The 2015 Ethics and Compliance Effectiveness Report

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Contents

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Introduction

LRN's Ethics and Compliance Leadership Survey is now in its eighth year. This is the third year in which we have used an analytic framework called the PEI, the Program Effectiveness Index, to explore and report on the effectiveness of benchmark program behaviors and attributes.

> "Environments are not just containers, but are processes that change the content totally."
>
> – Marshall McLuhan

We've seen and shared a good many interesting things through the PEI lens. Some were the statistical and analytic confirmation of the various hypotheses on which team members had operated, both at LRN and as in-house compliance leaders. The many ways in which values-based programs are more effective than rules-based programs was one of these. Other findings were counterintuitive, like our discovery that beyond a very low baseline, program impact does not move in lockstep with program spending.

With each survey, we've asked new or revised questions to test new or revised hypotheses. Last year, for example, we found meaningful statistical evidence demonstrating what many in the profession thought might be the case—that programs in which the senior leaders report to the CEO are more effective, on average, than those in which senior leaders report to the general counsel. This year, we collected an additional data point and identified who among those leaders reporting to the CEO served solely as chief ethics and compliance officers, and who served as both chief ethics and compliance officer and general counsel. The insight that data point enabled surprised us. You'll find it on page 7.

The goal of our PEI work—indeed of everything we do in connection with ethics and compliance at LRN—is to provide tools of significant value to the ethics and compliance practitioner. This report is offered to the community of practitioners as two tools. First, it is a collection of data-driven analytics designed to help organizations maximize their investment in building ethical cultures. Second, and equally important, it is hoped that in reading the report and considering its implications, practitioners will take a purposeful and mindful pause, will step back and think about their work in different terms and from a different perspective.

Taking a step back from the complex details of running an E&C function allows us to see past the division between the ethics and compliance program and the organization in which it operates. Programs do not run in a vacuum or a neutral environment. E&C program leaders operate in the context of the very culture they are trying to impact, as if upgrading the navigation and guidance systems of an aircraft in flight. The degree to which their efforts are supported by other members of the crew makes a dramatic difference on outcomes. The discussion of these matters is the focus of the "C-Suite Superstars" section on page 17. Other salient findings on the matter of culture and context are highlighted throughout the report.

It is our hope that the analysis and perspective offered is of use to everyone in the ethics and compliance community. We look forward to hearing from those of you with questions about the report or suggestions for further areas of inquiry.

How We Built This Report and How to Read It

The Program Effectiveness Index (PEI) is designed to measure the degree to which each respondent program has had impact on the organization of which it is a part. The PEI is built on eight separate data points reflecting program impact:

- As a business enabler (e.g., providing advice/counsel, enabling better decision making);
- As a corporate conscience (e.g., promoting an ethical culture and values-based behavior);
- In the celebration of acts of ethical leadership;
- In the frequency of employee application of the company code of conduct; and
- In the perceived effect of E&C education on employee behavior and decision making.

Each index element has been tested to ensure high degrees of internal consistency and reliability. Data was collected from over 250 programs (see the Demographics section below), though not all respondents completed all questions, and only those completing all index questions were used to calculate the PEI.

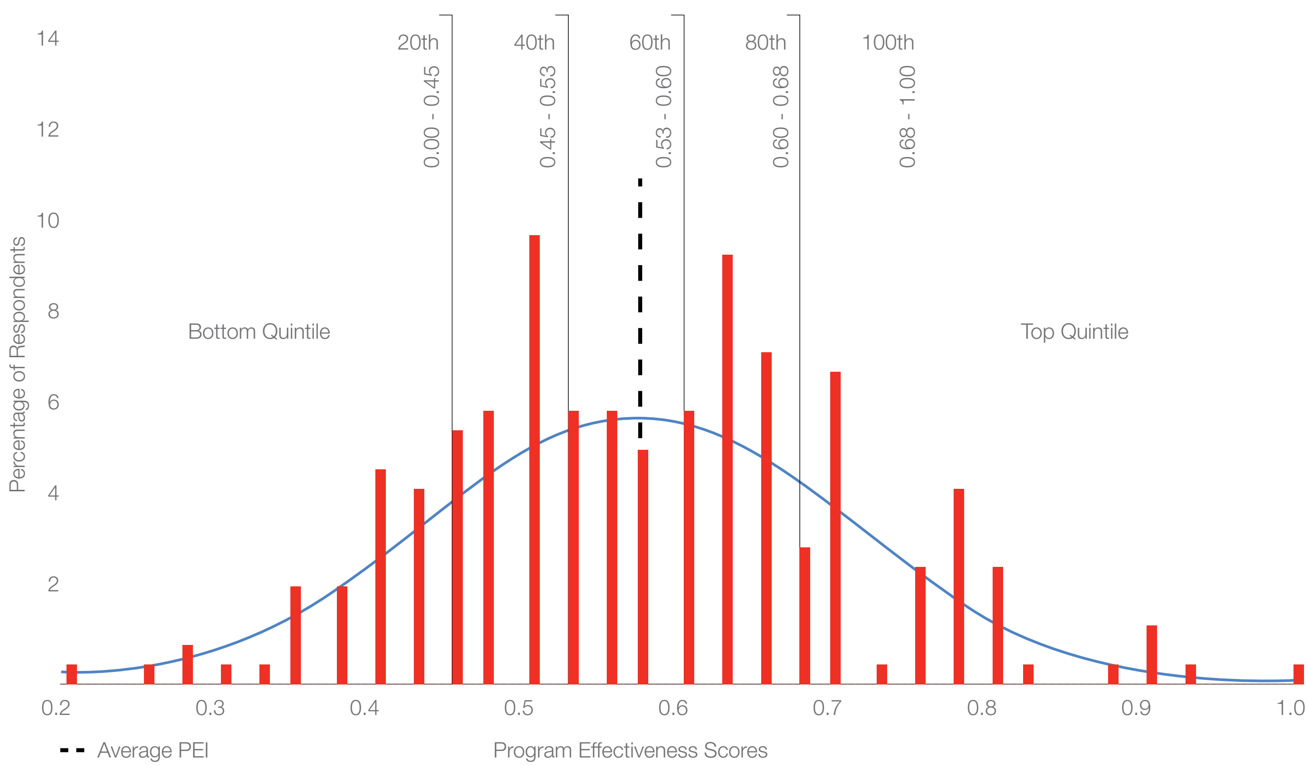
Programs are ranked relative to one another on a scale of zero to one.

The "average PEI score" reported with respect to a particular behavior or attribute is the average of the individual PEI scores of all of the indexed respondents who report that behavior or attribute. This measure is intended to reflect correlation, not causation. The degree of correlation of each PEI finding has also been tested.

No PEI result reported here (other than those listed without comment or those noted for an absence of correlation) has a statistical significance below 68.3%, and all are "color coded." Reported results without colored highlighting should be seen to have a statistical significance between 68.3% and 95.4%. Results highlighted in yellow have a statistical significance between 95.4% and 99.7%. Highlighted in blue are results with statistical significance above 99.7%.

The comparison of quintiles with respect to particular attributes or behaviors is, unless otherwise noted in the text, the percentage of indexed respondents among those in the top 20% ranked by PEI score (i.e., with PEI scores above 0.68) who report that behavior or attribute compared with such respondents in the bottom quintile (i.e., with PEI scores at or below 0.45).

PEI Score Distribution



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What's Past is Prologue: A Quick Look Back at PEI 2014

Our work on program effectiveness started late in 2012, when we first developed our PEI index and began to explore its implications and utility. Since then, we have continued to refine our data collection, the index itself, and the statistical approaches we bring to the process.

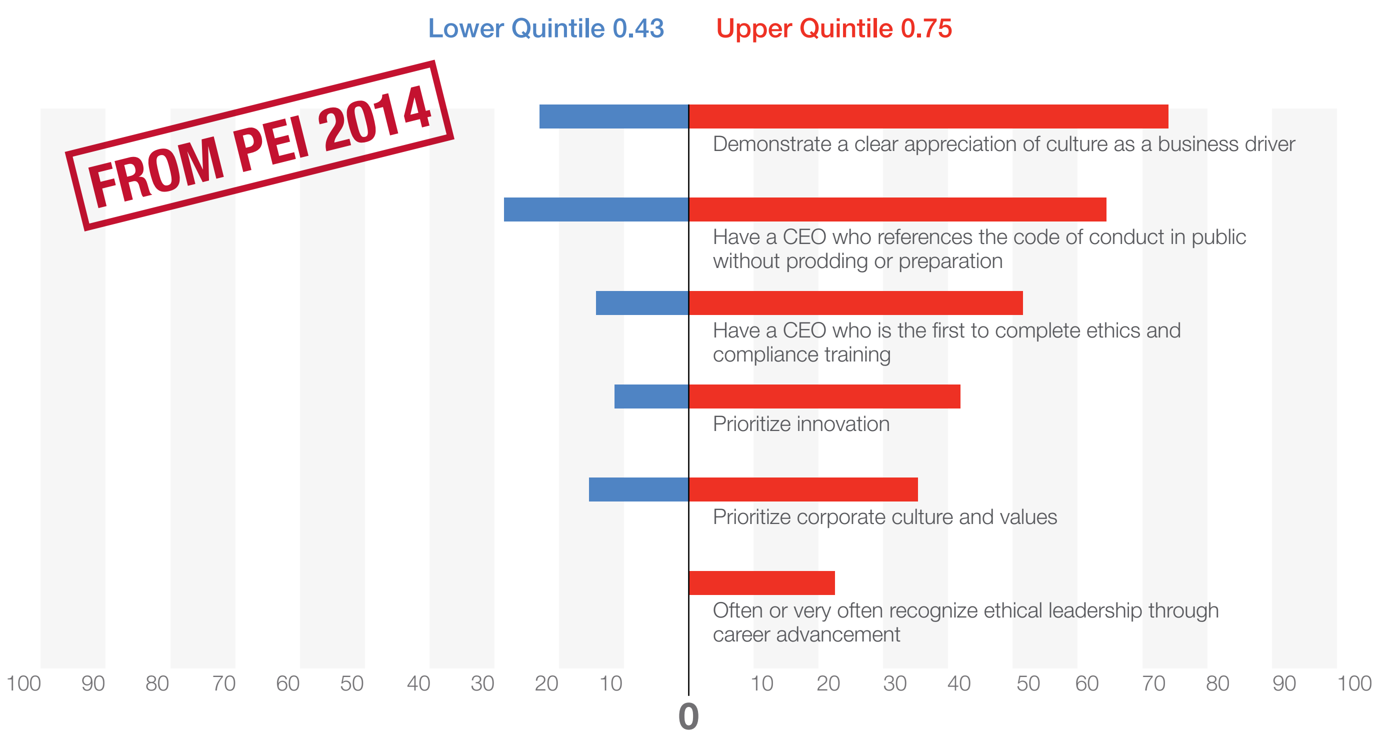
The data we collected this year and the analysis we conducted support each of the key findings we explored in last year's 2014 Ethics and Compliance Program Effectiveness Report. This 2015 report builds on and digs deeper into last year's findings. We test several new hypotheses and provide many new insights we hope will be useful to the ethics and compliance practitioner. What we have not done in the body of the report, however, is repeat last year's findings. The reader not familiar with last year's PEI Report may want to consider its fundamental conclusions.

Last year, we identified three areas of activity associated with extraordinary program impact.

> "Early work with the PEI shows that companies combining their ethics and compliance programs tend to have better PEI scores... Ethics programs, consisting of measures taken to inculcate organizational values, help to create a culture that is not only conducive to following rules that are embedded in law and regulation, but also conducive to compliance with company mores.."
>
> – Thomas C. Baxter, EVP and General Counsel, Federal Reserve of New York

The first of the high-yield investments we highlighted was an intentional focus on culture. Values drive culture, because values drive behaviors, and behaviors—how things are really done in an organization—are culture. Behaviors, in turn, drive outcomes. The 2014 analysis made clear that businesses focused on culture, on values, on risk management, and on innovation have very effective compliance programs. And such programs have very effective businesses.

Above and Beyond:
2014 Corporate Differentiators

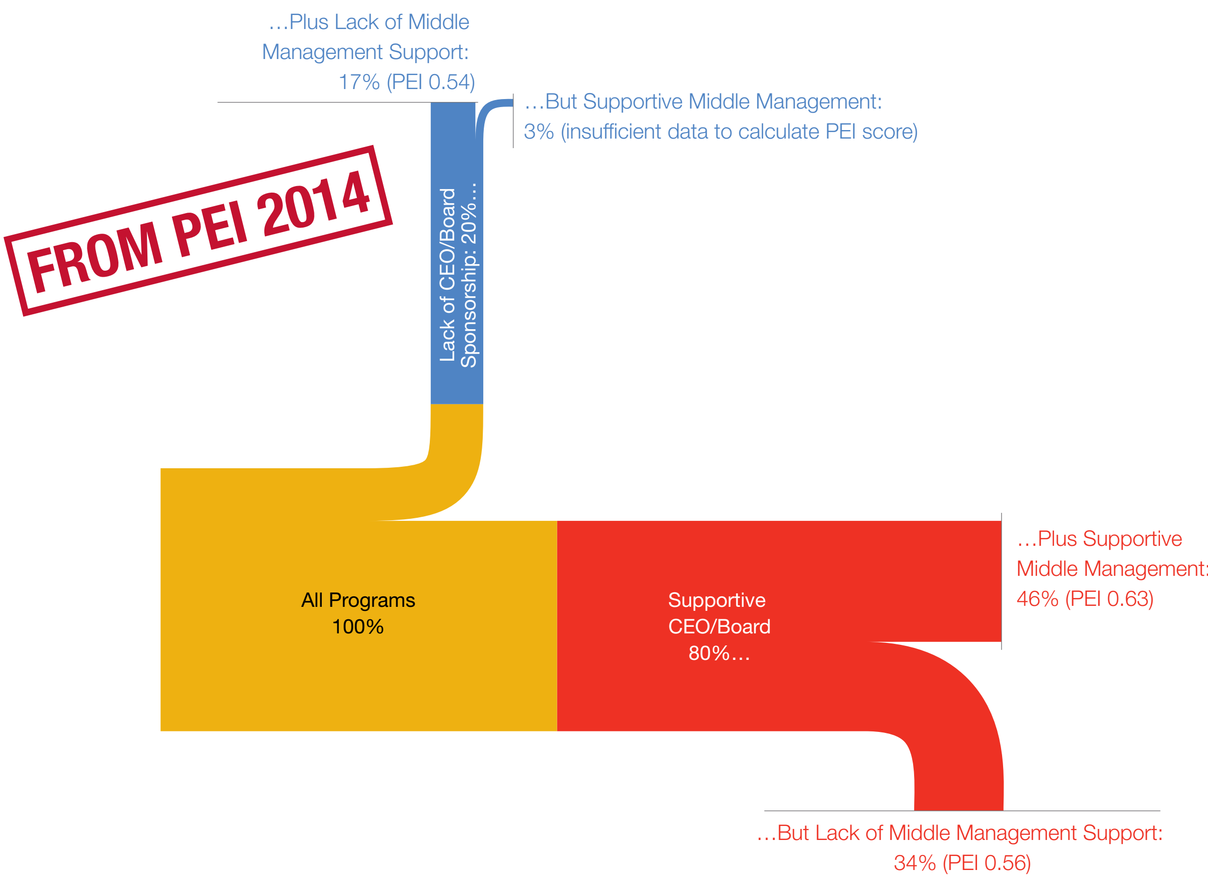


Second, we demonstrated that the most effective ethics and compliance programs don't "do" ethics and compliance. They enable and assist their business units to do so, or — more precisely—to "do" culture and "get" compliance as an outcome. We determined that the leaders of such programs successfully built ethics and compliance into their organizations, and did not bolt it on as a layer of controls. Those programs reflected a clear tone at the top of their organizations and helped reinforce the even more important tone in the middle. They celebrated the ethical leadership that they embodied.

Finally, we observed that high-impact ethics and compliance leaders set more goals, seek more inputs, generate more outputs, and use more rigorous metrics than do their less effective peers, a group we identified as those who build a program in hopes of mitigating some inevitable penalty. More effective programs, we saw, were led by those with a greater ambition, those weaving their programs through their organizations in hopes of multiplying the benefit of the impact those organizations have in their worlds.

Each of those recommendations for generating effectiveness and impact – focus on values; build in, don't bolt on; and reach for more to achieve more – remains good advice. But there is more to do.

The Impact of Support: Tone vs. Tone



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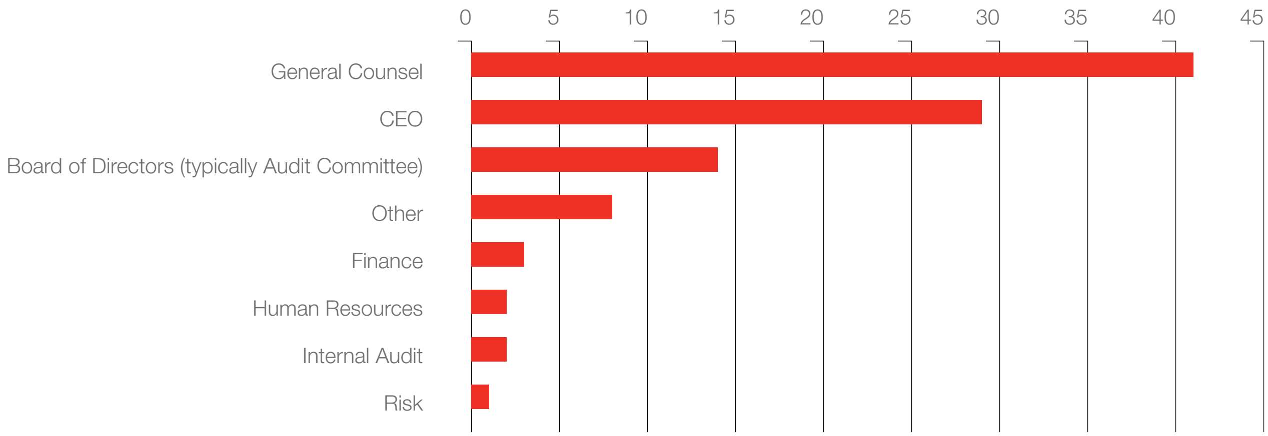
Reporting Structures: The Untold Story

Our data confirms that it is increasingly common for the leader of the ethics and compliance function to report directly to the CEO, and to a lesser, but notable, degree to the board of directors or one of its committees. And while a direct reporting line to the general counsel remains the most common structure, it is no longer true of a majority of programs.

> "Supposing is good, but finding out is better."
>
> – Mark Twain

Figure 1. To Whom the E&C Function Directly Reports by Percentage of Respondents



What is more, this year's data reinforce our discovery in 2014 that programs where the chief ethics and compliance officer reports to the CEO (PEIs of 0.59, on average) or to the board of directors (also 0.59) are noticeably more effective than are those reporting to the general counsel (0.54). Even assuming that program leaders reporting to the general counsel are sufficiently "high-level personnel" (the minimum standard established by the Sentencing Guidelines), it makes sense that leaders reporting to the CEO, one level higher on the org chart, will have more of the support, resources, and clout vital to driving actual program effectiveness.

These findings do not, however, address another, related issue; one somewhat more complex than the question of reporting channels.

Of Independence and Identity

For some years, thought leaders in the E&C field, along with our leading professional organizations (the Ethics and Compliance Association and the Society of Corporate Compliance and Ethics) and a handful of regulators and judges, have argued to significant effect that the positions of chief ethics and compliance officer and general counsel should not be occupied by the same individual. Beyond the divergent skill sets and share of mind required, their arguments have turned on the role of the GC in advising on what "can" be done, while the CECO speaks to what "should" be done. Those playing both roles, the argument goes, stand on a slippery slope at the bottom of which lies the conflict between vigorously defending the company against allegations of misconduct and properly addressing whatever misconduct may have occurred.

While the Department of Justice and the Securities and Exchange Commission maintain the studied agnosticism of their "no one size fits all" position, in April 2015, the Office of Inspector General (OIG), U.S. Department of Health and Human Services, released its "Practical Guidance for Health Care Governing Boards on Compliance Oversight." At least for those subject to HHS oversight, the expectation of the regulators has been made quite clear:

> OIG believes an organization's Compliance Officer should neither be counsel for the provider, nor be subordinate in function or position to counsel or the legal department, in any manner. While independent, an organization's counsel and compliance officer should collaborate to further the interests of the organization. OIG's position on separate compliance and legal functions reflects the independent roles and professional obligations of each function.

All signs point to the further separation of the GC and CECO roles, a trend as sensible as it is inevitable. What it means for program effectiveness, particularly in the near term, remains to be seen.

It Turns Out That Two Hats Are (for Now) Better Than One

Among our respondents, 29% are led by CECOs reporting to the CEO, but not all of them get the same-sized seat at the C-Suite table. Roughly half of them also serve as general counsels, and these two-hatted stalwarts run programs significantly more effective than those of their one-capped colleagues. In fact, while programs reporting into the GC sport PEIs well below average (0.54), the dedicated CECOs reporting to the CEO run programs with exactly average PEI scores of 0.57. Programs led by those holding both roles, on the other hand, average relatively lofty PEI scores of 0.61.

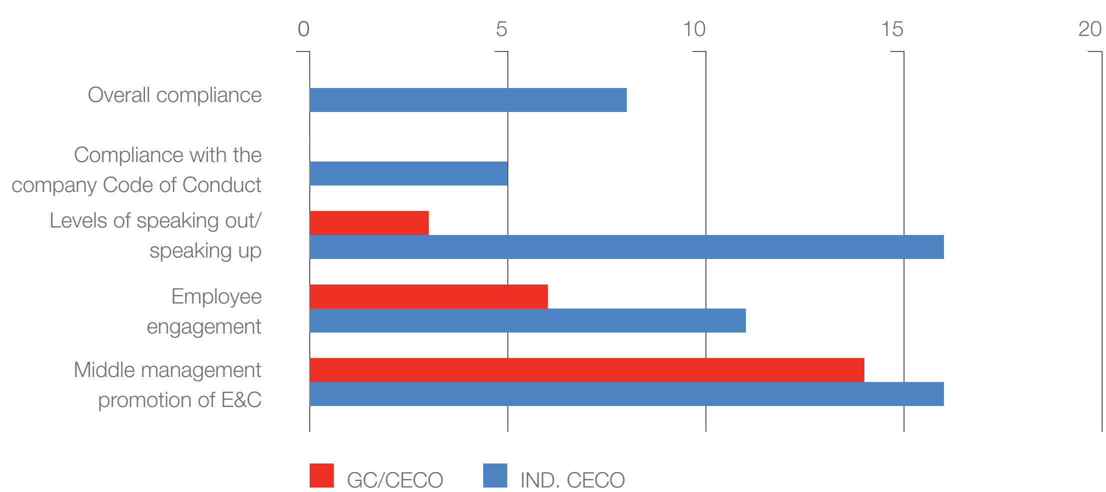
Does this suggest that the movement toward dedicated E&C departments reporting directly to the CEO is misguided? No. What we see suggests that the greater effectiveness of the GC/CECOs' programs reflects the nature of the GCs' interactions and other roles within their organizations. The trend toward dedicated E&C programs and leaders reporting to the CEO will not and should not be reversed, but a comparison of what those with dual roles and those focused on only one do, and how they do it, may lead to a deeper understanding of the challenges ahead, and potential solutions, for the next generation of independent E&C leaders.

Our hypothesis, one clearly borne out by the data, is that generally speaking, the dedicated CECO today has neither the corporate stature nor the internal relationships associated with the GC. In this light, building stature and cultivating key relationships may be seen as one of the dedicated CECO's most important tasks, and the key to higher impact programs.

More Effective How?

Begin with the end. There is a marked difference in the observation of changes in compliance-related outcomes over the past three years for programs in each camp. While both groups point to roughly similar levels of positive results, the dedicated CECOs are considerably more likely to have run into negative results.

Figure 2. Percentage of Respondents Reporting That Each Listed Outcome Has Been Less Common or Much Less Common Over the Past Three Years



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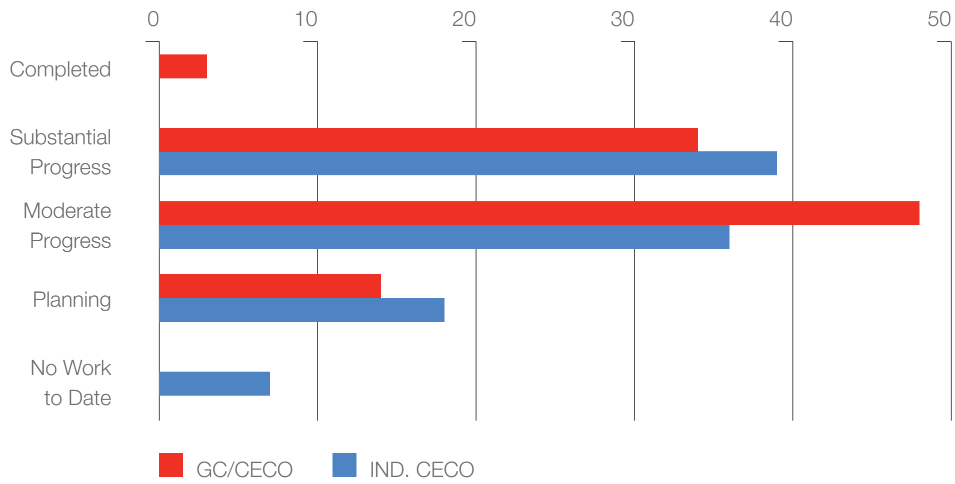
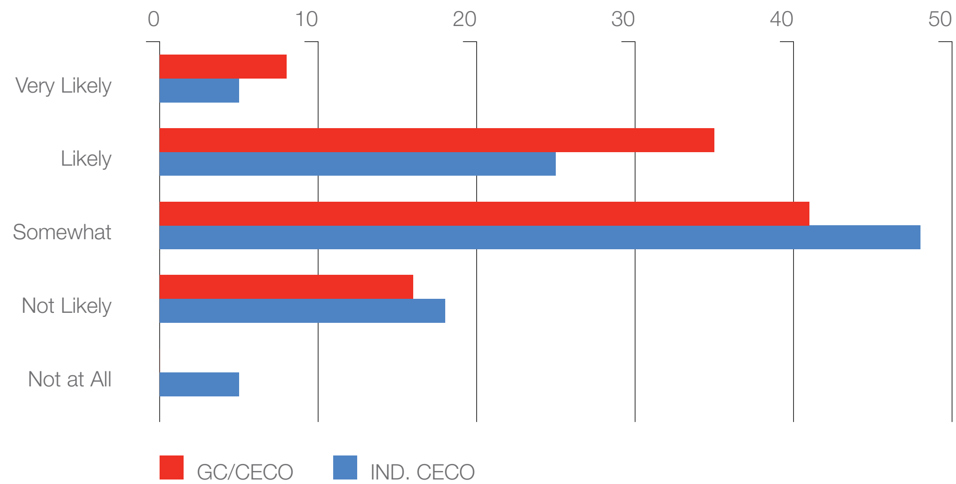
Moving from the end to means, overall, GC/CECOs report having made more progress on the hallmarks of an effective program, as defined in the DOJ/SEC joint guidance, than do dedicated CECOs.

Figure 3. Average Degree of Completion of the DOJ/SEC Hallmarks by Percentage of Respondents



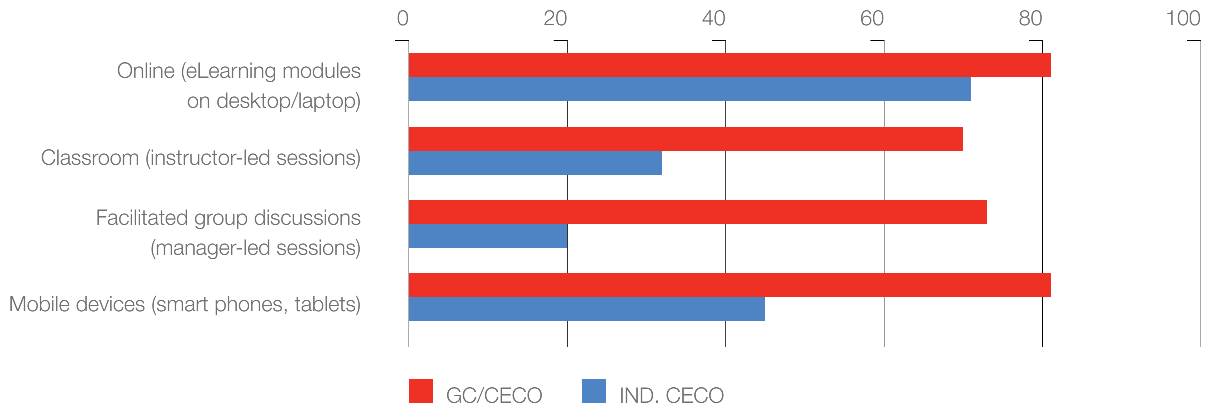
Employee use of the code of conduct in an organization is another measure of program effectiveness where GC/CECO-led programs have a noticeable edge.

Figure 4. The Likelihood That an Employee Will Use the Code of Conduct When Faced with a Decision or Dilemma by Percentage of Respondents



One reason for higher levels of the adoption of the code for decision-making guidance may simply be that programs led by GC/CECOs are doing substantially more training, in more, and more effective, ways.

Figure 5. Percentage of Employees Receiving Education in Each Noted Format



Number of Hours Assigned to Employees Receiving Training in Each Format	IND. CECO	GC/CECO
Online (e.g., e-learning modules on a desktop/laptop)	8.8	13.2
Classroom (e.g., instructor-led sessions)	6.6	14.3
Facilitated Group Discussions (e.g., manager-led sessions)	4.7	17.6
Mobile Devices (e.g., smart phones, tablets)	2.3	15.2

The higher rates of adoption of facilitated group discussions and substantial use of training taken on mobile devices in the GC/CECO programs are particularly significant given what we know about their PEI impact: averages of 0.62 for programs with substantial adoption (that is, used with 10% or more of their employees) of facilitated group discussions and 0.54 for programs without; averages of 0.66 for programs with substantial adoption of training taken on mobile devices and 0.56 for programs without.

Not surprisingly, given the abundance of training time the two-hatters seem able to muster, they are far less likely to suffer from a lack of resources when it comes to the cost of education.

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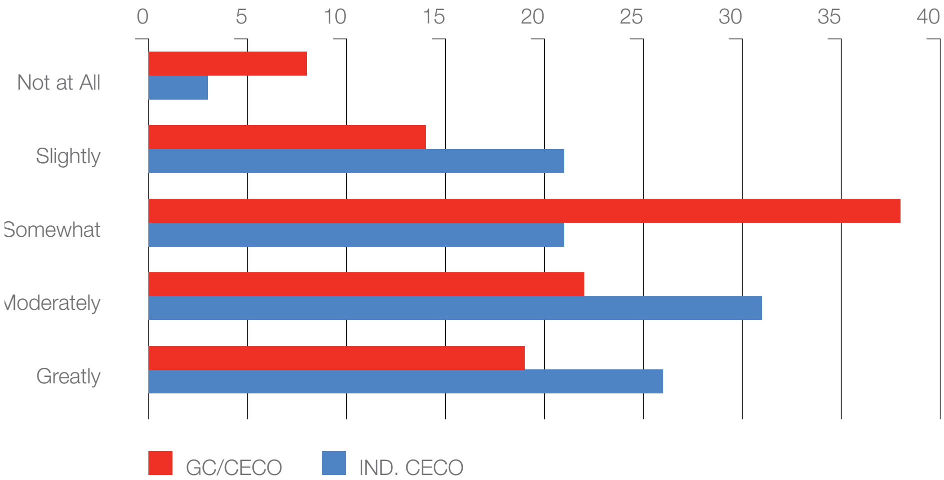
Figure 6. Degree to Which Lack of Funding or Staff is an Issue in Providing Education by Percentage of Respondents



So is the secret of the two hatters' success simply that they get and spend more money? No, it isn't. On the contrary, GC/CECO total program budgets average $103 per employee, while dedicated CECO's are spending more than $188 per employee on average. Staffing is also comparatively lean, with just 1.6 FTEs per thousand employees on average, compared to the dedicated CECOs' staffing level of 2.8 FTEs.

More Effective Why?

That programs led by GC/CECOs are less likely to have seen undesirable compliance-related outcomes, have done more by way of hitting the standard marks used to define an effective program, and see more employee adoption of the company code is not for a lack of trying on the part of the dedicated CECOs. In fact, the latter group is considerably more ambitious and seems much more focused on critical aspects of E&C effectiveness than the GC/CECOs.

Goals are important. Prioritizing more of them is itself associated with higher PEI programs. (See the discussion of goals on page 23, below.) So why do GC/CECOs reporting to CEOs run programs with higher PEI averages than dedicated CECOs?

And how is it that the GC/CECOs, who by definition are less E&C-focused, manage to spend less money

Percentage of Respondents Identifying the Following as a "Very Important" Program Goal in the Near Term	INDEPENDENT CECO	GC/CECO
Adapt ethics and compliance program to changing business needs	23%	15%
Deepen skills of the E&C staff	38%	9%
Improve E&C program measurement	32%	15%
Improve third-party oversight and management	26%	17%
Improve risk management capabilities	24%	12%
Innovate design and delivery of E&C education	30%	14%
Integrate E&C objectives into the performance review and compensation process	21%	6%
Promote alignment between core values and day-to-day operations	26%	21%
Rewrite the Code of Conduct	18%	21%

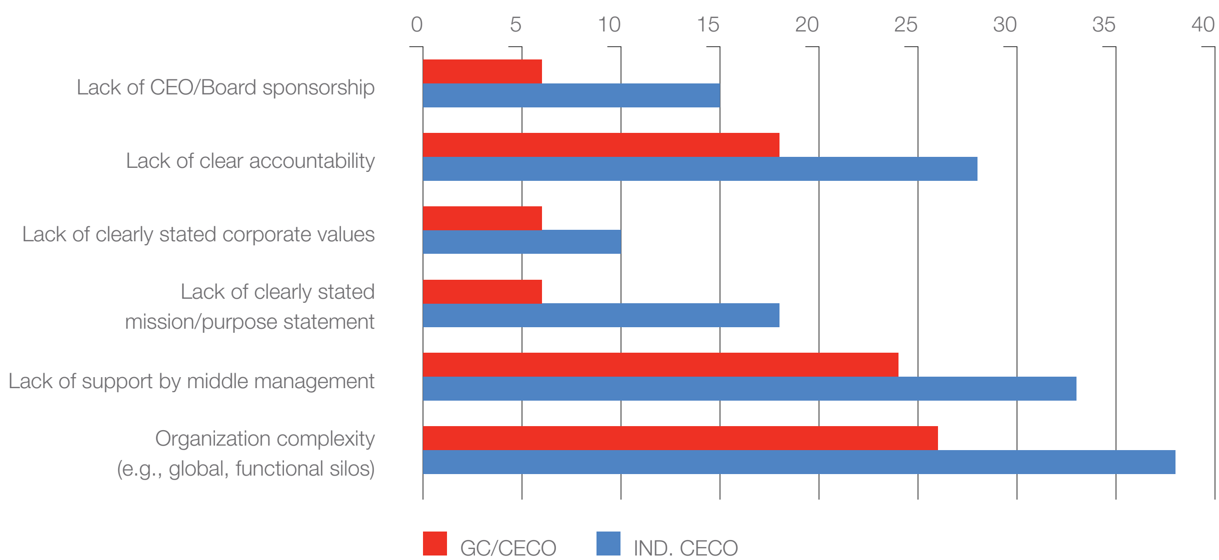
and have more impact on their employees and businesses than do the full-timers?

Here again, new data tells a familiar story. The GC/CECOs may be less interested in nuts and bolts, but they are, on average, far more likely to be values-focused.

Fully 68% of the GC/CECOs see the primary mandate of their programs as ensuring ethical behaviors and the alignment of decision making and conduct with core values, while that is true of only 41% of the dedicated CECOs. By contrast, 59% of those full-timers see their primary mandate as ensuring compliance rules and regulations, a position taken by only 32% of the GC/CECOs. As we have previously determined, values-based programs outperform rules-based programs by- almost every measure.

Further, the data strongly suggest that CECO/GCs simply enjoy deeper relationships within the business, or at least experience fewer obstacles.

Figure 7. Percentage of Respondents Reporting Each as a Significant or Very Significant Obstacles to Building an Ethical Culture



GC/CECOs are twice as likely to see their primary mission in terms of building ethical cultures, and they may be more effective in doing so because of their higher levels of senior-level sponsorship, ability to operate across silos, and support from middle management.

GC/CECOs are twice as likely to see their primary mission in terms of building ethical cultures, and they may be more effective in doing so because of their higher levels of senior-level sponsorship, ability to operate across silos, and support from middle management. In each of these crucial areas, the depth and complexity of the GCs' relationships with the CEO and other members of the C-Suite may be dispositive. In most companies, the GC serves as confidant and trusted advisor to the CEO and the Board, partnering with them and the CFO to execute on key strategic initiatives, taking a lead role in relationships with key stakeholders, and providing close support to other C-Suite members.

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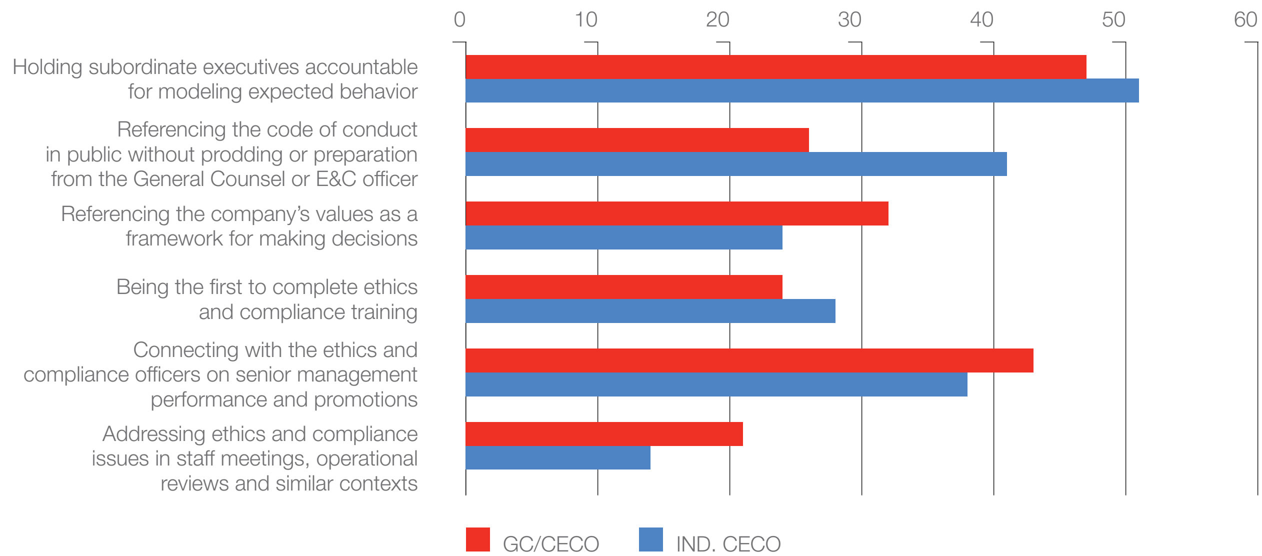
Members of the C-Suite trust—and more importantly depend upon—the judgment of the GC. Nothing truly important happens without her imprimatur; much does not happen because that approval has been withheld. The dedicated CECO, by contrast, is likely a newcomer to the suite, perhaps not even a member of the "core team" despite the title, and her role is by definition more circumscribed.

Small wonder, in that context, that the GC/CECO sees higher levels of active support from her C-Suite peers.

Generally, independent CECOs reporting to the CEO are likely not yet as powerful as their GC/CECO colleagues, who not only report to the CEO but work closely with him or her most every day. But there is also the suggestion (think of the matter of goals, above) that that same GC/CECO, long the owner of corporate compliance and ethics, and perhaps somewhat complacent in the role, is not as focused on the evolving stakeholder expectations driving E&C program activities. Note where each group stands out on the chart below.

Figure 8 . Percentage of Respondents Reporting that the Average Member of Their C-Suites Often or Very Often Engages in Each Behavior



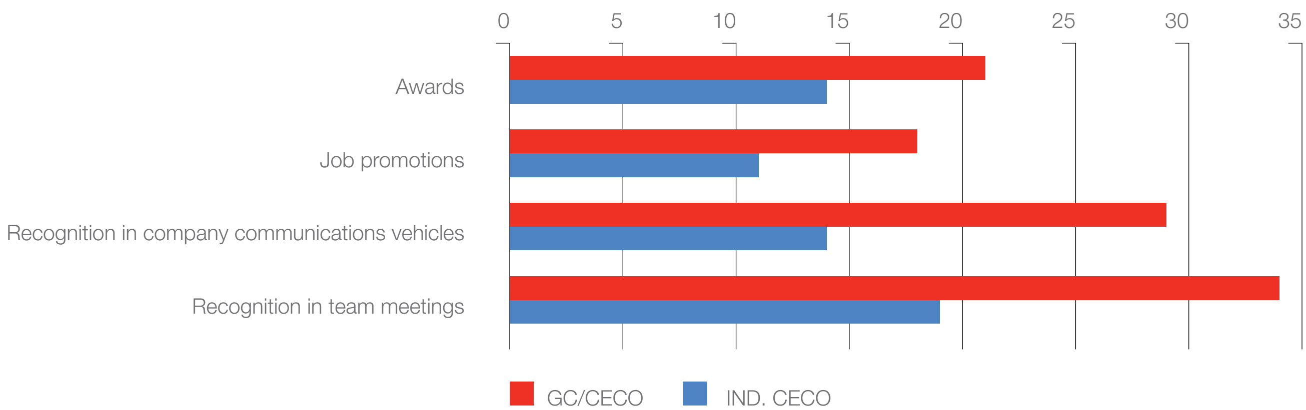
The GC/CECOs' C-Suite peers reference values more frequently than do those in the C-Suites of the dedicated CECO, while the latter group—by an even wider margin—reference the code of conduct more frequently. This makes sense, given the two-hatters' far more pronounced values orientation, which may also be reflected in their "lead" in connecting with members of the C-Suite around leadership issues of performance and promotions.

There is the suggestion that the GC/CECO, long the owner of corporate compliance and ethics, and perhaps somewhat complacent in the role, is not as focused on the evolving stakeholder expectations driving E&C program activities.

We also know that built-in programs outperform bolted-on programs, and the advantage becomes clear in this examination as well. Note the degree to which the GC/CECO's peers are more likely to raise E&C issues in staff and operational meetings, which is an indicator of how deeply engrained those issues are in the corporate culture, and is among the most certain of all high-impact PEI "tells." (See the discussion of "C-Suite Superstars" below on page 17.)

The businesses within which programs led by GC/CECOs operate are also significantly more likely to recognize and reward ethics and compliance leadership. Few aspects of corporate life convey the degree to which ethics and compliance are valued more than these public celebrations, and not surprisingly, our data shows that each of them is closely associated with high-impact programs.

Figure 9. Percentage of Respondents' Companies Which Frequently or Very Frequently Recognize Ethical Leadership by Type of Recognition



As the ethics and compliance function steps out of the law department and into a space of its own, it must seek to replicate or improve on the business service paradigm that successful law departments adopted decades ago.

What Gives?

The implications are clear: As the ethics and compliance function steps out of the law department and into a space of its own, it must seek to replicate or improve on the business service paradigm that successful law departments adopted decades ago. Chief ethics and compliance officers must move beyond arguing the ROI of compliance by reference to the cost of non-compliance and demonstrate meaningful value propositions in support of salient strategic objectives.

Each member of the C-Suite is charged with investing the company's assets in search of a return. Others at the table buy inventory or build infrastructure or hire staff. The data shows that to have maximum impact, the C-Suite CECO needs to invest in values, because values drive behaviors and behaviors drive outcomes more directly than any other asset on the balance sheet.

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Everybody Knows Everything About Tone at the Top...Right?

Real tone at the top is not one of the seven elements of the Federal Sentencing Guidelines' minimum requirements; at least it is not the part about "high-level personnel" ensuring "that the organization has an effective compliance and ethics program." Instead, the key to genuine tone at the top is found in the Guidelines' higher level command that "the organization shall...otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law." It is a key worth turning.

Our data suggests that effectively promoting ethical culture isn't primarily about the E&C program. It is about the organization itself. That programs which are built-in vastly outperform programs which are bolted-on was one of the key findings of our research last year, and this year's data vividly reveals the implications of that notion when it comes to tone at the top.

The tone at the top of any organization is not generated solely by the performance of the chief ethics and compliance officer. It is, instead, very much the sound of all of an organization's senior leaders acting and speaking in concert. The degree to which ethics and compliance are a part of how senior leaders speak and act reflects the degree to which the concepts and program are "built-in." It portends the success of the organization in terms of both E&C and business-related outcomes.

> "Leadership is a series of behaviors rather than a role for heroes."
>
> – Margaret Wheatley

The table below describes the frequency of various behaviors of the "average member" of the respondents' C-Suites, and the PEI scores associated with the prevalence of those behaviors.

Overall, these PEI scores are among the most telling of any our research has revealed, clearly demonstrating

"Tone at the Top" as Indicated by the Frequency of Certain Behaviors of the Average Member of the C-Suite	Percentage (Often/Very Often)	Average PEI (Often/Very Often)	Percentage (Never/Hardly Ever)	Average PEI (Never/Hardly Ever)
Holding subordinate executives accountable for modeling expected behavior	47%	0.61	17%	0.51
Referencing the code of conduct in public without prodding or preparation from the General Counsel or E&C officer	29%	0.66	38%	0.50
Reference the company's values as a framework for making decisions	31%	0.61	29%	0.53
Being the first to complete ethics and compliance training	21%	0.66	54%	0.53
Connecting with the ethics and compliance officers on senior management performance and promotions	38%	0.65	26%	0.49
Addressing ethics and compliance issues in staff meetings, operational reviews and similar contexts	11%	0.79	64%	0.51

the association between tone at the top and high-impact ethics and compliance cultures. A line-by-line examination, however, reveals a wide and differentiated range of behavioral impacts associated with specific behaviors.

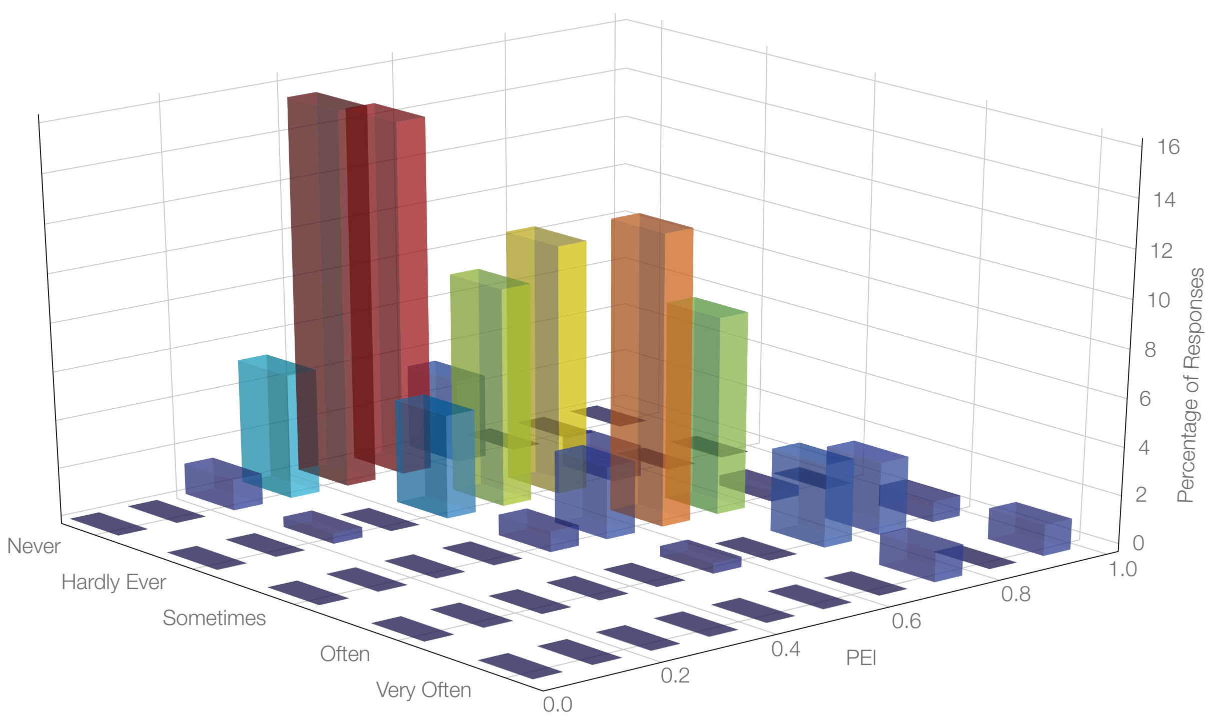
The most commonplace of the average C-Suite behaviors involves holding subordinates accountable for modeling expected behaviors, though even that is done "often or very often" by fewer than half of the members of our respondents' C-Suites. Those who do so have an estimable average PEI of 0.61. The 36% who "sometimes" do so average PEIs of just 0.54, while the 17% who, quite remarkably, never or hardly ever hold subordinates to that standard have an average PEI far below the mean at 0.51. A similar pattern is observed with respect to the frequency with which company values are referenced as a framework for decision making. Less than a third of the average members of our respondents' C-Suites frequently reference the company code of conduct without prodding from E&C leaders. Those who do are substantially more likely to be working in an organization with a highly effective E&C program.

The E&C programs in companies where the average C-Suite member is the first to complete ethics and compliance training may be cause or result of that particular leadership behavior, but either way, it is a very clear model of what tone at the top is and how it works. Humans are clever creatures, quickly determining which behaviors lead to nourishment and which invite danger wherever they may be. In the office setting, figuring out what your supervisor truly values, and acting accordingly, tends to provide nutrition. To a great degree, senior leaders set the tone at the top without saying a word.

As seen in the figure below, one set of numbers attached to one set of behaviors stands out clearly among these behavioral data-points. Whether or not the typical member of the C-Suite often or very often addresses issues of ethics and compliance in staff meetings, operational reviews, and similar settings is more closely associated with the presence of an effective E&C program than any other single behavior or attribute. The 11% of respondents reporting this to be the case have a truly towering average PEI of 0.79, compared to the well-below-average PEI of 0.51 for the nearly two-thirds of all respondents whose senior leaders bring up such matters rarely or not at all.

Put another way, in these organizations the typical member of the C-Suite often or very often asks of her subordinates not just what they accomplished, but how they accomplished it. They are looking at ethics and compliance as a part of the business, and not as an imposition or impediment. Small wonder that more than 70% of their organizations are in the top quintile of companies ranked by PEI.

Figure 10. The Prevalence and Impact of Senior Leaders Raising Ethics and Compliance Issues in Regular Business Settings



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A Closer Look at the "Superstar" Members of the C-Suite

Whether reflecting cause or effect, the numbers loudly speak to the fact that these E&C "superstars" operate in organizations that are substantially different from most. Compared to the average of all other programs surveyed, their E&C programs are far more likely to identify and address a variety of goals as very important for their education efforts. They are one-third higher on prioritizing "influencing employee behaviors affecting ethical climate change" (82% to 64%) and almost twice as likely to prioritize "relating company policies to day-to-day work" (64% to 34%). By a margin of 64% to 41%, they are more likely to have fully integrated or very frequently used their company values in their codes of conduct. By an even greater margin (63% to 35%), their employees are more likely or very likely to turn to their codes of conduct when faced with an ethical dilemma.

These companies are set apart by their ethical leadership. And they recognize and reward that leadership far more than do companies on average. All of them, 100%, often or very often give employees awards for ethical leadership, compared to not one among the hundreds of other companies surveyed. More than four out of five of them often or very often recognize these acts in company communications, as opposed to only 8% of all other respondents. And they are far more likely to often or very often recognize such leadership in company meetings. In these organizations, the tone at the top rings loud and clear.

Four out of five of these companies see the primary mandate of their ethics and compliance efforts as "ensuring ethical behaviors and alignment of decision making and conduct with core values" (rather than "ensuring compliance with rules and regulations"). All other respondents are nearly evenly split on this core question.

Compared to the other organizations surveyed, the ethics and compliance programs of the superstars' organizations are more frequently deemed to be highly or very highly effective on all three of the dimensions we measured, as:

- An overseer (e.g., focusing on controls, risk management, and investigations) by 71% to 60%;
- A business enabler (e.g., providing advice/counsel, enabling better decision making) by 78% to 53%; and
- A corporate conscience (e.g., promoting an ethical culture and values-based behavior) by 86% to 64%.

A similar pattern emerges in our respondents' estimates of compliance-related outcomes over the past three years.

More Common or Much More Common	Superstar C-Suite Companies	All Other Respondents
Overall compliance	82%	53%
Compliance with the company code of conduct	75%	49%
Levels of speaking out/ speaking up	79%	46%
Employee engagement	82%	45%
Middle management promotion of E&C	64%	33%

Note the intertwining of program and organization evident here. It is more than the participation of the C-Suite in the E&C program. It is the E&C orientation of the business itself, the evident way in which that orientation drives middle management support. That support, in turn, clarifies and communicates to all stakeholders—employees, suppliers, customers, and shareholders—what kind of company they are dealing with. It is corporate culture, and it can be built; not from the outside, not as a matter of controls and rules, but through an engaging and shared focus on and celebration of values, and on how business gets done.

It is corporate culture, and it can be built; not from the outside, not as a matter of controls and rules, but through an engaging and shared focus on and celebration of values, and on how business gets done.

Quintile vs. Quintile: The Most and Least Effective Programs Go Head-to-Head

Those of us engaged in the “business” of ethics and compliance labor in a nascent profession in an uncertain, ever-changing, and layered set of contexts. The richest data sets and the most sophisticated analysis cannot guarantee predicted outcomes. This much, however, can be said: The practitioner who succeeds in emulating the practices of the “top quintile” described below will find herself at the head of an effective ethics and compliance program, clearly promoting “an organizational culture that encourages ethical conduct and a commitment to compliance with laws.”

Of PEI Scores and Quintiles

Some of the attributes and behaviors we’ve measured have little or no PEI significance because they are ubiquitous or nearly so, while others are particularly associated with one side of the spectrum or the other. The average PEI scores of programs with each behavior and attribute give us significant insight into what works and what doesn’t, though it is important to keep in mind that no single behavior or attribute is enough to guarantee impact.

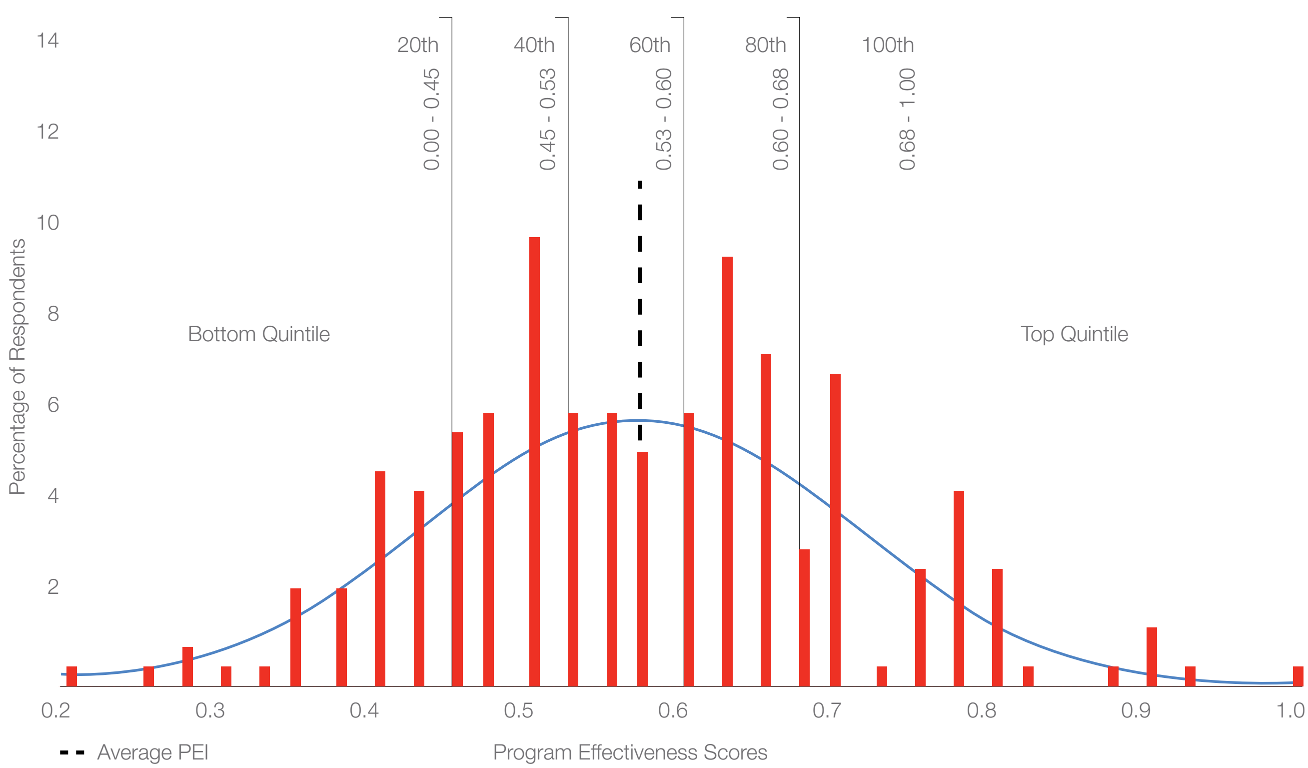
> “The race is not always to the swift, nor the battle to the strong, but that’s the way to bet.”
>
> – Damon Runyon

Arrange all of the hundreds of programs we surveyed this year on a line from left to right, beginning with the least effective and continuing in order to the most effective. Programs clustered around the mean, under the fattest part of the bell curve, look much like one another. Because they are, by definition, average, they also have much in common with the programs to their left and their right.

A closer look at the behaviors and attributes of the 20% of programs at each end of the spectrum (the top and bottom quintiles), however, provides a handy guide for what effective programs do and don’t do.

Take, for example, the fact that about half of all programs have “completed” the code of conduct section of the Federal Sentencing Guidelines’ minimum

Figure 11 . PEI Score Distribution



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elements of effectiveness. Those programs have an average PEI score of 0.60 which is above the mean PEI score (0.57), but not as far above that mean as a number of other attributes. That doesn't mean the code of conduct isn't important, just that most programs have one, so that doesn't tell us much about whether or not such programs are particularly, and relatively, effective. In fact, it is the absence of a code that has a telling PEI significance. We know that because the 14% of programs that have only made "some progress" on the code of conduct have an average PEI of 0.52, well below the mean, and the 6% of programs who have yet to get started on an effective code have an abysmal 0.44 average PEI.

Looking at the same data point by quintiles, however, we see that 77% of the most effective programs have completed the code of conduct hallmark, while only 43% of those in the bottom quintile have done so. And 41% of the bottom quintile has made "moderate progress" or less on their codes, which is true of only 9% of the top quintile (none of which have made less than moderate progress).

There are two lessons here. First, the cluster of behaviors typical of effective programs is a more reliable set of indicators of overall effectiveness than is any single behavior or attribute in isolation. Second, if you haven't completed the work on your code of conduct, you'd best get on it.

Unpacking the Cluster: A Short List of Meaningful Differences

Assessment and Metrics

The periodic assessment of program effectiveness is part of the regulatory mandate under which many E&C programs operate. As the Department of Justice and the SEC put it in the hallmarks discussion in their joint guidance, "Although the nature and the frequency of proactive evaluations may vary depending on the size and complexity of an organization, the idea behind such efforts is the same: continuous improvement and sustainability."

The regulators were right in as much as the complexity and frequency of program assessments do indeed vary, but our data does not suggest that either the size or nature of the company defines or dictates the variations. Instead, the nature and frequency of program assessments is clearly associated with program effectiveness. Half of the companies in the top quintile conduct a formal assessment of program effectiveness annually, a behavior associated with a PEI score of 0.61. Fewer than one in five programs in the bottom quintile do an annual assessment, while more than one in five of them never do a formal assessment at all (average PEI 0.49). Only a single program in the top quintile reported never doing one

Of course, as the joint guidance suggests, there are assessments and then there are assessments. As the table below makes clear, not only do top quintile programs do assessments more frequently, they use many more inputs to do so than do those in the bottom quintile. Many of the same metrics, and more of them, are also used in risk assessments and board reporting.

Metrics not only play a key role in analysis and planning. They are also key to management and setting objectives. Top quintile programs report to their corporate boards of directors regularly; 74% do so quarterly or more often (49% among the bottom quintile). In that setting, some or all of the metrics reported will become the board's device for measuring and, perhaps, rewarding the performance of the E&C function.

Identifying and making proper use of metrics are not the only challenges programs faced in conducting risk assessments. The details of those challenges, it turns out, cast as much light on the organizations in which they function as they do on the programs themselves. For example, large numbers of E&C programs in the bottom quintile are more than somewhat challenged in conducting risk assessments by inadequate methodology (40%), lack of formal processes (52%), and insufficient technology (41%). Top quintile programs suffer these problems to a far lesser degree (19%, 20%, and 28%, respectively). All of these are associated with broad swings in PEI averages.

More telling still, by a margin of 64% to 26%, top-tier programs are far more likely to have no more than a slight issue in securing the cooperation of business units and other corporate functions with their risk assessments—another measure with significant PEI impact.

Metrics: Who Uses What and Why	Used in E&C Risk Assessment		Used to Measure E&C Program Effectiveness		Reported to the Board	
	Top Quintile	Bottom Quintile	Top Quintile	Bottom Quintile	Top Quintile	Bottom Quintile
Results of audits of the E&C program	63%	45%	65%	41%	70%	51%
Code of conduct violations	61%	49%	63%	45%	61%	53%
Number and type of helpline calls	57%	35%	61%	51%	63%	65%
Number of investigations opened/closed	48%	45%	59%	37%	70%	67%
Employee survey/engagement results	65%	31%	63%	41%	41%	33%
Annual certification completion rates	46%	22%	63%	47%	57%	47%
E&C program activity or performance vs. industry benchmarks	52%	29%	65%	33%	46%	18%
Education completion rates	39%	33%	65%	61%	50%	55%
Number and type of legal proceedings	52%	39%	39%	22%	48%	41%
Ratio of requests for advice to reports or allegations received by E&C office	48%	20%	43%	29%	39%	18%
Number of days to resolve open matters	43%	27%	52%	33%	28%	12%
Business strategy and operational changes with E&C impact	52%	27%	39%	14%	28%	24%
Country/political risk data	59%	49%	28%	14%	22%	18%
HR information (e.g., employee turnover, attendance, safety and health)	46%	14%	41%	10%	17%	20%
Employee interviews (e.g., individual, focus groups, exit interviews)	48%	27%	46%	14%	11%	8%
Organizational impact (e.g., increase or decrease in legal fees, productivity, corporate profitability)	37%	22%	41%	18%	24%	20%
Education test results (within E&C education programs)	39%	18%	43%	29%	20%	12%
Changes in strategy, operation, or financial metrics with E&C impact (e.g., profit pressures, targets, volume of transactions)	37%	24%	33%	16%	30%	16%
Customer feedback	35%	10%	41%	20%	15%	10%
Supplier/business partner feedback	41%	8%	46%	6%	2%	6%

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Better Programs Use More and Better Metrics

There is a good deal of data on this table, but serious students of E&C effectiveness would do well to consider its content and implications in some depth. Some observations, in brief:

- **Code of conduct violations.** Half of the bottom quintile and even 40% of the top aren't using them for risk assessment, despite their obvious evidentiary value.
- **Education and certification completion rates and test results.** Though these are among the most commonly collected metrics, they are often not used in risk assessments. This despite the fact that education and certification are generally seen as principle tools for risk mitigation.
- **Number and type of helpline calls; investigations opened and closed.** Long collected and easily reported, both the number of helpline calls and number of formal investigations conducted are widely used metrics—the third and fourth most common, respectively. Whether higher or lower numbers in each category are better or worse will vary from setting to setting (even within a given organization) and it is doubtful whether the numbers as such tell a meaningful tale. Despite their widespread use, no significant PEI impact is associated with either metric.
- **Ratio of requests for advice to reports or allegations received.** Less commonly used, but perhaps more useful, is the ratio of requests for advice to reports or allegations of misconduct received by the E&C function from whatever source. Perhaps because it takes some measure of discipline to collect the information, fewer than half of firms even in the top quintile make use of it, though they do so more than twice as frequently as firms in the bottom quintile. This data is particularly telling, very much reflecting the penetration of the E&C program within the organization and the use that is made of it. The effort to collect the data may well be worth it, with those using it for risk assessment averaging a very solid PEI of 0.62, and those using it in program assessment averaging 0.61. Those not using it for either purpose have PEIs below the mean at 0.55.
- **Employee survey/engagement results; HR information; employee interviews.** Two thirds of top quintile programs include employee survey data in risk assessments, more than twice as many as those in the bottom quintile, and the PEI gap between those that do (0.61) and those that don't (0.54) is significant. Similarly compelling are the results garnered by those few who look beyond survey or collective data to the qualitative insight provided by exit interviews, focus groups and the like.

  HR information (e.g., turnover, attendance, ESH data) also provides meaningful and actionable insight into the risks the organization faces and the effectiveness of the E&C program in mitigating those risks. Programs making use of that insight are three or four times more likely to be in the top quintile than the bottom, and have average PEI scores of 0.63 (where it is used in risk assessment) and 0.64 (where it is used in program assessment).
- **Customer feedback; supplier/business partner feedback.** Even more rare than the consideration of group and individual employee information in the assessment and reporting process is the search for meaningful E&C data based on what both suppliers and customers have to share. Though rarely used in board reporting, a fair number of programs in the top quintile make use of such data for risk assessment and program assessment. They boast average PEI scores 0.63 in risk assessment and 0.61 for customer feedback in program assessment and 0.65 for supplier/business partner feedback in program assessment.

Structure

As has been noted, there are significant differences in the PEI scores associated with different reporting structures. Consistent with that finding, fewer than one in four programs in the top quintile report to a general counsel, while more than twice that number do within the bottom quintile. Among the 37% of those in the top quintile reporting to the CEO, about half serve as both CECO and GC.

Values

The degree to which a program and company is values-based figures prominently in key PEI findings, and is also one of the very apparent differences between the quintiles. Of those in the top quintile, 49% promulgate codes of conduct in which the corporate values are integrated throughout, while only 21% of companies in the bottom quintile do so. The PEI score associated with the greater code focus on values is 0.62.

Even more impressive is the 0.65 PEI score associated with organizations wherein employees are likely or very likely to consult the code of conduct when faced with a decision or dilemma. That is true of 72% of companies in the top quintile, but of only 14% of those in the bottom quintile.

Within the top quintile, 93% function within organizations where culture and business values are high or very high corporate priorities, which is true of less than half of the programs in the bottom quintile. The average PEI score for companies prioritizing culture and values is 0.61, while programs in companies for which it is only a middling priority (39% of the bottom quintile, 7% of the top) average scores of 0.50. Companies where culture and values are at best a low priority—one in five among the bottom quintile, but none among the top—are nearly rock-bottom at 0.41.

Goals

Our previous research, published in the 2014 Ethics and Compliance Program Effectiveness Report, clearly supported the hypothesis that more is better. We demonstrated that, on average, programs that set out to do more, used more tools to do it, and used more metrics to measure it were significantly more likely to be effective. This year, a closer look at the quintiles in terms of program goals, as well as at the PEI impact of specific program goals, brings depth to the finding.

Not every PEI score, even those well above and well below the mean, has statistical significance. In our

Figure 12. Percentage of Programs Rating Each Goal of Their Education and Communication Efforts as "Very Import" (and Associated PEI)

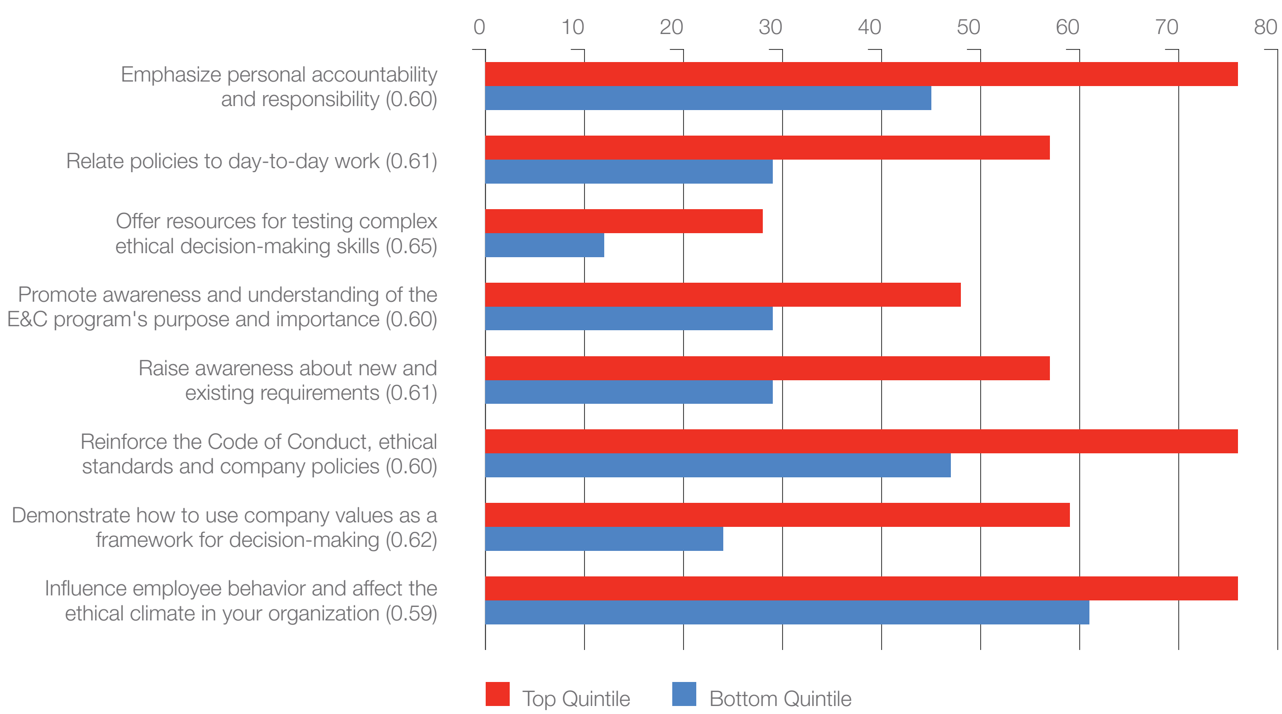
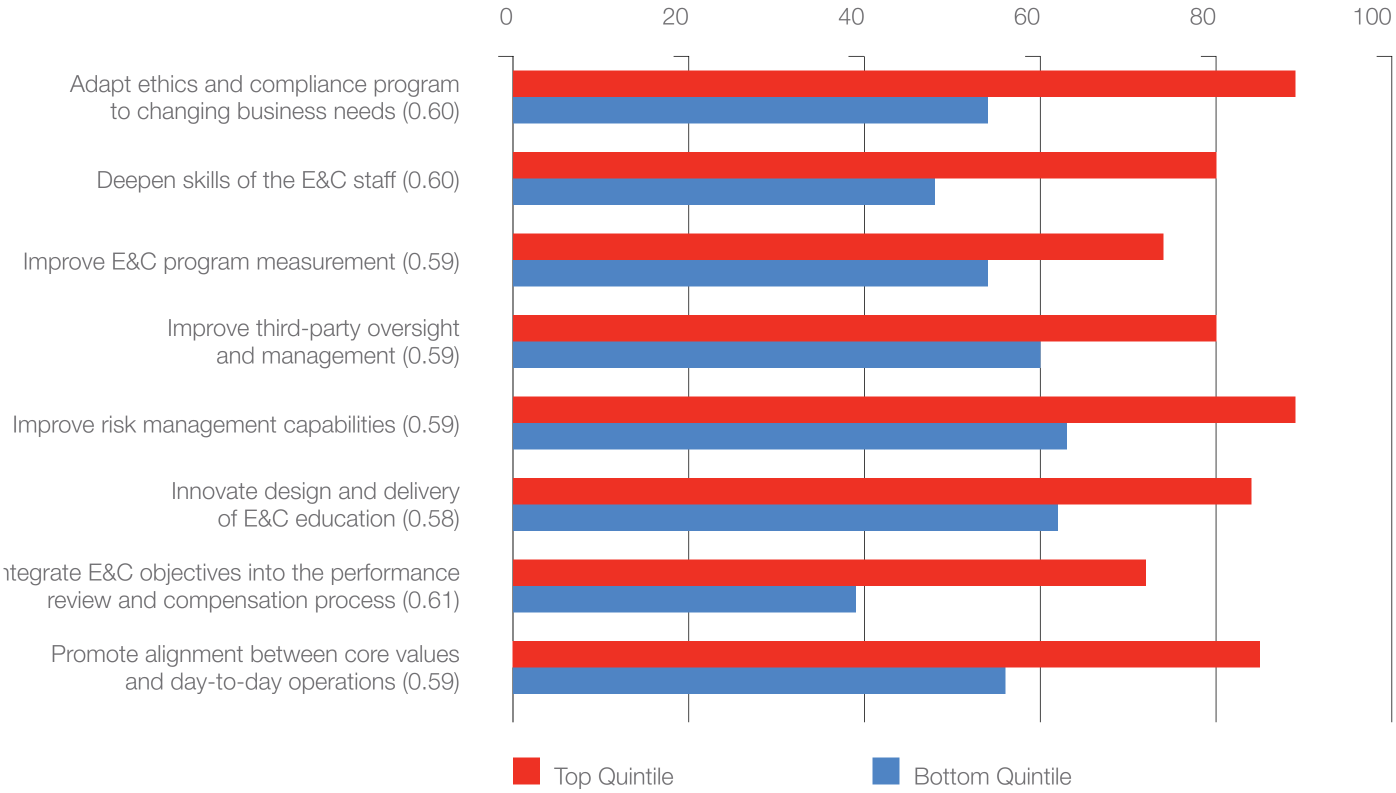


Figure 13. Percentage of Programs Rating Each of Their Program Goals as "Important" or "Very Import" (and Associated PEI)



reporting, we only publish findings that meet or exceed generally accepted statistical standards for correlation and salience. (See page 4 for a more precise definition of the findings we deem "reportable.") However, when it comes to the goals programs set for their education and communication, every data point shows both significant differences between the top and bottom quintiles as well as reportable PEI scores.

Of all of the things the modern E&C program does, promulgating a code of conduct is one of the most common. (Running an anonymous reporting channel or "help line" is the only program practice more widespread.) No surprise, then, that roughly half of the programs in each quintile have rewriting the code as a top priority for this year. For most other program activities, however, priorities vary widely between top and bottom quintiles, and not all goals are equally impactful, as the comparison of PEI scores makes clear.

Program priorities vary widely between top and bottom quintiles, and not all goals are equally impactful.

Education and Communication

Education and communication are among the fundamental tools in the E&C kit, so it is no surprise that the top quintile does them better, and with less resistance, than others. That highly effective programs receive more organizational support and face fewer challenges in this arena is also to be expected. The difference between the quintiles in this regard is worth noting, however, if only to sharpen our collective regard for these key factors.

The Degree to Which Each is a Challenge When Providing Ethics and Compliance Education

	Not at All an Obstacle			Greatly an Obstacle		
	Top Quintile	Bottom Quintile	Associated PEI Score	Top Quintile	Bottom Quintile	Associated PEI Score
Lack of dedicated sponsorship from senior management	57%	18%	0.62	4%	18%	0.45
Limited financial resources or staff	11%	0%	0.66	13%	43%	0.52

The same pattern is observed with respect to the variety of modes of communication used by E&C programs.Those in the top quintile use 6.5 different channels of communication on average, compared with an average of 4.4 used by programs in the bottom quintile. And for every channel on the list, programs that make use of it have higher PEI scores than programs that don't. Doubtless, more channels means more impact.

Use of Communication Channels	Top Quintile	Bottom Quintile
Intranet	80%	65%
Email	89%	82%
Social media	9%	6%
Newsletters	57%	29%
Team meetings	59%	47%
Print materials (e.g., posters, quick reference guides, brochures)	72%	57%
Award or recognition programs	39%	8%
Web-enabled interactive code of conduct	41%	22%
Events	43%	27%
Text messaging	4%	4%
Voice mail	2%	2%
Open forums/townhall	46%	20%
Leadership road shows	37%	27%
Webinars	35%	22%
Video	41%	22%

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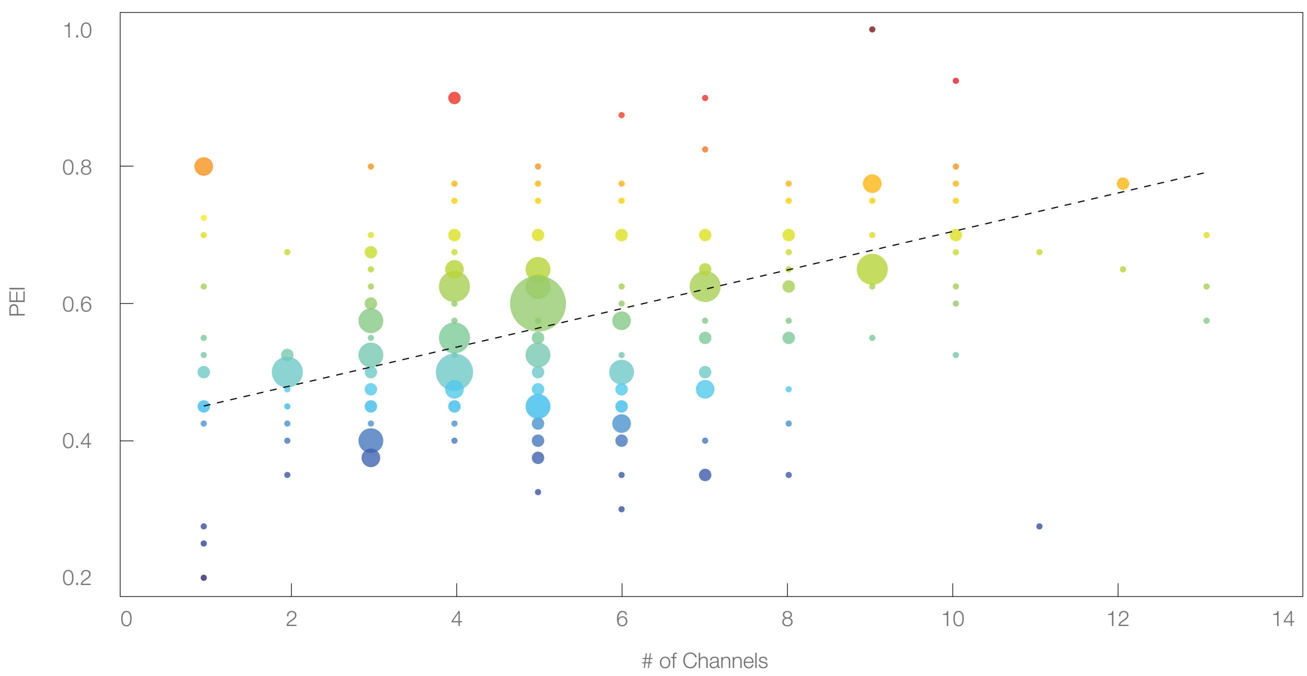
Several channels of communication stand out as real differentiators. The most important of these typically involve company leadership and commitment beyond the ethics and compliance function.

Not every channel of communication is, by itself, associated with significant PEI impact, but several stand out as real differentiators. The most important of these typically involve company leadership and commitment beyond the ethics and compliance function. Programs utilizing awards and recognition programs average PEI scores of 0.66, while those that don't average 0.55. Town hall style meetings are used by programs with an average PEI of 0.62, as opposed to an average of 0.55 for those not conducting them.

E&C "events" as well as leadership roadshows are associated with average PEIs of 0.60, and programs not in engaging in them have a slightly sub-par average PEI of 0.56.

With respect to media, only video (with PEIs of 0.61 for users and 0.56 for non-users) and newsletters (0.61 for users and 0.54 for non-users) show statistically significant deltas for impact.

Figure 14. PEI Scores Associated with the Number of Education and Communication Channels Used (Bubble Size Represents the Number of Respondents in Each Category)



Funding

Compared to their more effective counterparts, bottom quintile programs are under-funded, or so their leaders say:

- Respondents in the bottom quintile are nearly twice as likely to report funding and staffing constraints as a challenge in providing E&C education.
- Respondents in the bottom quintile are more than twice as likely to report funding and staffing constraints as obstacles to conducting risk assessments.
- Respondents in the bottom quintile are ten times more likely to have made little or no progress in securing the "appropriate oversight, autonomy and resources" identified in the Federal Sentencing Guidelines as a minimum standard for program effectiveness.

Yet, our data makes it quite clear that the bottom quintile actually spends more on E&C per employee than does the top quintile. On average, and despite the overall demographic similarity between the two samples, those in the top quintile spend $70 per employee per year on their E&C programs, while those in the bottom quintile spend $84 per employee.

Generally, companies in highly regulated industries spend much more on compliance than less regulated businesses. Among those in the top quintile, highly regulated companies spend $84 on average per employee and the less regulated companies spend $55 per employee. The bottom quintile spends considerably more in both categories, with its highly regulated companies spending $110 on average per employee and the less regulated companies spending $67 per employee.

What they spend it on, however, is a different story. Effective programs spend more on people and, apparently, less on "stuff." On average, the top quintile has more than twice as many E&C staff members per 1,000 employees (2.0 FTEs) than do less effective programs (0.9 FTEs). Highly regulated programs in the top quintile average 2.2 FTEs per 1,000 employees. Less regulated members of the top quintile are manned by 1.7 FTEs. In sharp contrast, in the bottom quintile, highly regulated companies have only 1.1 FTEs per 1,000 employees, and the less regulated companies only 0.8 FTEs.

The most effective programs spend roughly 20% less per employee, and have staffs twice as large, than the least effective programs. Clearly, they are spending more money on people and saving money elsewhere. Where? How? It is hard to say, on average, but the real takeaway lies in the pages that follow. As will be seen, many, though by no means all, of the things that distinguish highly effective programs and have real PEI impact—things like awards programs and facilitated group discussions and how they target and measure their efforts—cost little or nothing, though they require people to drive them and, perhaps more tellingly, they require of those people a broader vision of the purpose and means of the E&C function.

The data is clear: The bottom quintile actually spends more on E&C per employee than does the top quintile.

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The Tone at the Top, the Mood in the Middle, and Building an Ethical Culture

Building an ethical culture is a core task for all E&C programs, and it is hard enough even where the entire company is on board. That is generally the case for top quintile programs, where 96% don't see a lack of board or CEO sponsorship as a significant obstacle. Less than 70% of those in the bottom quintile agree, and for 31% of them, that lack of support is a significant or very significant problem. Programs suffering in those circumstances average PEI scores of 0.46.

Most employees in most organizations never see the CEO or the Board. And so for most, organizational values are revealed not in the soaring rhetoric of the CEO's introductory letter to the code of conduct but in employees' daily interactions with their immediate supervisors. Without the active support of these middle managers, the E&C program's culture project may well be derailed, or even doomed.

Not surprising, then, that the disparity between the quintiles is even more pronounced in terms of the support of middle management. It is not a problem (neutral or less) for 87% of highly effective programs. That's the case for only 42% of less effective programs, while the lack of support from the middle is a significant or very significant issue for 58% of them.

The Percentage of Programs Operating Where the Average C-Suiter Often or Very Often:	Top Quintile	Bottom Quintile	PEI Score
Holds subordinate executives accountable for modeling expected behavior	65%	25%	0.61
References the code of conduct in public without prodding or preparation from the general counsel or E&C officer	67%	8%	0.66
References the company's values as a framework for making decisions	47%	20%	0.61
Is the first to complete ethics and compliance training	47%	6%	0.66
Connects with the ethics and compliance officers on senior management performance and promotions	74%	10%	0.65
Addresses ethics and compliance issues in staff meetings, operational reviews, and similar contexts	50%	0%	0.79

The Percentage of Programs Operating Where the Average C-Suiter Hardly Ever or Never:	Top Quintile	Bottom Quintile	PEI Score
Holds subordinate executives accountable for modeling expected behavior	14%	33%	0.51
References the code of conduct in public without prodding or preparation from the general counsel or E&C officer	12%	71%	0.50
References the company's values as a framework for making decisions	19%	45%	0.53
Is the first to complete ethics and compliance training	26%	75%	0.53
Connects with the ethics and compliance officers on senior management performance and promotions	5%	54%	0.49
Addresses ethics and compliance issues in staff meetings, operational reviews, and similar contexts	7%	96%	0.51

Hitting the Marks

Building an ethical culture is not a pilgrimage to a destination; it is an ongoing journey. And while those running programs in the top quintile are further along than the rest, they still have much to do. Even for these clearly more values-oriented and culture-focused leaders, meeting the expectations of key regulators, and providing the organization with the maximum available mitigation of the costs of misconduct, should it occur, need attention.

Shown below are the percentages of programs in each of the quintiles that report having completed or made substantial progress on each of the hallmarks of an effective compliance program as defined in the joint guidance. The relative performance of the leaders and laggards speaks volumes but is, by this point in the narrative, no surprise. How much even the leaders have yet to do, however, is noteworthy. More than 30% of the top quintile haven't made more than "moderate progress" on five of the eleven hallmarks. Of course, those in the bottom quintile have, on average, made moderate or less progress on twice as many hallmarks, but there remains much room for improvement across the board.

Among the particularly difficult hallmarks is one of the most fundamental, "Incentives and Disciplinary Measures," as the DoJ/SEC joint guidance labeled it. That 40% of even the most effective E&C programs haven't made more than moderate progress on "carrots and sticks," the basic tools of corporate behavior modification for centuries, may reflect how difficult it is to properly apply these tools in the complex context of shaping values-based culture or on the crowded field of competing corporate imperatives. However difficult, the effort is rewarding, with those who have made real progress or more sharing an impressive average PEI score of 0.65. In the bottom quintile, 57% haven't got past the planning phase when it comes to Incentives and Disciplinary Measures, and they share a PEI of 0.51.

Building an ethical culture is not a pilgrimage to a destination; it is an ongoing journey. And while those running programs in the top quintile are further along than the rest, they still have much to do.

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Figure 15. Percentage of Respondents Reporting At Least Substantial Progress Against the Eleven Hallmarks

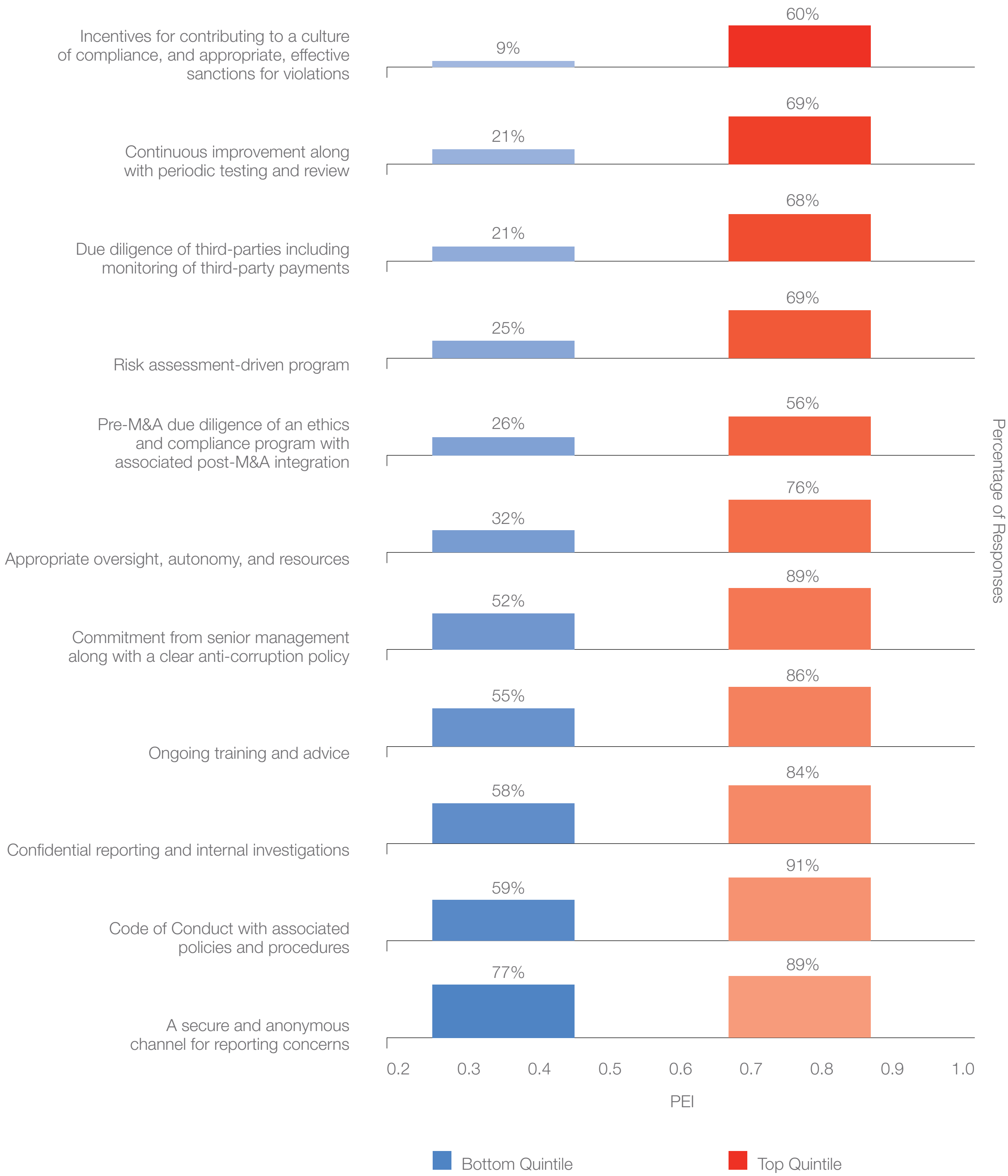
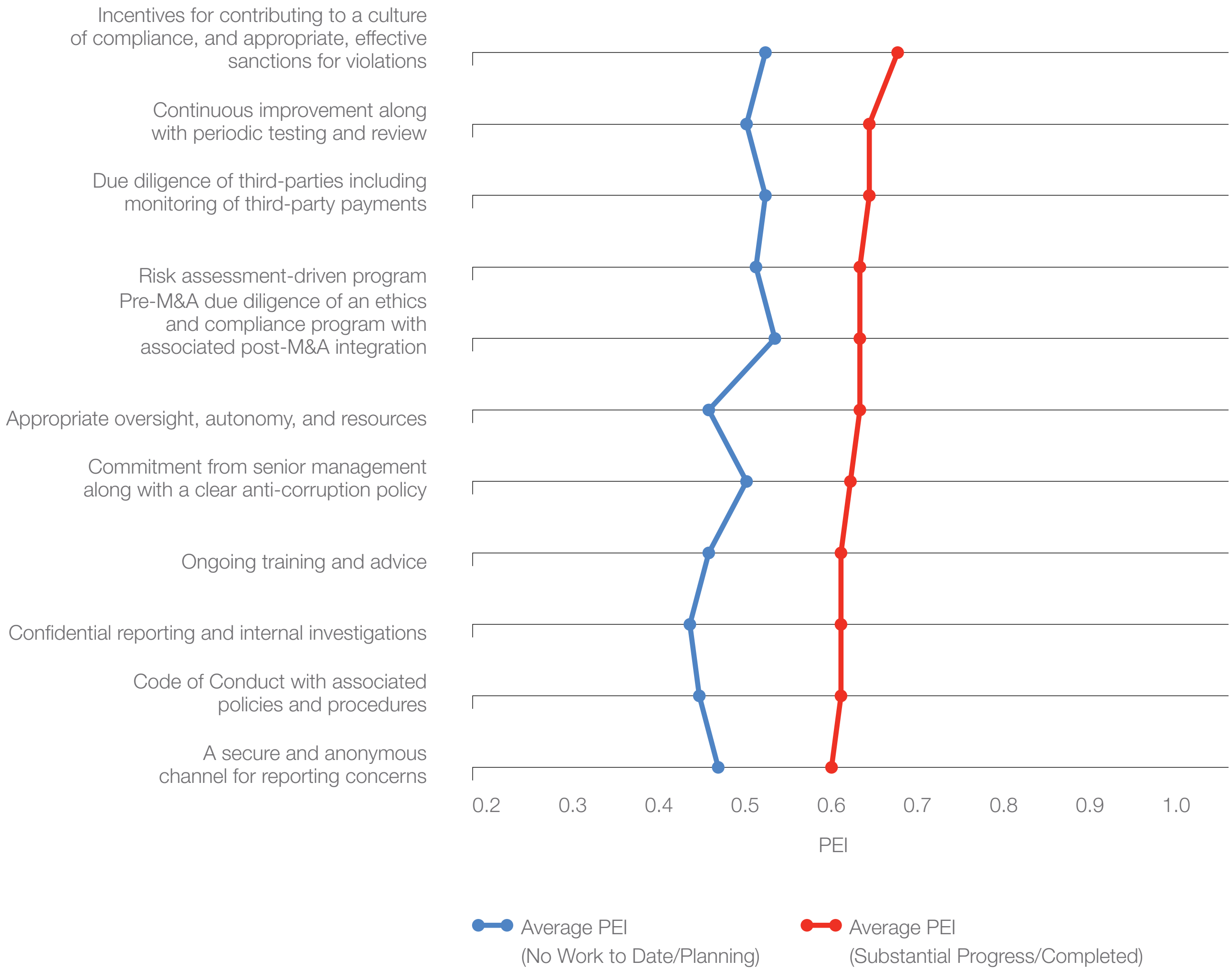


Figure 16. The PEI Scores Associated with Progress, and a Lack of Progress, on the Eleven Hallmarks

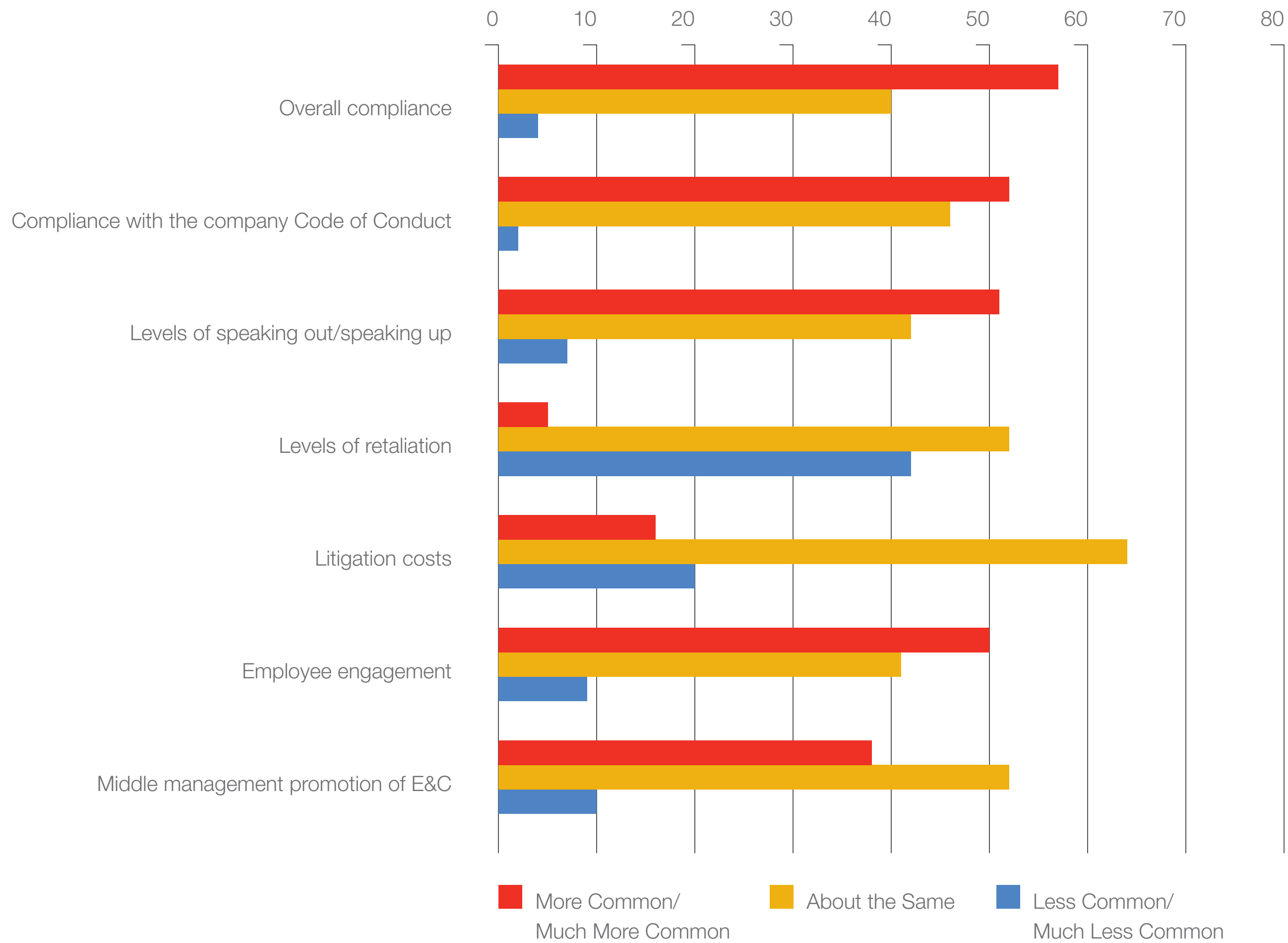


Outcomes

All of the tools—all of the structures and goals and metrics and assessments and solutions that make up the "how" of the modern corporate ethics and compliance function—are designed to "promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law," as the authors of the Federal Sentencing Guidelines described it. As we have seen, the most effective of these programs focus on corporate values. In large part, they do so not in service to a moral imperative, but in recognition of the power of a fundamental algorithm; values drive behaviors, and behaviors drive outcomes. In the end, impact and effectiveness are all about outcomes.

And most compliance-related outcomes are up, or at least unchanged, in most organizations.

Figure 17. Reported Changes in Compliance-Related Outcomes Over the Past Three Years (All Respondents)



While we in the ethics and compliance business cannot take all the credit (if only because we will not want to take all the blame when something goes wrong, as it will), those of us who have been at it long enough have noticed a change—one no less dramatic for having been prolonged and incremental. As both the data and long observation make clear, our companies are more compliant than they once were. Certainly, they are more closely regulated, those regulations are more strictly enforced, and violations are more severely punished than they ever were. But our companies are also more open, more transparent, and more concerned about such matters.

Here again, however, a look at the quintiles in profile is illuminating.

Figure 18. Percentage of Respondents Reporting That Select Compliance-Related Outcomes Have Become More Common or Much More Common Over the Past Three Years

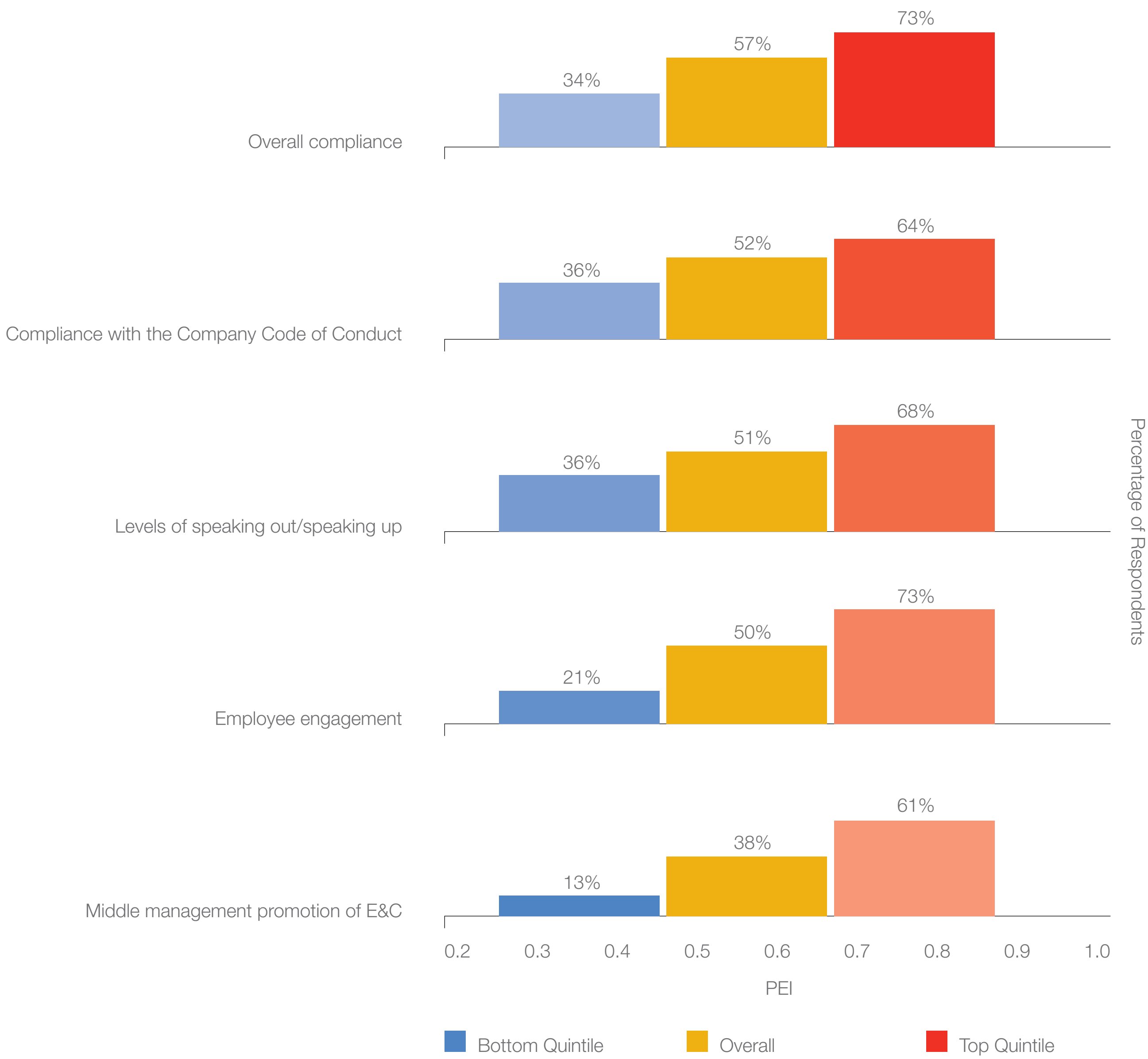
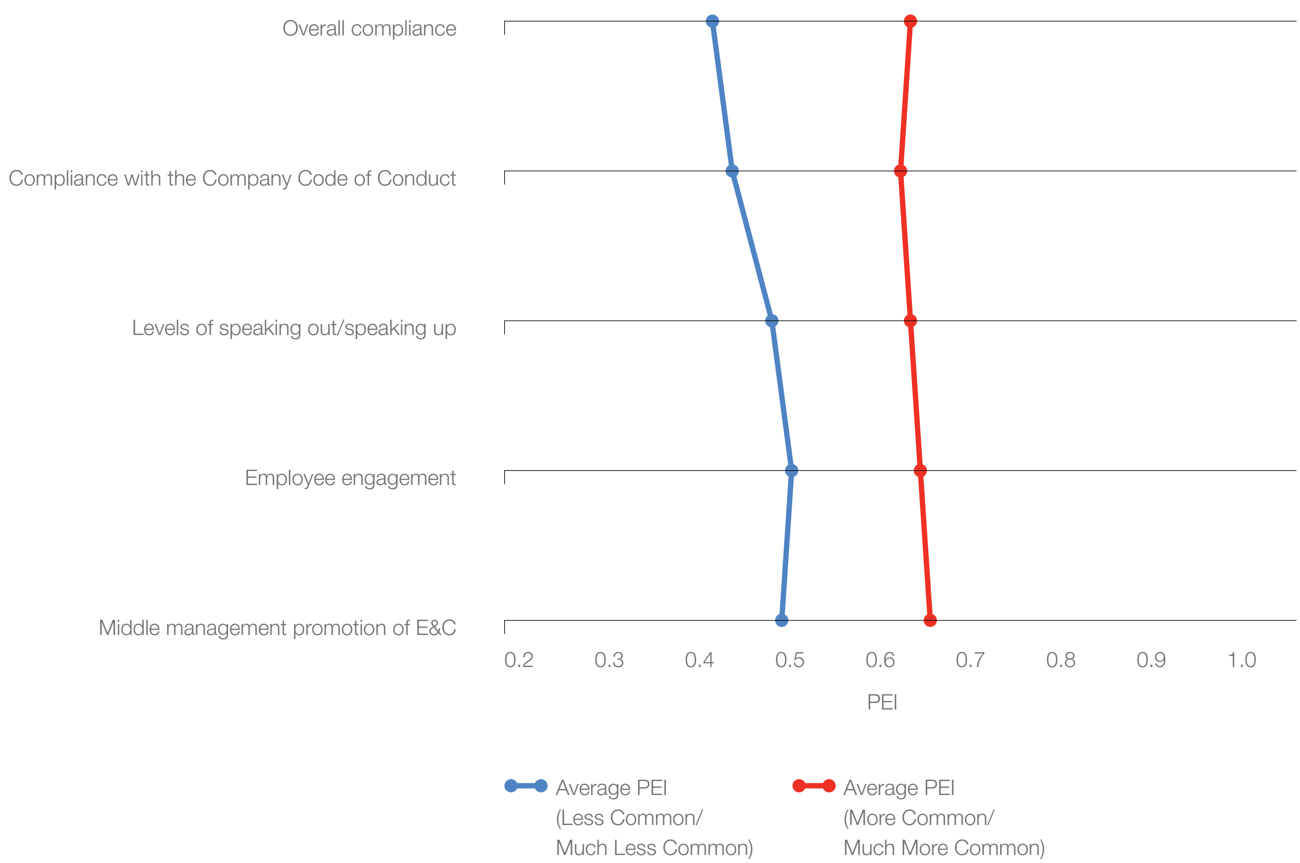


Figure 19. PEI Impact Associated with Reported Changes in Compliance-Related Outcomes Over the Past Three Years



As these figures illustrate, highly effective programs operate in organizations that are two, three, even almost five times more likely to experience higher and much higher levels of these outcomes. But to ask whether the effectiveness of the program is a cause or effect of the behaviors of those in the organization is like standing in Times Square and asking for directions to New York City; they are part and parcel of the same thing.

> "If you think compliance is expensive, try non-compliance."
>
> – Paul McNulty

Economies of Scale and the Costs of Globalization

These days, with billion dollar fines and a growing number of executives behind bars (or headed there) in the U.S., the UK, China, Brazil, and elsewhere, the case for the "defensive" return on a compliance investment needs little support. Just do the math.

BNP Paribas paid penalties of roughly $9 billion as a consequence of its provision of financial services to countries deemed enemies of the United States, despite its awareness of the sanctions regime. The penalties come to more than $48,000 for each of its 185,000 employees. The average highly regulated firm of that size pays about $30 per year per employee for its ethics and compliance efforts. BNP Paribas could have trained its employees, and done everything else the ethics and compliance function does, for a very, very long time before the cost of compliance caught up with the cost of non-compliance.

Among the Benefits of Getting Big

Both the size of fines and the per capita cost of E&C programs owe much to the size of a firm, as we continue to note large economies of scale. Companies with more employees spend considerably less per employee on their programs, with average spend per capita of $247 for companies with fewer than 2,500 employees to roughly 7% of that amount ($18) for companies with more than 250,000 employees.

While the delta between highly regulated and less regulated companies' costs is quite prominent for smaller firms, it quite nearly disappears at the top end of the scale, demonstrating that at least with regard to E&C spend, size matters most.

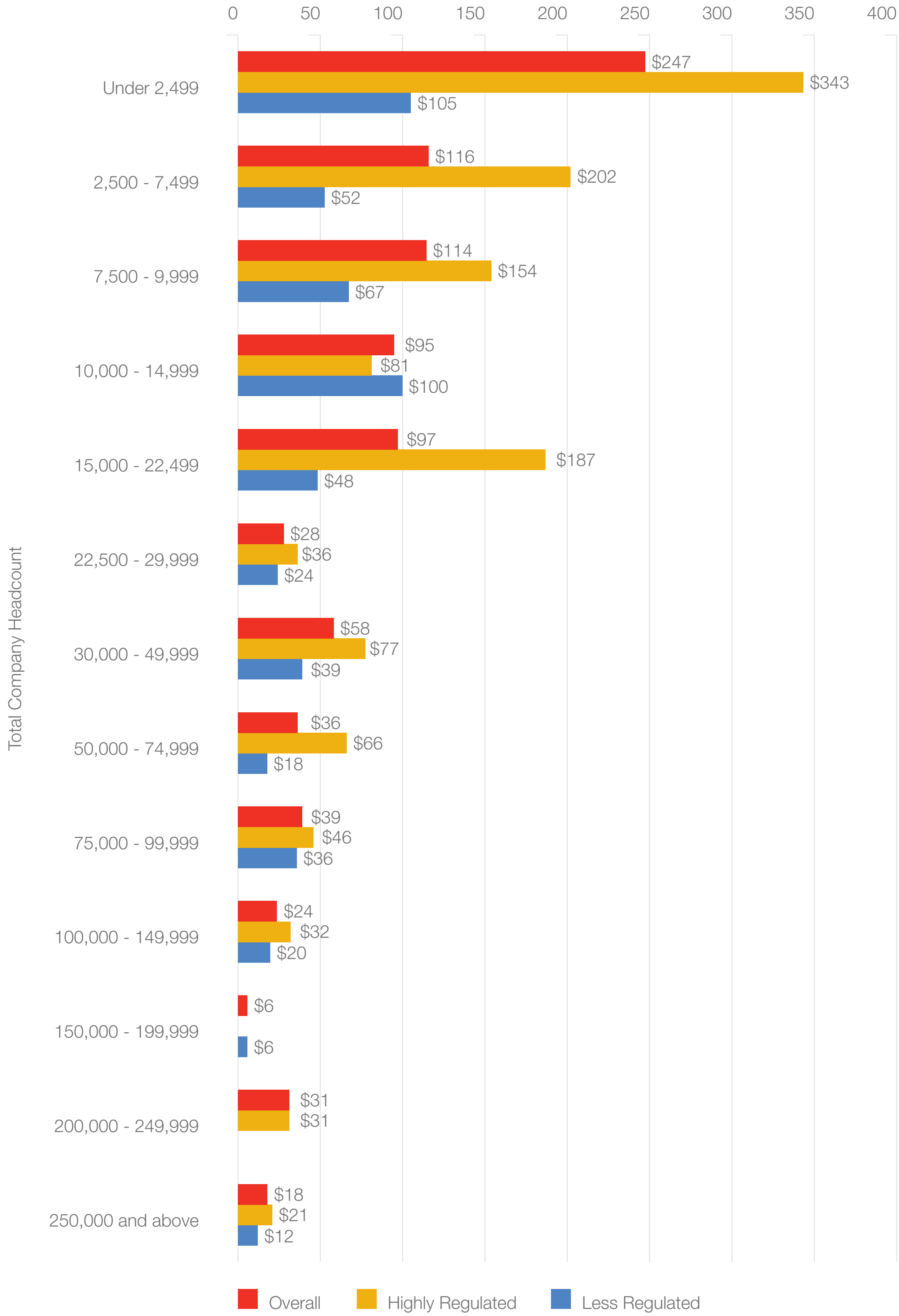
Much the same pattern emerges in terms of staffing, shown below as E&C FTEs per thousand employees.

Companies with more employees spend considerably less per employee on their programs, with average spend per capita of $247 for companies with fewer than 2,500 employees to roughly 7% of that amount ($18) for companies with more than 250,000 employees.

YELLOW HIGHLIGHTED TEXT: FINDING HAS A STATISTICAL SIGNIFICANCE BETWEEN 95.5 AND 99.7 PERCENT.

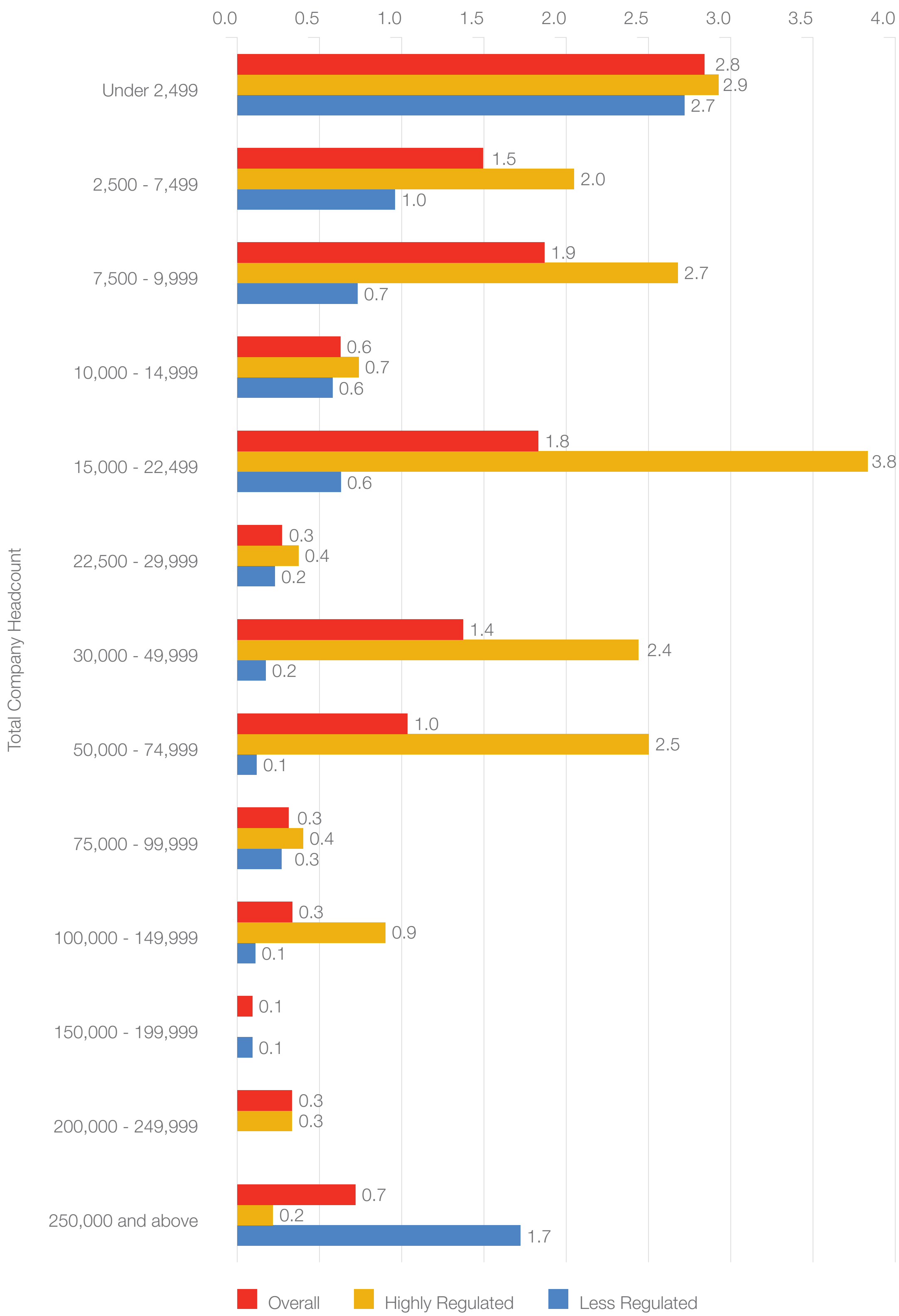
BLUE HIGHLIGHTED TEXT: FINDING HAS A STATISTICAL SIGNIFICANCE ABOVE 99.7 PERCENT.

Figure 20. Average E&C Program Expenditure per Employee by Company Headcount



As noted in prior years, however, neither size nor spend (alone or in combination) has any statistically significant relationship with program effectiveness, as such.

Figure 21. Average E&C Staff FTEs per One Thousand Employees by Company Headcount



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BLUE HIGHLIGHTED TEXT: FINDING HAS A STATISTICAL SIGNIFICANCE ABOVE 99.7 PERCENT.

Among the Costs of Going Global

In 1602, the Dutch East India Company became the world's first multinational corporation. It and the others that followed created fortunes at home and brought trade, economic development, and cultural exchange to the non-European world. Of course, they also brought all of the suffering and depredation of imperial colonialism, from enslavement to disease to the destruction of local economies and institutions.

Today, direct foreign investment by multinational firms continues to play a role as one of the most powerful forces on the world stage. Wherever these firms operate, they are exporting their corporate cultures, healthy or toxic, and exposing their operations to the variety of risks and rewards their new host countries provide. For their ethics and compliance programs, the stakes—in terms of values, culture, and compliance—are at their highest, and appear to translate into additional costs.

While the number of countries in which a company has locations, not surprisingly, is highly correlated to its size, globalization does take a toll in terms of E&C cost. When a company—particularly one in a highly regulated industry—operates in six or more countries, it seems to experience additional compliance expense, which interrupts the otherwise clear relationship between cost per capita and head count. The trend is particularly sharp in smaller companies. The increased cost of staffing, intercontinental travel, translations, and similar multinational logistics being roughly the same for highly regulated and less regulated firms, it seems likely that the cost of globalization largely reflects the cost of addressing a wider variety of regulatory schemes.

> "We must ensure that the global market is embedded in broadly shared values and practices that reflect global social needs, and that all the world's people share the benefits of globalization."
>
> – Kofi Annan

As to PEI, we see no relationship to report. Data regarding headquarters locations, operating regions, and number of global locations all tell a similar story: Program effectiveness is not a factor of what you do, how much of it you do, or where you do it. It is very much and only a matter of how you do it.

Figure 22: Overall Program Expenditures Per Capita by Number of Countries in Which Company Has Locations (in Dollars)

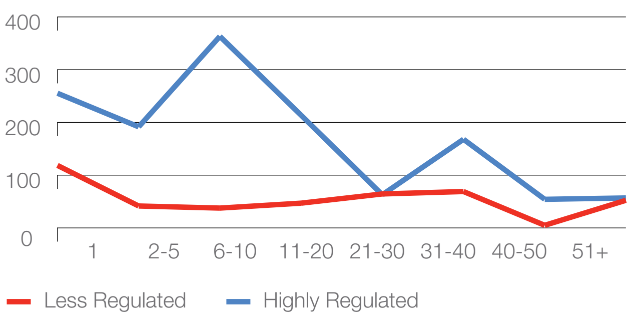
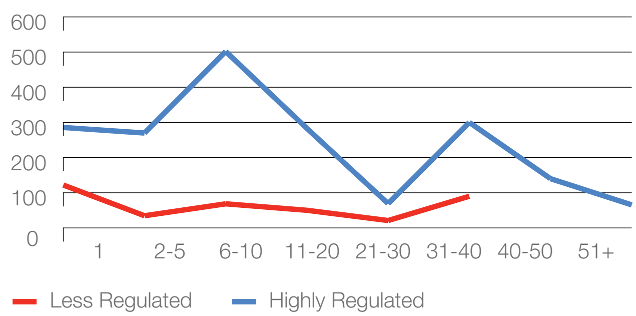


Figure 23. Overall Program Expenditures Per Capita by Number of Countries in Which Company with Fewer than 10,000 Employees Has Locations (in Dollars)



Conclusion

Ethics and compliance programs and the people who run them don't do ethics and compliance. They teach, cajole, inspect, investigate, remind, measure, reward, punish, focus, facilitate, demonstrate, demand and sometimes even inspire ethics and compliance, but they don't actually do it. In every company it is up to those who hire, invent, find, buy, build, transform, test, market, sell, count and support to actually do so ethically and in compliance with applicable requirements. It is in this context that ethics and compliance programs exist.

Recall that 93% of top quintile programs function within organizations where culture and business values are high or very high corporate priorities. Not one top quintile program is found where culture and values are a low priority or less.

How are those priorities reflected in practice? Certainly, they are reflected in the structures companies adopt. With few exceptions, CECO's don't choose to whom they will report. Boards and CEOs do. Choosing to have the CECO report directly to the CEO or board is a visible manifestation of the prioritization of culture and values. It is a strong, substantive commitment to the prevalence and success of ethics and compliance within the organization. The tone it establishes is comes through loud and clear.

That tone at the top and tone in the middle may be influenced by a meaningful E&C effort but tone is about the organization as a whole. It is the sound of corporate culture. As we have seen, effective programs are more than twice as likely to have support from both the middle and the top as are less effective programs.

We examined the prevalence and impact of C-Suite behaviors in this report not to illustrate what a difference an effective program makes in the character of senior corporate officials, but to make clear the degree to which the character of those officials, reflected in their behavior, facilitates program impact.

Even the troublesome and somewhat surprising finding that those working as both general counsel and chief compliance officer on average ran more effective programs than the independent CECOs leads to the same conclusion. As our analysis revealed, the GCs' central, historical roles and their deeper and more varied business relationships are likely the principal causes of their advantage.

> "You are not here merely to make a living. You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world, and you impoverish yourself if you forget the errand."
>
> – Woodrow Wilson

That E&C programs thrive or struggle depending, in large measure, on the culture and values of the organizations in which they operate is no surprise. Nor is it news that working on culture and values is or ought to be the compliance officer's fundamental mission. It is our hope, however, that armed with the data and analysis presented, compliance officers can convincingly engage with the leaders of their organizations around a determined, strategic and collective focus on culture, not as something to be taught to employees but as something formed and expressed in every leader's every choice.

As highly successful programs have demonstrated, it is possible to move from ethics and compliance programs as an unavoidable fact of corporate life to ethics and compliance as an indivisible part of corporate life. It is not a destination. It is a journey.

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BLUE HIGHLIGHTED TEXT: FINDING HAS A STATISTICAL SIGNIFICANCE ABOVE 99.7 PERCENT.

Demographics

Respondents by Industry

Primary Industry	Percent
Aerospace & Defense	7%
Automotive & Transportation	3%
Biotechnology	1%
Business Services	7%
Chemicals	3%
Computers	1%
Construction & Real Estate	3%
Consumer Products & Services	5%
Electronics	1%
Energy (Oil & Gas, Renewables)	9%
Financial Services	11%
Food, Beverage, Tabacco & Agriculture	2%
Health Care	10%
Insurance	7%
Manufacturing	14%
Media, Music, Publishing & Broadcasting	0%
Medical Devices	2%
Minerals & Mining	2%
Pharmaceuticals	4%
Retail	1%
Security	1%
Telecommunications	3%
Utilities	5%
Wholesale/Distribution	1%

Respondents by Headquarter and Operating Regions

Region	Headquarter Region	Operating Regions
Asia/Pacific	6%	54%
North America	73%	85%
South and Central Americas	5%	46%
Europe	13%	53%
Middle East and North Africa	2%	33%
Sub-Saharan Africa	2%	22%

Number of Fulltime Employees

	Percent
Under 2,499	28%
2,500 - 7,499	22%
7,500 - 9,999	5%
10,000 - 14,999	12%
15,000 - 22,499	7%
22,500 - 29,999	5%
30,000 - 49,999	8%
50,000 - 74,999	5%
75,000 - 99,999	1%
100,000 - 149,999	3%
150,000 - 199,999	0%
200,000 - 249,999	0%
250,000 and above	3%

Number of Countries in Which Respondents Have Locations

Number of Countries	Percent
1	30%
2 - 5	17%
6 - 10	12%
11 - 20	9%
21 - 30	10%
31 - 40	4%
41 - 50	2%
51+	16%

Please visit www.lrn.com to explore the 2015 Ethics and Compliance Effectiveness Survey data and findings in more detail.

For more information about LRN visit LRN.com, or call: 800 529 6366 or 646 862 2040.

About LRN

Since 1994, LRN has helped over 20 million people at more than 700 companies working in over 100 countries simultaneously navigate complex legal and regulatory environments, foster ethical, winning cultures, and inspire principled performance in their operations. LRN's combination of practical tools, education, and strategic advice helps companies translate their values into concrete corporate practices and leadership behaviors that create sustainable competitive advantage. In partnership with LRN, companies need not choose between living principles and maximizing profits, or between enhancing reputation and growing revenue: all are a product of principled performance. LRN works with organizations in more than 100 countries and has offices in New York, Los Angeles, London, Mumbai, and Paris.

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