on risks in areas that the compliance function has traditionally “owned”

Q10a Please select your top 3 areas in terms of current perceived level of risk to your business?



Base: (1056, 781)

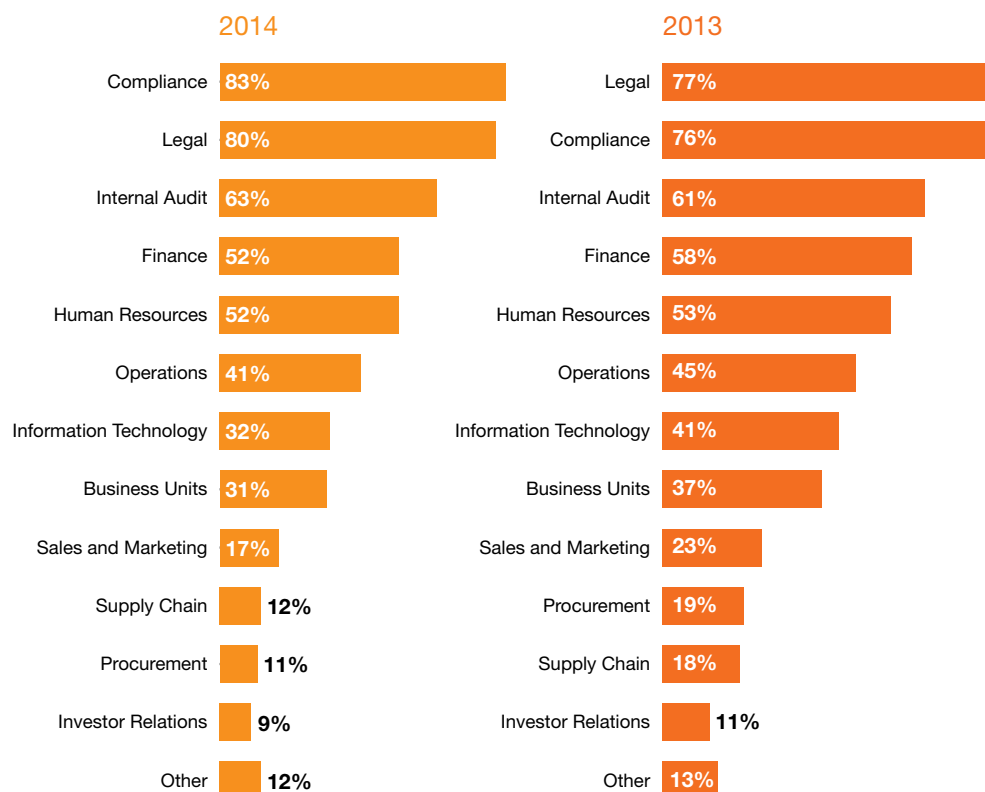
Expanding business representation could strengthen compliance committees and teams

The compliance committee can provide a path to integration of the compliance function with the business. But 36% of respondents indicated they have no formal committee. And among the two-thirds of companies which do, only 31% include the business units; committees are more commonly staffed with compliance, legal, and internal audit personnel. Including

representatives of the business on the compliance committee, and pursuing alternative opportunities to engage in more meaningful ways with business leaders (e.g. operations committees, or other business-focused initiatives) throughout the organization could strengthen the compliance function, making it more closely aligned with the organization's performance. This may require an expansion or shift in the agendas of the compliance committee meetings to make them more aligned with the priority issues on the minds of business leaders.

More than two thirds report that compliance, legal and/or internal audit functions are represented on the committee

Q6b Which of the following departments or functions serve on the Compliance Committee?





Becoming a “chief”: lessons from other functions

Chief compliance officers may benefit from observing their counterparts in other functions, such as CFOs and CIOs—titles with longer tenures as “Chief.” Following are five recommendations for CCOs, based on lessons from effective chiefs in other functions:



Cultivate the strong support of the CEO.



Maintain close working relationships with business leaders to gain an understanding of one another’s perspectives, identify points of collaboration and efficiency, and clarify roles in managing compliance and business risk.



Leverage innovation from other functions and/or companies (e.g., new uses of technology, improved processes).



Understand the organizational strategy and the broad range of risks associated with that strategy, beyond those risks which are the traditional focus of compliance. Determine how the function can support these goals while appropriately managing related compliance risks.

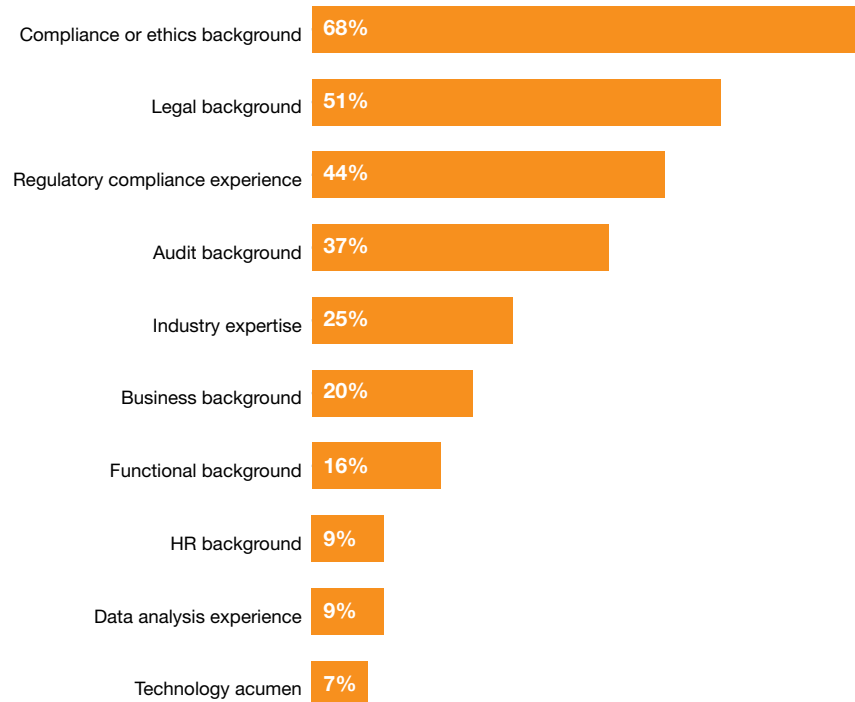


Recognize that compliance should be an enterprise-wide capability, with skills embedded in every department and function.

Hiring may also provide a path to integration with the business and represents another opportunity for CCOs to further strengthen the compliance function. Our survey revealed that compliance chiefs tend to build homogeneous departments staffed primarily by attorneys and compliance professionals. Only 20% of respondents cited “business background” as a top three criterion for hiring. In addition, only a relative few cited “data analysis experience” (9%) or technology acumen (7%), both of which are essential to identifying and managing risk across the organization and building a more strategic compliance function. By expanding their hiring criteria to include such essential skills and backgrounds, CCOs can help enhance their core capabilities and gain a deeper understanding of compliance risks in the context of business performance.

CCOs tend to look for compliance and ethics experience or legal backgrounds when hiring. Adding business and technology acumen could further strengthen the compliance team

Q8 What are the top 3 skill sets/experience you look for in a candidate when hiring for the corporate compliance function?



Base: (1,056)

2 Who's playing catch-up? Which companies have CCOs, and why all companies could benefit by following the leaders

The majority of respondents (69%) reported that their organization has a chief compliance officer, but a significant number of companies are still playing “catch-up”: close to one-third of respondents—many of them in smaller companies or less regulated industries—said they do not have a CCO. The percentage of participating companies without a CCO increased by 10% over 2013, which seems surprising on the surface. But, a closer look at the data, which shows an increase, on a year-over-year basis, in participation by smaller companies, explains the change. Smaller companies are, not surprisingly, less likely to have a CCO.

We are certainly not witnessing a rush by companies to shed the role of CCO. Quite the contrary, we are assisting a growing number of organizations as they begin to ramp up their compliance programs, structures and functions. In fact, we believe that the

35% growth in study participation this year (1,056 companies, versus 781 in 2013) may be attributable, in large part, to companies participating as a benchmarking exercise to support the need for a compliance function, or an increase in compliance staffing and budgets.

Large companies and heavily regulated industries are more likely to have CCOs.

Not surprisingly, larger organizations are more likely than smaller ones to have a CCO. While 88% of respondents in companies with annual revenues of US \$25 billion or

Larger organizations are more likely than smaller ones to have a CCO

Q3a Does your organization have a Chief Compliance Officer/Head of Compliance?

	Yes	No
Less than than \$1 billion	58%	42%
Between \$1 billion and < \$5 billion	63%	37%
Between \$5 billion and < \$25 billion	76%	23%
\$25 billion or more	88%	12%

Base: (226, 393, 298, 136)

more have a CCO, for companies with less than \$1 billion in revenues, the figure is 58%.

It was also no surprise to us that companies in heavily regulated industry sectors are much more likely to have a CCO (86%) than companies in less regulated sectors, such as retail and consumer, manufacturing and technology (54%).² In addition, heavily regulated companies are almost twice as likely as their less regulated counterparts to have separate compliance functions (56%

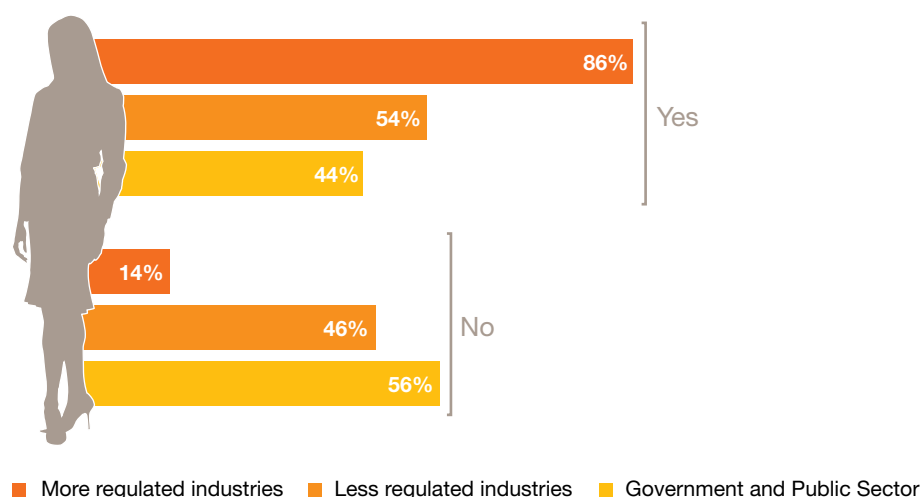
vs. 29%)—another finding that was not unexpected. Highly regulated industries have a clearer mandate and business case for having a stand-alone compliance function. They have been in the “business of compliance” longer than their less regulated counterparts and, over time, have gained insight into what regulators are looking for—including a stand-alone compliance function with a named CCO.

While we were not surprised to learn that many smaller companies and organizations in less regulated

industries have no CCO, we encourage them to consider establishing this role. In our view, given today’s complex business and regulatory environment, all companies, regardless of size or industry sector, could benefit by naming a chief compliance officer. In addition, companies in the government’s crosshairs, without a named CCO, often find themselves later required to establish and maintain a CCO function. Proactive leading-practice compliance governance may pay dividends in the future.

Organizations in more regulated industries are more likely to have a CCO than those that are in less regulated industries

Q3a Does your organization have a Chief Compliance Officer/Head of Compliance?



Base: (517, 537, 25)

Base size for Government and Public Sector is indicative only.

2. For purposes of this report, we consider the following sectors/industries to be “heavily regulated”: financial services, healthcare, energy and utilities, insurance, and pharmaceuticals. The sectors/industries we classify as less regulated include, but are not limited to, retail and consumer, manufacturing, and technology. (Although we classified sectors as more or less regulated, it’s important to note that all companies are subject to some level of regulation; it’s merely a matter of degree.)

Title and reporting structure may reflect the value of compliance to the organization.

To get a general sense of the value an organization may place on the compliance function, it helps to understand the job title of the compliance leader, as well as the compliance reporting structure. We asked our study participants about the titles of their compliance leaders and received a range of responses, from “director” to “executive vice president.” Only 26% of respondents indicated that their head of compliance is a C-level executive. We expect this percentage will increase over time as more organizations come to recognize the value of compliance as an enabler. That is, compliance is a core competency which must be well executed to enable the business to achieve its goals within the confines of the myriad rules and regulations to which it must adhere.

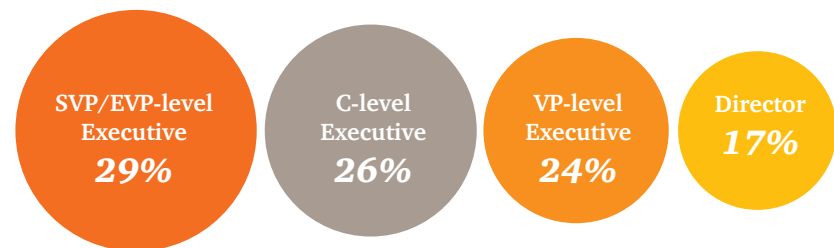
We also learned that 79% of compliance leaders are at least at the level of vice president. Overall, only 34% of respondents indicated that the person most responsible for compliance reports formally to the CEO, however. While this represents an increase over the 2013 figure (27%), many of these CCOs are general counsels who wear two hats, which may make it more difficult for them to devote sufficient time and resources to creating a more strategic compliance function that is aligned with business performance.

Almost 80% of the job titles of those who lead the compliance function are VP or above

Q3c What is the job title of the person with most responsibility for compliance?

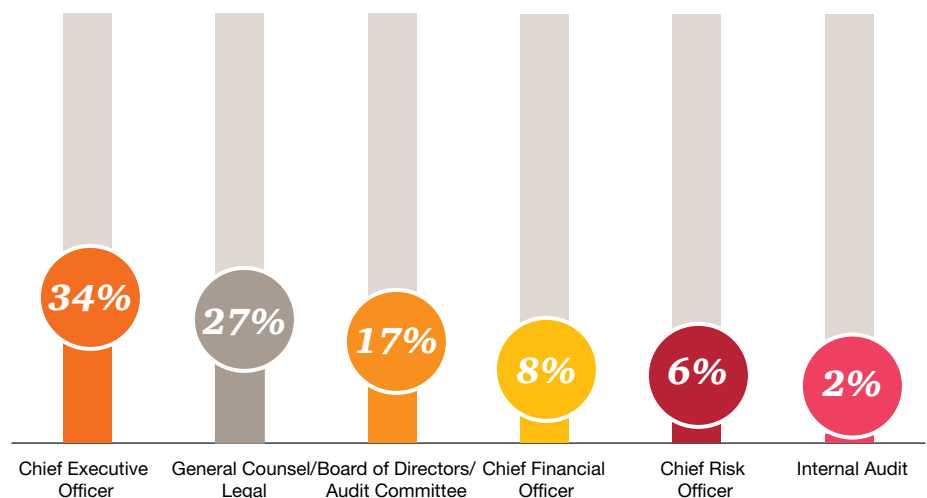
29%

of those with most responsibility for Compliance **are SVP/EVP-level Executives**, while 26% are C-suite.



Respondents who have a Compliance Officer or function for Compliance
Base: (1,056)

Q4 To whom does the person with most responsibility for compliance formally report in your organization?



Base: (1,056)

3 *When the CCO has a dual role, devoting enough time to compliance responsibilities is a challenge*

54

Percentage of respondents that said the CCO wears multiple hats

45

Percentage of those CCOs that report to the CEO

In 2014, we took a closer look at the role of the CCO and found that, in many companies, compliance is an add-on responsibility for another function. More than half of respondents (54%) said that the person most responsible for compliance wears multiple hats. Often, this person is also the general counsel.

Whether the CCO has a dual role varies widely by sector. In less regulated industries, more than two-thirds of compliance officers (69%) have a dual role. By contrast, CCOs in heavily regulated industries are twice as likely to be in a dedicated role (62% versus 31%), which is not surprising, considering that heavily regulated industries tend to be higher on the compliance maturity curve.

Chief compliance officers who wear two hats are more likely to report to the CEO (45%) than are CCOs in a stand-alone role (38%), signaling that, for many organizations, the CCO

role by itself may not be viewed as sufficiently strategic to the business to warrant admission to the C-suite.

Is compliance front and center?

When compliance is an add-on responsibility for another function, it may not receive the attention it requires. As one respondent noted: “Since I wear multiple hats, it’s sometimes challenging to spend as much time on compliance-related activities as I would like. Our compliance challenges are important, but not always urgent, which means that they get back-burnered on a regular basis.”

Time constraints are not the only reason that organizations may want to consider establishing the CCO as a stand-alone function. In various deferred prosecution agreements, corporate integrity agreements and similar settlements, the federal government has required that the CCO neither be nor report to the

general counsel or the CFO. Should a company be subject to a federal investigation of a compliance failure—a possibility that is growing in tandem with regulatory complexity—it could be subject to more significant penalties or, at the very least, additional scrutiny if the CCO is not in a dedicated role.

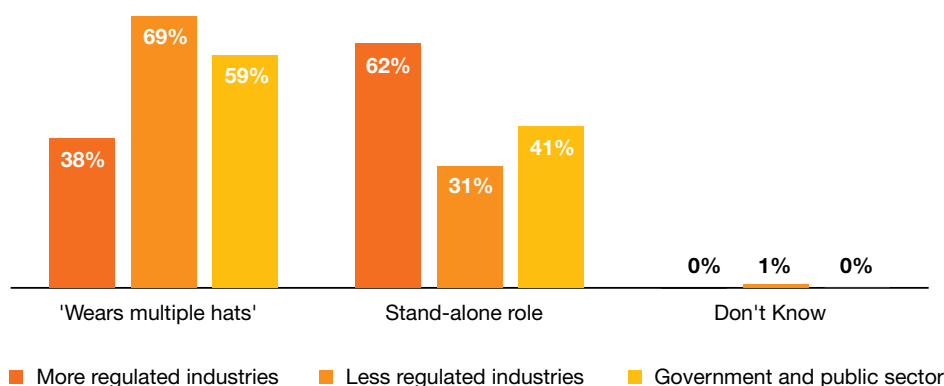
Federal guidelines aren't the only reason to establish the CCO as a stand-alone role.

Federal guidelines aside, there's an inherent difference between the roles of CCO and general counsel. These roles have distinctly different objectives: the CCO should be charged with and empowered to reveal issues—and may even advocate disclosing to, and cooperating with, the government in certain instances. In the same situation, the general counsel's responsibility is to rigorously defend the company and, potentially, assert the safeguard of attorney-client privilege. When the CCO is also the general counsel, it may be challenging to manage those often conflicting goals.

Despite what we believe is a strong business case for establishing the CCO as a stand-alone position, it is clear from the responses that many organizations aren't there yet. Some of these companies may not view compliance as strategic to their business and may prefer to invest their limited resources in other areas. In some cases, it takes a significant compliance failure—and a substantial fine—to drive home the wisdom of wearing just one hat.

There's wide variation in the job titles of those who lead the compliance function

Q3d Is the position of the person with the most responsibility for compliance a stand-alone role, or does s/he 'wear multiple hats'?



Base: (513, 521, 22)
Base size for Government and Public Sector is indicative only

4 *CCOs can help win greater attention of the board and senior management by being more strategic in their compliance efforts*

Although the role of CCO has taken on more significance in recent years, CCOs often struggle to gain the attention of the board of directors and business leaders. One respondent suggested that “[i]ncreasing [the] board’s involvement will contribute to [our] compliance program’s effectiveness.” Another cited the objective of aligning “ethics and compliance with corporate goals.” To achieve these goals, CCOs should deliver the information and value that boards and senior management need to effectively execute on business strategy. For example, CCOs should partner with the business (and report to the board) by proactively evaluating compliance-related risks—and developing associated risk

management controls, education and tools—before the company moves into a new geographic market, makes an acquisition or develops a new product or service.

Training statistics may not convey how the compliance program is helping the business.

What are CCOs reporting to the board and senior leadership? In our experience, the most commonly reported information includes the number of employees trained, hotline statistics and an inventory of compliance risks. This information, while important, does not necessarily help the board and senior management to understand

the impact of risks on the execution of corporate strategy, nor does it convey whether the compliance program is working, and whether it is helping the organization to achieve its strategic objectives. These statistics are, however, incredibly helpful in managing the compliance function and in monitoring certain types of risk management and should obviously not be abandoned.

To increase the board’s involvement, CCOs should show the linkage between compliance and issues about which the board is focused. For instance, a recent PwC study on board governance suggests that strategic planning is the number one issue of concern to boards, while risk

CCOs can gain the board's attention by reporting on priority issues of directors

Directors: How would you currently describe the importance of adding directors with the following to your board?—ranking based on those responding “very important”

Investors: How important are adding the following director skills and attributes to the composition of corporate boards?—ranking based on those responding “very” or “most important”

Board priorities relative to investor expectations

Directors		Investors
Strategic planning	1	Risk management
Succession planning	2	Strategic planning
IT risks	3	Executive compensation
IT strategy	4	Succession planning
Risk management	5	Crisis management/planning
Crisis management/planning	6	Regulatory compliance
Executive compensation	7	Bribery and corruption concerns
Regulatory compliance	8	Insider trading concerns

Base 1,056

Source: PwC's Centre for Board Governance 2013

management tops most investors' minds. Regulatory compliance is not high on the list of priorities for boards or investors. Yet compliance information is relevant to these discussions and could be embedded in any discussion about strategy, business goals, and risk management. Compliance officers can support their companies' strategic planning processes, by helping them consider the related compliance and regulatory enablers and risks—or all other risks, for that matter. Being on the front end of business strategies allows CCOs to provide positive input versus being brought in on the back end and having to advise the teams to change or pull back on certain decisions. Although the end result may be the same, the former allows the CCO to take a more collaborative role.

In addition, CCOs have an opportunity to work with their business counterparts to embed compliance messages into other board and management reports. Doing so will help the board and senior management to recognize how compliance helps to achieve business objectives, and it will help further raise the profile of the function within the organization. Finally, we see a trend toward external transparency regarding ethics and compliance programs, with more and more companies reporting externally on their compliance efforts—in their Corporate Social Responsibility reports or otherwise.

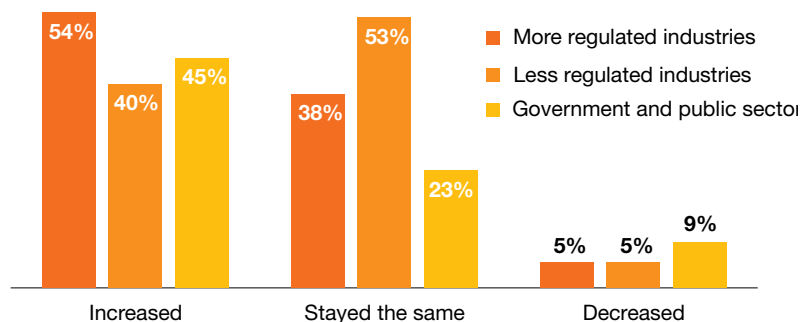
5 Staffing and budgets are trending up

Across industries, corporate compliance staffing and budgets are trending up. Almost half of all respondents (47%) said that compliance staffing levels have increased over the past 12 months, while only 5% said they had declined. Similarly, 45% indicated their compliance budgets had increased, while only 6% saw their budgets cut.

A higher percentage of companies in heavily regulated industries reported increases in staffing levels. But we also saw staffing rise in less regulated industries, such as retail and consumer or automotive. This could reflect the fact that, across industries, business is becoming more global and more complex, driving increased regulatory requirements for many companies.

Growth in compliance staffing was reported across industries

Q7c How has corporate compliance function staffing changed over the past 12 months?



Base: (513, 521, 22)

Base size for Government and Public Sector is indicative only
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Staffing levels and budgets are bigger in heavily regulated sectors.

Overall, 23% of respondents reported they have two or fewer FTEs working in compliance, but the size of the compliance staff varies widely by sector. While 53% of respondents in heavily regulated industries have more than five FTEs devoted to compliance, 59% of those in less regulated industries have five or fewer.

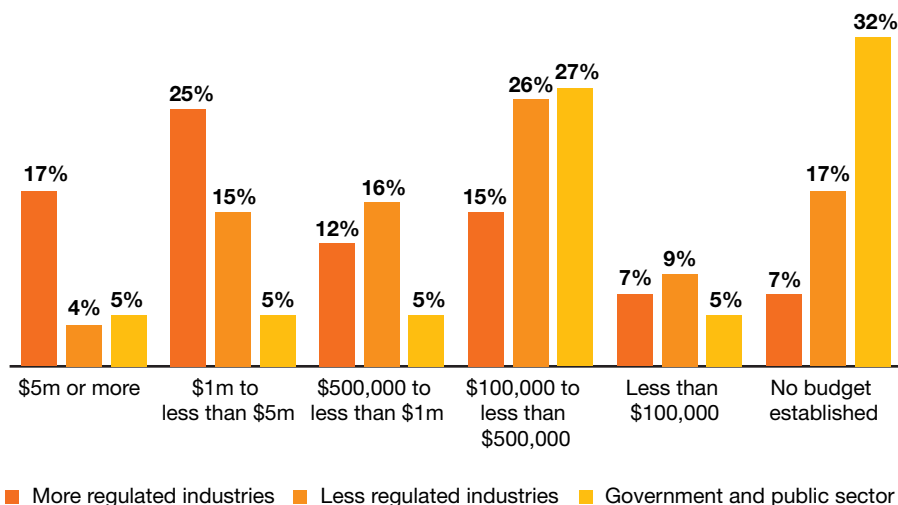
We see the same pattern in regard to budget. While 42% of those in heavily regulated industries have budgets of at least \$1 million, only 19% of those in less regulated industries have budgets this high, and 17% have no separate budgets for compliance. Based on the complexity and demands for increased transparency on compliance effectiveness, and the continued focus we have seen on cost of compliance, we expect to see more companies with specific compliance budgets.

The future of compliance teams should be cross-functional.

As companies evolve their corporate compliance functions, we hope to see a shift in representation within the department. We recommend that compliance departments create cross-functional teams that include employees with a broader range of skills and experience, such as industry expertise, data analytics,

Almost a third of organizations estimate their total annual budget for compliance and related activities to be \$1m or more

Q9a What is the total approximate annual budget for compliance and related activities at the corporate compliance function level?



Base: (513, 521, 22)

Base size for Government and Public Sector is indicative only

business background or functional background (such as HR). We have observed that such teams are more effective and efficient than those which are relatively homogeneous (e.g., including those with only legal backgrounds).

In particular, CCOs have an opportunity to drive the increasing value of the compliance function to the organization by integrating data analytics expertise. Some CCOs have already hired employees with data analytics backgrounds. Others have at least acknowledged their needs in this

area. One respondent recognized the importance of “the use of Big [D]ata analytics and its impact on the business environment.” Another suggested that “data analysis/data mining resource[s]” would be helpful additions to the compliance team.

6 Measuring business impact is often more effective than measuring activity

More than seven in ten respondents (71%) say they assess the effectiveness of their compliance programs on a regular basis. But the evidence suggests that many organizations are measuring activity rather than the impact of their compliance programs on the business.

For instance, many organizations use training completion rates and hotline metrics in their program evaluations. These statistics are useful, but other measures may do a better job of helping management to understand whether the organization is more or less exposed to risk.

Some organizations measure program activity more than impact

Q14 Please indicate which indicators and metrics you use when evaluating the effectiveness of your compliance program

	2014 (Base:751)	2013 (Base: 781)
Compliance audit results	66%	71%
Risk assessment results	61%	65%
Training completion rates	53%	**
Hotline/helpline metrics	50%	56%
Results from a regulatory visit	48%	46%
Customer & other third party feedback/complaints (not reported through hotline/helpline)	39%	41%
Employee questionnaires or culture surveys	35%	52%
Employee disclosures (e.g. conflicts of interest and gift reporting)	35%	56%
External benchmarking**	33%	**
Internal benchmarking**	28%	**
Training competency tests**	24%	**
Cost of non-compliance (penalties, litigation and other consequences of non-compliance incidents)	22%	44%
Exit interview responses**	20%	**
Cost of compliance program activities	19%	17%
Training trend analysis**	17%	**
Monitoring of press and public statements	16%	24%
Aging and disposition of litigation and enforcement	14%	20%
Training data (completion rates, competency tests etc)	**	65%

** New to survey

Base: Respondents who stated “yes” at Q13 (“Do you regularly assess the effectiveness of your compliance program?”)

Some less commonly used measures may provide a more complete picture of the state of compliance.

Fewer companies focus on measures that can provide better transparency into the state of compliance within the organization. For instance, when asked about their top three compliance program priorities over the next 12 months, only 30% of respondents cited “compliance testing/auditing,” and only 8% mentioned “incentives and disciplinary programs.” These are two of the more challenging processes to execute, but doing so can help to

identify areas of weakness in the compliance program and enable a more proactive approach to managing related issues. Focusing more on efforts such as these may also help to enhance compliance by reinforcing its importance for all employees. After all, studies suggest that employees take more seriously behaviors that will be considered in their evaluations.

Similarly, only about one-third of respondents use formal benchmarking as a gauge of program effectiveness. External benchmarking (starting with PwC’s 2014 State of

Compliance survey, for example) is particularly important, in our view. In the event of a compliance failure, government investigators often compare the organization’s compliance program to those of similar organizations (in terms of size, complexity, industry, geographic footprint, etc.). Companies whose programs are not comparable to those of their peers could be subject to harsher penalties.

There are other measures that are not being widely used but which could help in assessing the effectiveness of compliance programs. For instance,

Many organizations could benefit by prioritizing activities with the potential to make a bigger impact, such as testing/auditing and incentives and disciplinary programs

Q12 To what extent does your corporate compliance function plan to prioritize the following activities over the next 12 months?



Base: (1,019)
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only about a third of respondents use employee questionnaires or culture surveys when assessing program effectiveness. Research suggests that culture is the key to driving ethical and compliant behavior throughout any organization, and there is an emphasis on culture in a variety of compliance-related guidance, including the U.S. Federal Sentencing Guidelines for Organizations. Also, in our experience, employees are often forthcoming with their information and opinions, if companies simply ask. Their input can be invaluable in helping to identify compliance challenges and gaps.

Many other alternative measures of program effectiveness are available but are used infrequently. These include aging and disposition of litigation and enforcement, employee exit interviews, the cost of non-compliance (penalties, litigation, etc.), training competency tests and training trend analyses. More innovative, data-driven measures are also emerging, such as analyses of customers', employees', investors' and other stakeholders' social web content. Web content is an often-untapped source of unsolicited

feedback on a company's ethical culture. Social expressions regarding customer satisfaction, perceptions of fair dealing and integrity and/or a sense of trust, pride or loyalty by employees, customers and investors can provide insight into elements relevant to the overall objectives of an ethics and compliance program. Measures such as these can help to paint a richer picture of the status and impact of compliance efforts within the organization, and could help to strengthen compliance while reducing related costs.

The data that CCOs currently report on most frequently, e.g., training statistics and help line calls, is helpful to understanding program effectiveness but limited in understanding broader activity related to specific risks. In addition to the statistics the compliance function has, there may be additional metrics available from the business. By adding the right expertise, the compliance team could analyze not only compliance data, but also data from operations that, combined, can help provide insights into vulnerabilities in the business, identify trends, make predictions and gain insights into

past problems and how to prevent them in the future. Generating new insights that help the business will make the compliance function even more valuable to the organization. This is a rapidly evolving area as new tools are allowing greater progress on approaches to sift through and gain insight from existing data.

Lastly, while a higher percentage of companies conduct self-assessments (often by Compliance or Internal Audit), third-party review can provide the kind of benchmark across peers and other companies that reflects the perspective the government takes when evaluating companies' compliance programs. Engaging an objective third party to review the compliance program can also help to shine a light on areas that need improvement. Yet, less than one-third of respondents (31%) leverage third parties to review the compliance program as a whole; to review program elements (27%); and/or to assess specific compliance risks and related risk management programs (25%).

7 *Addressing the fast-changing social media landscape will require speed and agility*

One in four people globally use social networks—an 18% increase in just one year, according to PwC’s analysis of megatrends.³ The analysis also suggests that by 2020, there will be more than six devices per person in the world.⁴ The technology and social media landscape is changing rapidly, and companies should address these changes—and quickly.

Most companies are doing so, judging by our survey results: 88% of respondents indicated they have a policy related to employees’ use of social media—up from 65% in 2013. And 39% use social media in their compliance and ethics programs—a 10% increase over the 2013 response.

Companies are using internal and external social media to enhance compliance programs.

Roughly half of our respondents (51%) use internal social media channels to communicate about compliance and ethics issues—an increase of 10% over the 2013 study results. A somewhat smaller, but still substantial, number (41%) use external social media to communicate with investors, the general public, government and other stakeholders about their compliance and ethics efforts and outcomes.

In addition, four in ten respondents said they review social media postings as part of their pre-hiring

3. <http://www.socialmediafrontiers.com/2013/06/report-almost-1-in-4-people-worldwide.html>
4. Cisco Internet Business Solutions Group, April 2011.

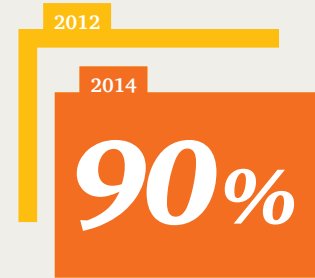
Technological breakthroughs. Did you know?



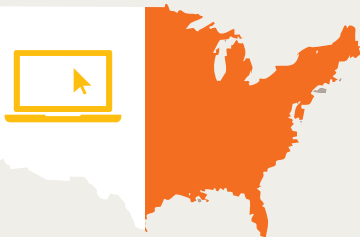
The average time a US consumer spends using their smart phone a day¹



Seven times more connected devices than people by 2020²



of the data that exists today was created in the last 2 years³

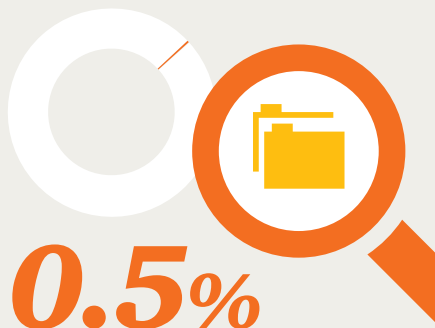


Around half of US jobs are at risk of being computerised over the next two decades⁴



houses could almost be powered every day with just the energy burned by active users of the Nike + app⁵

By 2020, we predict that digital natives will be the majority population segment in the UK⁶



0.5% of data is only currently analysed⁷



Years taken for telephone to reach half of US households; the smartphone in under ten⁸



#1



#2

If Facebook was a country, it would be second most populous in the world (after China)⁹

The above predictions come from the following sources:

1 Experian (2013) • 2 Cisco Internet Business Solutions Group (2011) • 3 Forbes (2011) • 4 'The Future of Employment: How Susceptible are Jobs to Computerisation?' C. Frey and M. Osborne (2013) • 5 Nike (2013) • 6 PwC Profitable Growth in the Digital Age: unleash your potential (2013) • 7 'The Digital Universe in 2020', IDC (2012) • 8 PwC analysis based on 'Are Smart Phones Spreading Faster than Any Technology in Human History?', MIT Technology Review (2012) • 9 PwC analysis of data from Facebook (2014) and UN Population Division, World Population Prospects (2012)

due diligence process, and 42% monitor social media sites for evidence of potential misconduct (down from 57% in 2013). While both of these activities are powerful tools in the compliance/HR toolbox, companies should regularly monitor the changing technology landscape as well as the evolving regulatory landscape to ensure that they understand the related risks and remain in compliance with rules governing social media. For instance, the U.S. National Labor Relations Board continues to issue guidance dictating what employers can and cannot do with respect to employees' use of social media.

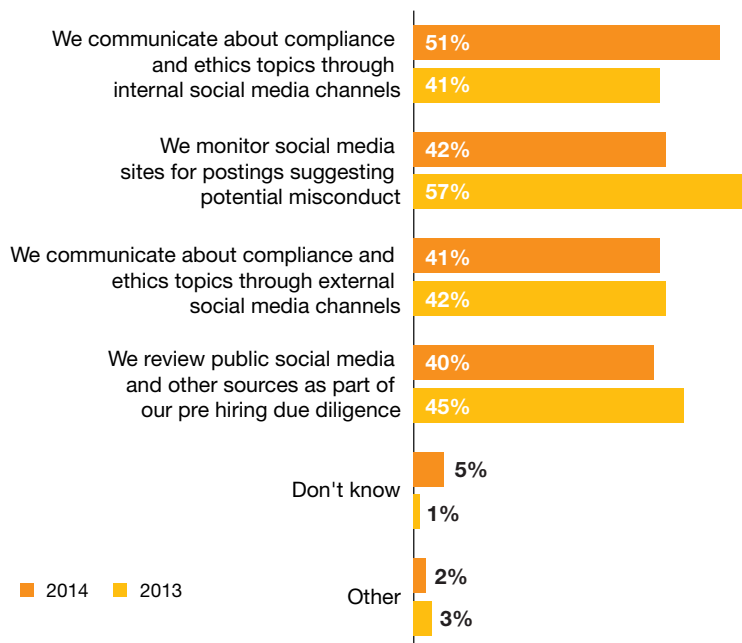
There is huge upside and downside related to social media—or any new technology—and social listening may be a way of the future, even for the compliance function. Caution is warranted, however, and policies and practices in this area will require constant reassessment.

Policy updates should be more agile and real-time

Only 40% of respondents indicated they would prioritize policies and procedures in the coming year. This statistic is not surprising as, historically, companies have not felt the need for agility in the area of policy management. Most policies don't require frequent updates, and the typical approval process is lengthy.

Organizations are using social media to communicate about compliance and ethics, detect potential misconduct, and perform pre-hiring due diligence

Q19 In which of the following ways does your company use social media in your compliance and ethics program?



Base: (358, 223)

This traditional approach to policy management may not be well suited to an environment in which technology is advancing at a torrid pace, and new forms of social media seem to emerge on a monthly basis. To succeed in this environment, organizations should frequently reassess their policies related to technology in general and social media in particular, revising them as needed to manage risk and ensure compliance with evolving guidance.

Despite the fact that social media is so popular and changing so rapidly, only 3% of respondents rated it as a top three risk. That said, there are many risks associated with social media which compliance officers may be addressing through other initiatives—for instance, initiatives that address privacy, harassment, discrimination, and intellectual property rights.

Conclusion

The life of the CCO is a stressful one, with additional asks on nearly a daily basis, forcing CCOs to face the ongoing challenge of knowing where to focus their attention. Today's CCOs are very skilled in carrying out their traditional responsibilities, including training employees, setting policies and establishing hotlines that enable workers to report wrongdoing. But many CCOs have an opportunity to play a more strategic role in the business—and in the process, to become an even more valuable asset to the organization.

To enhance their value, CCOs should integrate compliance into business operations enterprise-wide. They should better align their effectiveness measures with compliance risks at the business level, focusing less on measuring implementation activity

and more on assessing the impact of compliance measures on the business itself. And just as CFOs and CIOs are responsible for overseeing finance and IT issues throughout the organization, regardless of who “owns” them, CCOs should take charge of measuring and monitoring more business risks, as well as ethical culture, throughout the organization in order to provide the level of oversight expected of someone with the title of “Chief.”

Like any integral member of the C-suite, CCOs are—and should be—viewed as critical to executing the organizational strategy. The challenges of being chief are enormous and, for CCOs, the opportunities have never been bigger.



Top 4 things CCOs can do now to help enhance their profile within the business

- 1 Build the future vision:** Does the organization have a clear view of what it wants the role of the CCO to be, particularly as it relates to the business? Learning from other “chief” roles and how they have evolved, CCOs can look beyond their doorstep and become the broad-based compliance voice for the organization.
- 2 Build a network and skill sets beyond support functions:** To date, CCOs have typically relied on legal, HR and audit, yet CCOs and their teams should strive to better engage with the business at all levels. Having a variety of skill sets, such as analytics and operations, on the corporate compliance team will enable deeper engagement and improved performance.
- 3 Link to the strategy:** Better business skills can help enhance understanding of organizational strategy and associated compliance risks—and will enable compliance to more effectively support the achievement of corporate goals.
- 4 Create relevant reporting:** Evolving compliance reporting can help drive relevance with the board, senior leaders and business partners.

**To have a deeper conversation about
how the evolution of compliance may
affect your business, please contact:**

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