

2017 EMEA & APAC Culture and Compliance Benchmark Report

DATA AND INSIGHTS TO PUT TO WORK IN YOUR PROGRAMME TODAY

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INTRODUCTION

NAVEX Global partnered with an independent research agency to investigate how companies headquartered across Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC) develop and execute their ethics and compliance (E&C) programmes.

The purpose of the survey is to provide the industry with data on an overlooked area of research: benchmarking the top priorities and challenges faced by ethics and compliance professionals headquartered in EMEA and APAC. This is the second edition of the survey, with the first edition published in 2015*. We have compared some of our findings with the results from the 2015 report in order to show relevant trends.

The findings discussed in this report represent responses from 256 key decision-makers and individuals responsible for E&C programmes. See the Survey Respondent Profile for additional details.

This report provides insights on such questions as:

- » What are the top E&C programme priorities and challenges for survey participants?
- » What programme activities are being planned for the next 12 months?
- » What E&C software components are being used in programme implementation and management?
- » How are organisations prioritising their budget over the next 12 months?
- » How do organisations rate the maturity of their E&C programmes?
- » How are organisations measuring the effectiveness of their programmes?
- » Have E&C programmes prevented incidents of misconduct?

HOW TO USE THIS REPORT

As global regulations and demands for transparency increase, strong ethics and compliance programmes have become more important than ever to mitigate risk and create a culture of ethics and integrity. Understanding what peers are doing is essential in helping you evaluate your programme in a broader context. Regulators and other stakeholders frequently use this type of comparative information in determining whether an organisation has made a good faith effort to avoid compliance and reputational failures. This report is intended to help you identify areas where your programme may need to grow or evolve and to provide some of the frequently requested data points for your board of directors and senior leaders.

EXECUTIVE SUMMARY

Benchmarking your ethics and compliance programme is key to understanding programme performance and identifying areas to improve. Benchmarking also enables you to make better decisions about protecting your organisation from legal, financial, regulatory and reputational risk, and ultimately create a corporate culture that inspires ethical behaviour.

Our survey data revealed the top objectives, pain points and programme strategies for ethics and compliance professionals across many industries, company sizes and geographies. The following key themes emerged:

- » **Improving organisational culture is the top programme objective again this year.** Evolving a culture of integrity, ethics and respect is the most important ethics and compliance programme objective for 2017. Eighty five per cent of respondents selected this as one of their top three objectives. However, only 32% of respondents indicated they are planning to undertake a culture or ethics assessment, and workplace behaviour was rated as the lowest area of risk receiving stakeholder attention (29%).
- » **Measuring programme effectiveness is the top challenge this year.** About half of respondents (45%) cite this as one of their top three ethics and compliance programme challenges. When asked how various aspects of their compliance programme performed, measuring compliance programme effectiveness received the lowest satisfaction rating, with only 36% of respondents rating their programmes as 'Very Good' or 'Excellent'.
- » **Increasing awareness of policies and regulations and managing policy lifecycle are the biggest focus areas.** Increasing awareness of ethics and compliance policies and regulations across the

organisation is the top compliance activity over the next 12 months with 80% of respondents reporting it as a planned activity. Fifty four per cent of respondents also stated managing policy lifecycle as a top implementation concern, the highest rated concern in our report.

- » **Retaliation against employees reporting incidents of misconduct is receiving little attention.** Undertaking activities to help prevent retaliation against employees had the lowest response with only 19% citing this as a planned ethics and compliance activity in the next 12 months. Supervisors mistreating or taking action against an employee after a report is made was also rated as the lowest area of risk with only 24% of respondents rating it as a high level of concern.
- » **There has been a significant increase in organisations reporting regularly to their board of directors.** The majority of respondents reported that their organisation provides ethics and compliance reports to the board on a regular basis (73%). Significantly, this has increased from 59% from the previous report. Only 7% stated that their organisations do not provide any type of reports to the board on ethics and compliance matters.
- » **Satisfaction around third party due diligence is low.** Satisfaction around managing third party risk receives the lowest rating with 63% of respondents citing their programme performance in this area as 'Poor' or 'Fair'. One-third of respondents (29%) indicated that their organisation will prioritise third party risk management within their E&C programme and 45% state that their organisation plans to improve third party due diligence and oversight over the next 12 months.

* NAVEX Global's 2015 EMEA & APAC State of Compliance Programmes Benchmark Report
www.navexglobal.com/resources/benchmarking-reports/navex-globals-2015-emea-apac-state-of-compliance-programmes-benchmark-report

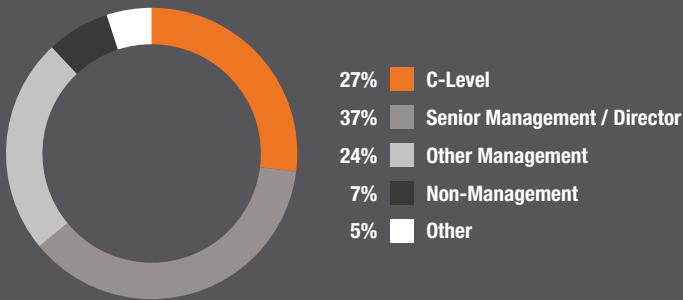
SURVEY RESPONDENT PROFILE

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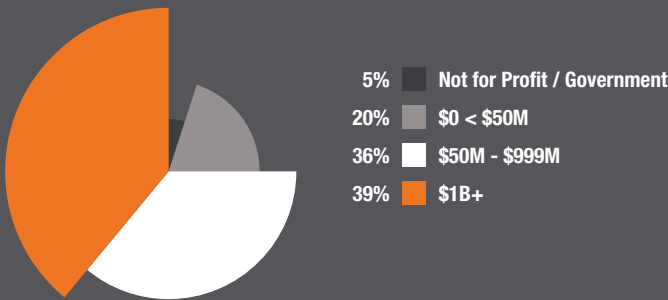
Job Function



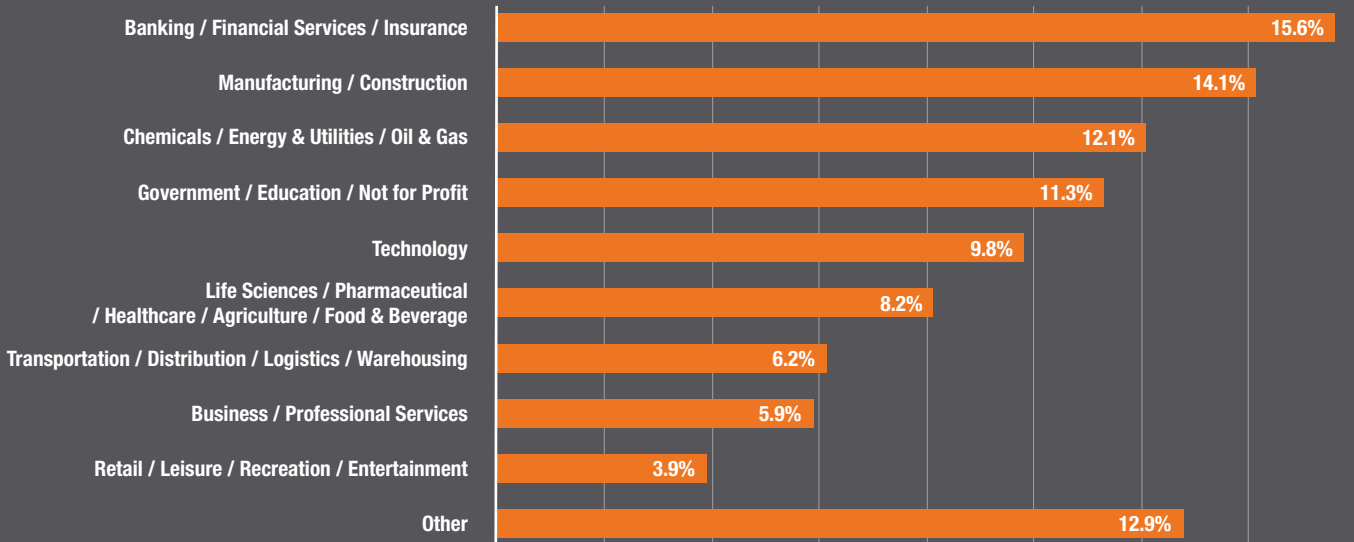
Job Level



Company Annual Revenue



Industries



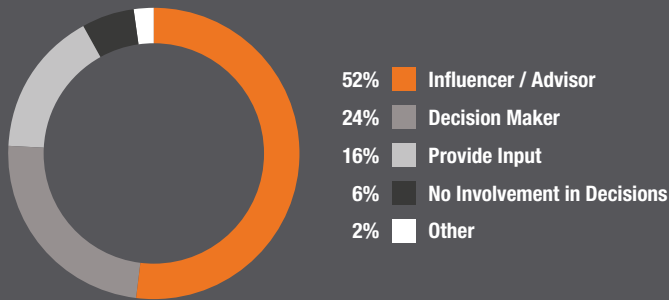
| Location of Headquarters | |
|--------------------------|-----|
| Europe | 58% |
| Africa | 18% |
| Asia | 13% |
| Middle East | 7% |
| Other | 4% |



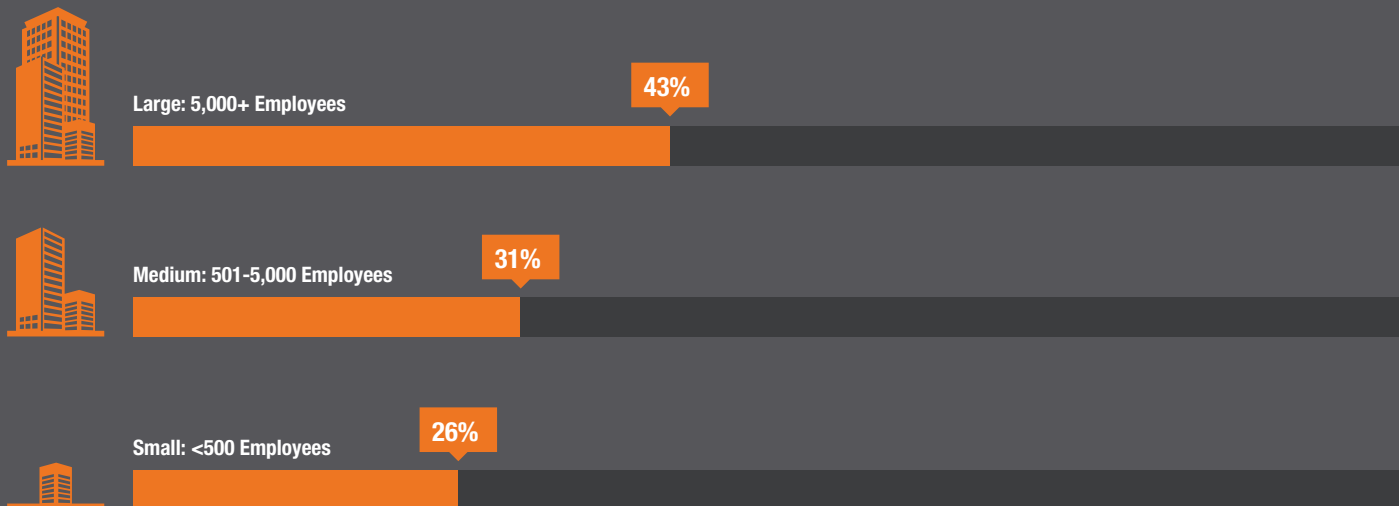
Regions Where Organisation Does Business

| | |
|---|-----|
| Europe | 72% |
| Asia | 57% |
| Africa | 54% |
| North America | 47% |
| Middle East | 46% |
| South America | 38% |
| Australia / New Zealand / Pacific Islands | 35% |

Decision Making Role



Company Size



KEY FINDINGS

A. The Outlook for Ethics & Compliance Programmes

1. Top E&C Programme Objectives

Findings: Eighty five per cent of survey respondents cited that 'Evolving a culture of integrity, ethics and respect' is the most important programme objective over the next 12 months. This had increased from 69% from the previous survey. This was followed by 'Implementing preventative measures and practices to avoid future issues or misconduct' (65%). These two objectives also topped the list in the 2015 survey.

- » 'Navigating and complying with laws and regulations across jurisdictions' was more important to organisations in the Banking/ Insurance sector (53%) than for other industries, as was 'Strengthening the organisation's reputation', again at 53%.

- » 'Navigating and complying with laws and regulations across jurisdictions' was more important to organisations in the Manufacturing/ Construction sectors with 42% stating this as a top three objective.
- » Organisations headquartered in Africa/Middle East are more likely to cite 'Strengthening the organisation's reputation' as a top objective (46%) compared to those headquartered in Europe (24%) or Asia (24%).

Analysis:

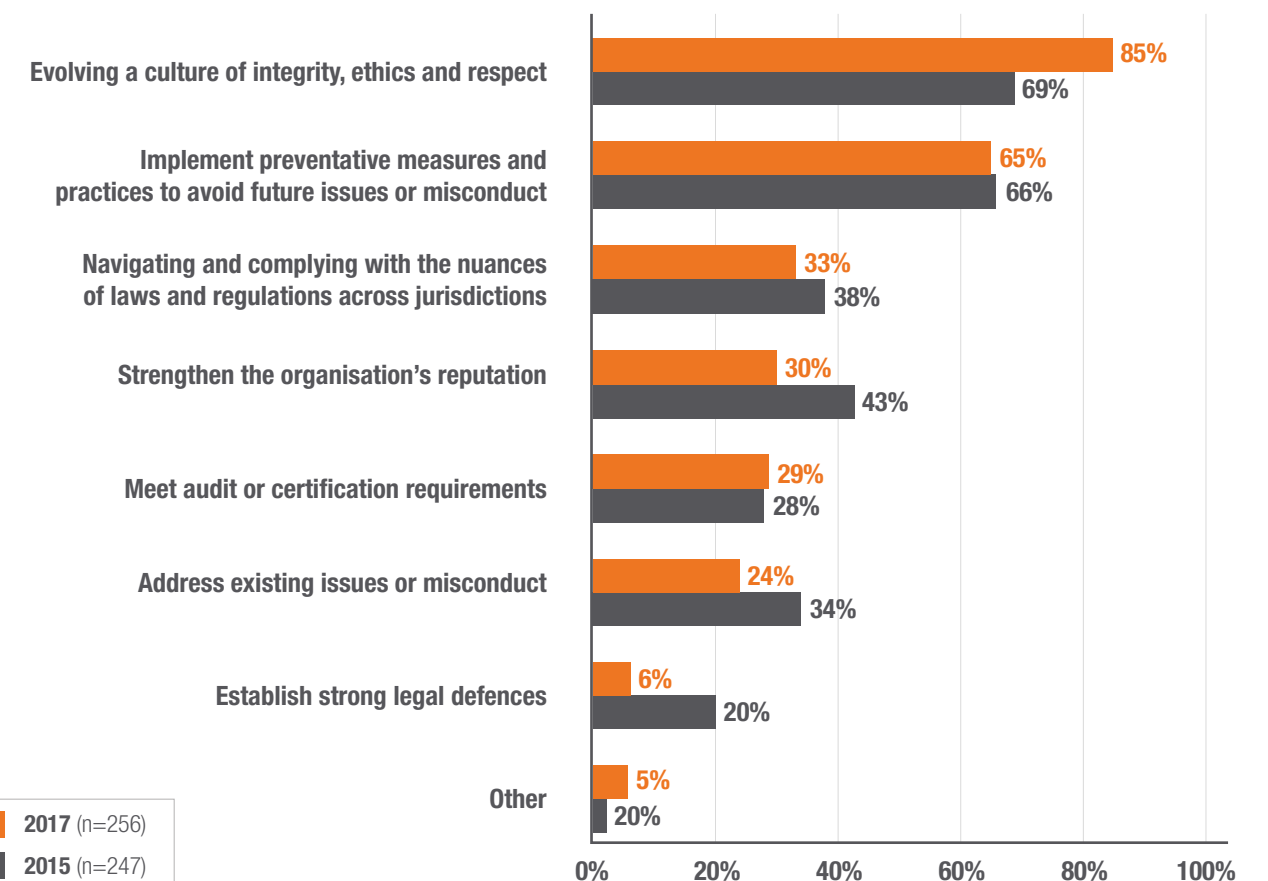
Top priorities for ethics and compliance programmes shows a continued focus on the importance of developing a strong organisational culture. Organisations are demonstrating an understanding of the value of culture as a measurable asset and as a source of competitive advantage. It is therefore a positive indication that these objectives remain a top concern, as achieving real improvements in culture requires a continued long-term focus from senior leadership teams all the way down the organisation.

Respondents placed the lowest priority on establishing strong legal defences. As

compliance programme objectives emphasise preventing and mitigating legal, behavioural and operational risk, programme directions continue to move away from protection against compliance failure and toward tackling the root causes of misconduct. The introduction of Deferred Prosecution Agreements (DPAs) has also encouraged greater attention toward prevention rather than cure. Even when things do go wrong, if organisations can show they have successfully implemented a strong ethics and compliance regime, significant discounts on resulting legal penalties have been seen.

Top Ethics & Compliance Programme Objectives

Respondents were asked to select their top three most important ethics and compliance programme objectives over the next 12 months.



Note: 2015 scores reflect the proportion of respondents who ranked each objective as 1-3 in terms of importance.

2. Top E&C Programme Challenges

Findings: ‘Measuring programme effectiveness’ was indicated as the top ethics and compliance programme challenge. This was closely followed by ‘Insufficient staff’ (39%) and ‘Managing regulations across different jurisdictions’ (39%). These results were also in line with the 2015 report.

- » Measuring programme effectiveness was an even greater challenge for Technology organisations (60%) and for the Health/Food/Pharmaceutical sectors (57%).
- » Government/Education/Not for Profit sectors stated that insufficient staff (52%) and insufficient budget (48%) were the greatest challenges.
- » Organisations headquartered in Europe are more likely to cite localising E&C programmes across different regions as a top programme challenge (32%) compared to those in Africa/Middle East (16%).

Analysis:

The top E&C programme challenge of measuring programme effectiveness requires organisations to define not only the right combination of key indicators but also how to capture them consistently and how they relate to the overall cultural health of the organisation.

The key challenges of a lack of resources—both human and financial—and managing regulations across international and cultural boundaries indicates compliance officers have an additional role to play in proving the programme’s value to stakeholders. For many organisations, compliance officers need strong marketing skills to communicate the appropriate business implications to clients and shareholders, finance, legal, HR and the board.

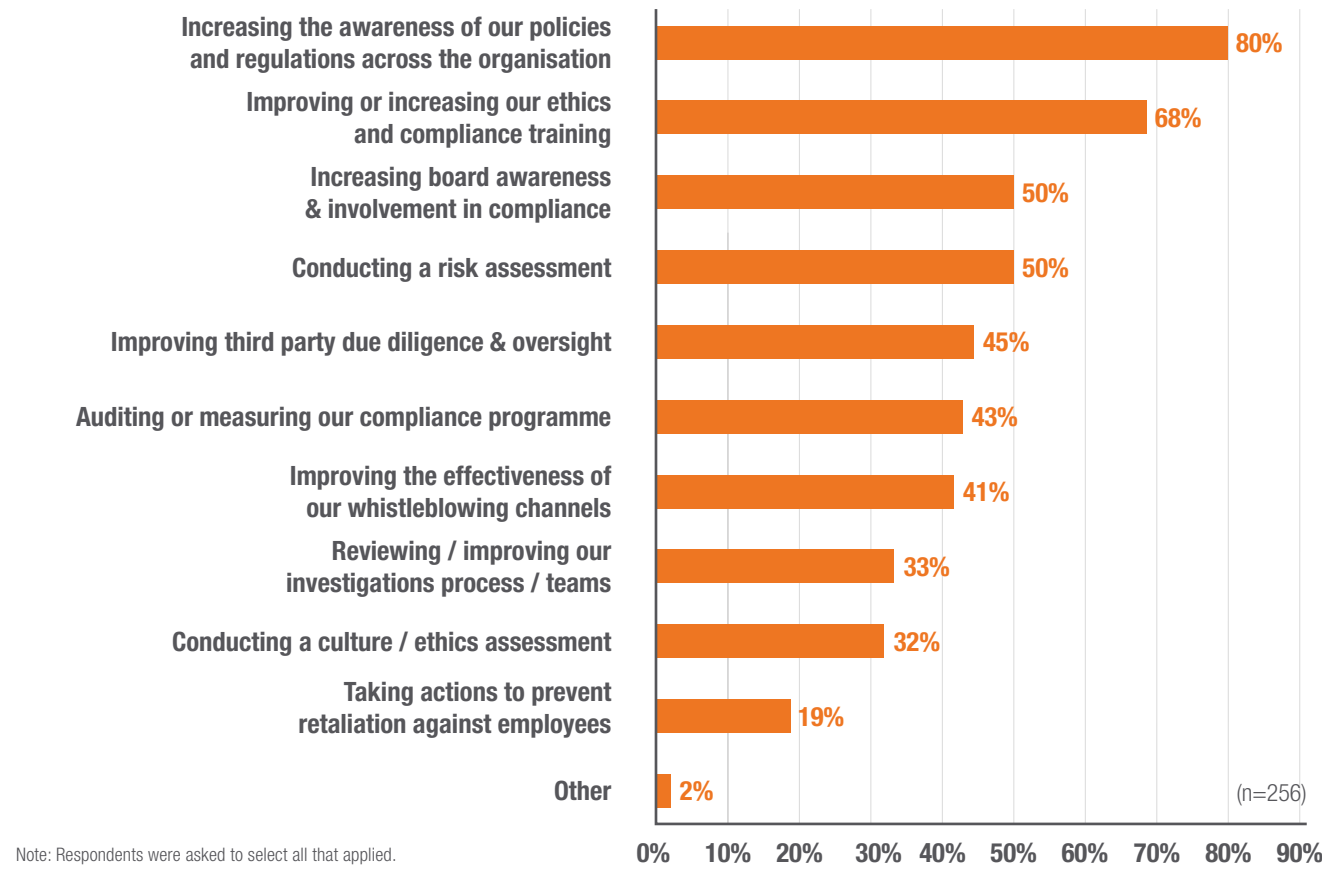
Conducting a risk assessment can help identify resourcing gaps and provide direction for the allocation of resources, as well as prioritise regional support. Successful compliance programmes regularly review resources against the organisation’s risk profile to ensure appropriate mitigation.

3. Top E&C Planned Activities

Findings: The vast majority of respondents (80%) reported that their organisation will be increasing awareness of ethics and compliance policies and regulations across the organisation over the next 12 months. This finding is followed by 68% of respondents indicating they will be improving or increasing ethics and compliance training. Somewhat surprisingly, culture assessments and taking actions to prevent retaliation against employees were the activities that had the lowest focus with only 32% and 19% of respondents, respectively, indicting these activities are planned for the next 12 months.

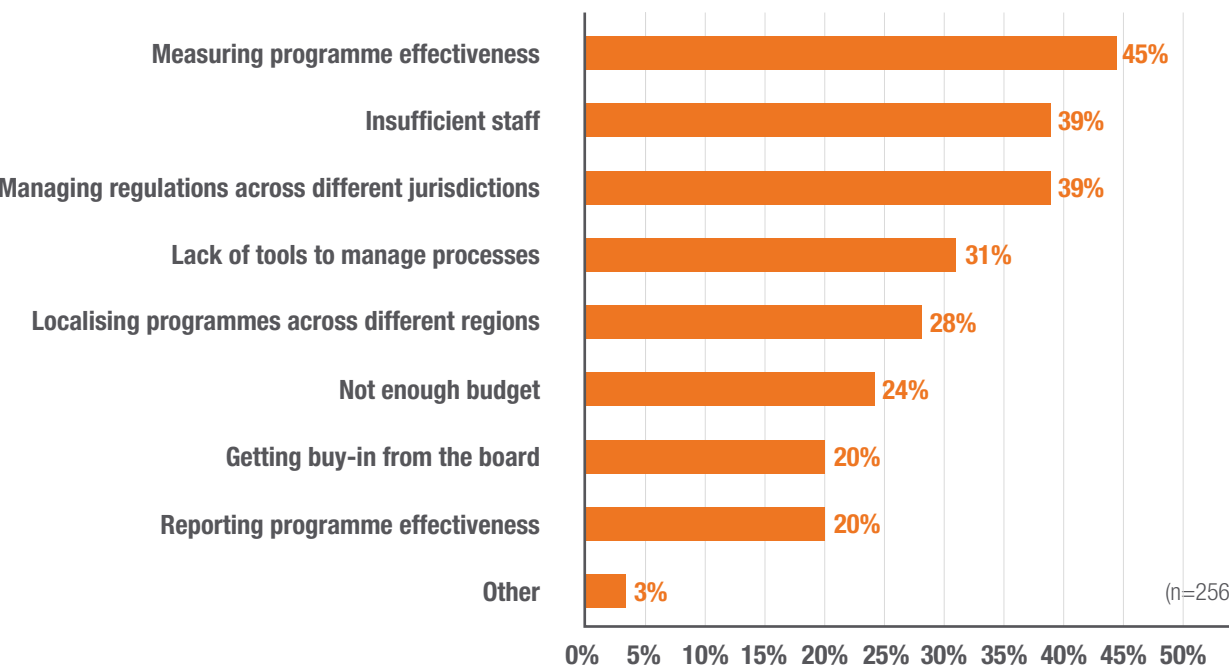
- » ‘Improving or increasing our ethics and compliance training’ was most commonly mentioned by those in the Chemicals/Energy sectors (81%) and the Technology sector (80%).
- » ‘Increasing board awareness and involvement in compliance’ was most commonly mentioned by those in the Transportation sector (69%) as well as those in the Financial/Insurance sector (60%).

Ethics & Compliance Activities to be Undertaken Over the Next 12 Months



Top E&C Programme Challenges

Respondents were asked to select their top three E&C programme challenges



Analysis:

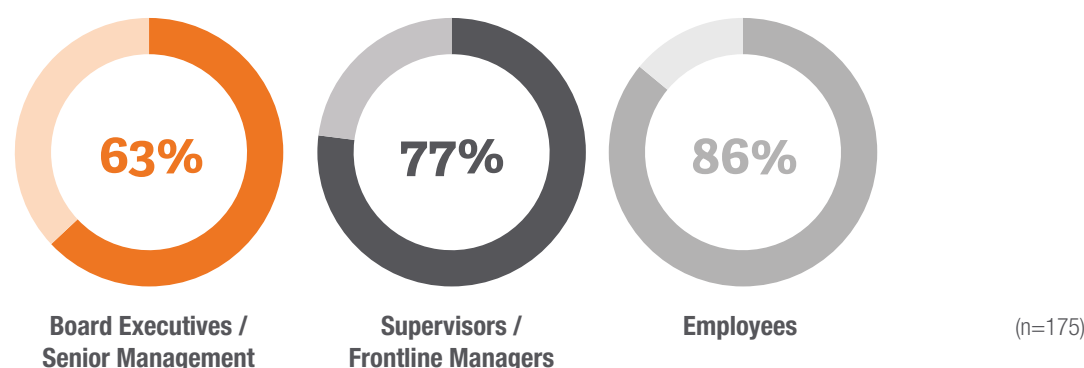
When we compare organisations' planned activities to reach stated objectives, we see there are major gaps between what organisations want to achieve with their compliance programmes and the activities they are planning to undertake. Only 32% of respondents have indicated they are planning to undertake a culture assessment, which can help accomplish the top objective to improve organisational culture. This objective will be difficult to accomplish without an understanding of where major cultural barriers exist and where perceptions differ between senior management and employees.

Ensuring all employees are aware of the legal environment within which they operate and how they are individually accountable for compliance is the first step in addressing organisational risk. The top implementation concern of managing

the lifecycle of policies and procedures demonstrates the need for organisations to make employees aware of—and regularly attest to—current regulatory requirements and company policies.

An additional concern is that only 19% of respondents have identified activities to prevent retaliation. Our culture assessments¹ show that fear of retaliation is a top reason why employees do not speak up about unethical behaviour. It should be a high priority to ensure employees are regularly made aware that the business will not tolerate retaliation and that there are clear steps to take if someone does suspect retaliation is taking place. Further, managers should be trained to recognise retaliation in their organisation and to make sure it is addressed.

Groups That Will Receive Increased Ethics & Compliance Training



Note: This was an additional response for respondents who selected 'Improving or increasing our ethics & compliance training'.

Board training is an important aspect of a successful ethics and compliance programme. To conduct effective oversight, directors must understand the risks facing the organisation they are tasked with overseeing. The fact that organisations are planning for their boards to receive less training than the other groups suggest that a training gap may exist. Specific training gaps were highlighted in our compliance training assessments² where topics such as cyber security, workplace harassment and conflicts of interest, are being omitted from the boards training programmes.

¹ NAVEX Global, 'Our Approach to Culture Assessments'
www.navexglobal.com/en-uk/resources/whitepapers/our-approach-to-culture-assessments

² NAVEX Global 2016 Ethics & Compliance Training Benchmark Report
www.navexglobal.com/en-uk/resources/benchmarking-reports/navex-globals-2016-ethics-compliance-training-benchmark-report

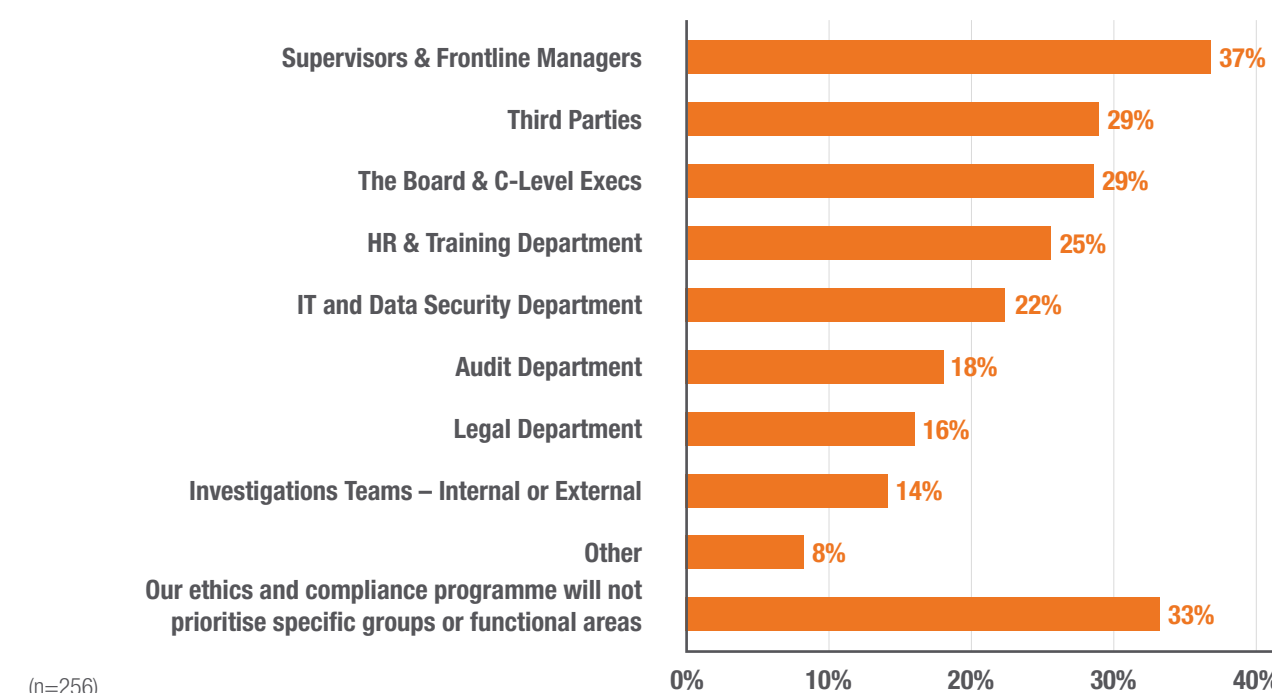
4. Prioritising Functional Areas & Specific Groups

Findings: 'Supervisors & Frontline Managers' are most likely to receive increased attention from ethics and compliance programmes over the next 12 months, with over one-third of respondents (37%) citing that this group will be prioritised. This was followed by 'Third Parties' (29 %) and 'The Board & C-level Executives' (29%) receiving greater attention. One-third of organisations are not planning to

prioritise any specific groups or functional areas within their compliance programme.

- » 'Third Parties' are most likely to be the focus in Health/Food/Pharmaceutical sectors (57%) and Business and Professional Services (47%).
- » 'IT and Data Security Departments' are more likely to be the focus in small organisations (33%) versus large organisations (16%).

Groups or Functional Areas that will Receive Increased Focus or Attention over the Next 12 Months



Note: Respondents were asked to select all that applied.

Analysis:

Our findings show that organisations understand the importance of educating their management teams, especially those on the front lines, on how to carry the compliance message across the organisation and lead by example. Supporting this important group and showing them how to demonstrate through their words and actions that doing things the right way creates a unified message that resonates through the rest of the business. Organisations also need to pay close attention to how their board is integrated into their compliance programme to drive buy-in from the

very top and that senior management is visibly engaged and back programme objectives.

External risks related to third party engagements represent an area that warrants increased attention and due diligence. Regulations such as the UK Modern Slavery Act and recent legal cases have increased the scope of responsibility for organisations to protect against misconduct and bribery and corruption risks posed by third parties, and to reasonably exercise due diligence over their activities.

5. Ethics & Compliance Software Tools: Current & Planned

Findings: ‘Report Intake & Whistleblower Hotlines’ (58%) and ‘On-line Compliance Training/E-learning’ (57%) are the most common software components of an ethics and compliance programme. ‘Incident/Case Management Tools’ followed at 50%. The use of specialised E&C software solutions is also more prevalent in larger organisations and those with more advanced programmes.

Looking to the next 12 months, almost one half of respondents (46%) indicated their organisation will invest in at least one specialised E&C software tool. The most commonly mentioned software components expected to be acquired include ‘On-line Compliance Training/E-learning’ (18%), ‘Third Party Due Diligence Platforms’ (15%), and ‘Policy/Procedure Management Systems’ (14%).

- » Organisations with advanced programmes are more likely to have implemented all of these specialised software tools (45%).
- » Government/Education/Not for Profit organisations were most likely to indicate no current E&C software tools implemented (41%) than any other response.

Analysis:

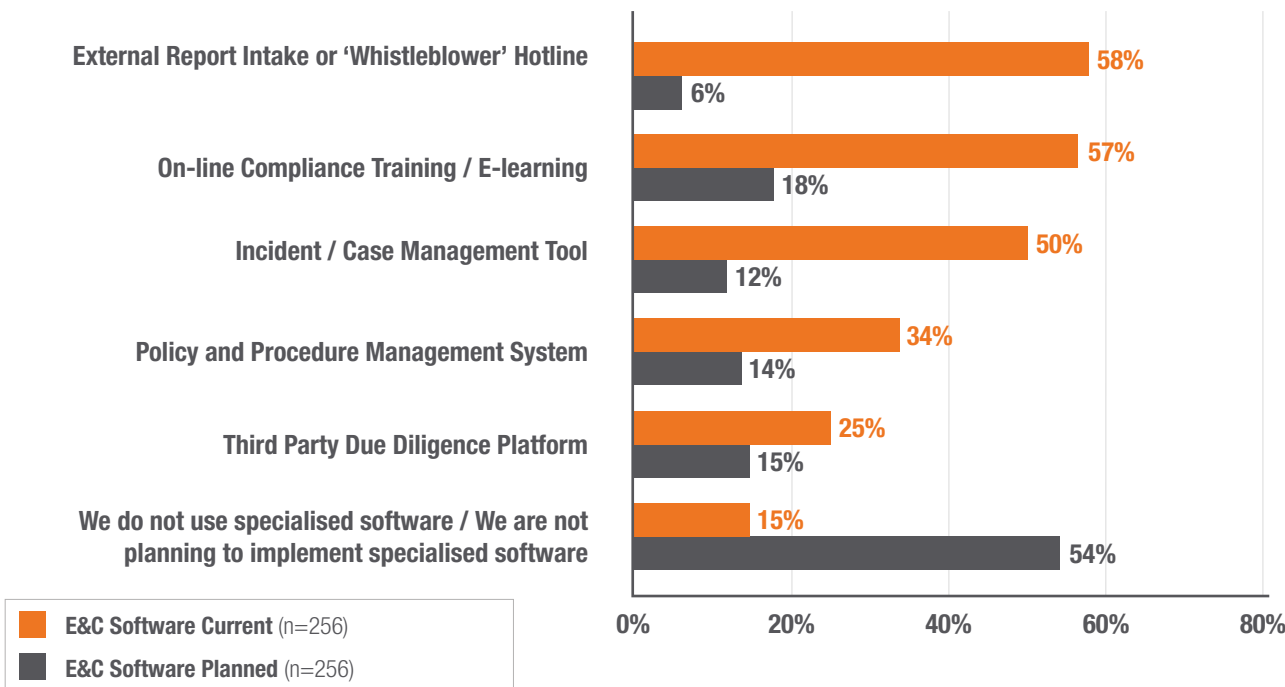
Our findings show the focus for planned software tools is shifting towards areas where automation is less common. However, compliance training solutions continue to be a key area for investment.

There are multiple references in this report to the challenges concerning managing policies and regulations and third party risk. Automating these activities allows organisations to reallocate resources from administrative duties toward more high value tasks that require compliance expertise and decision making.

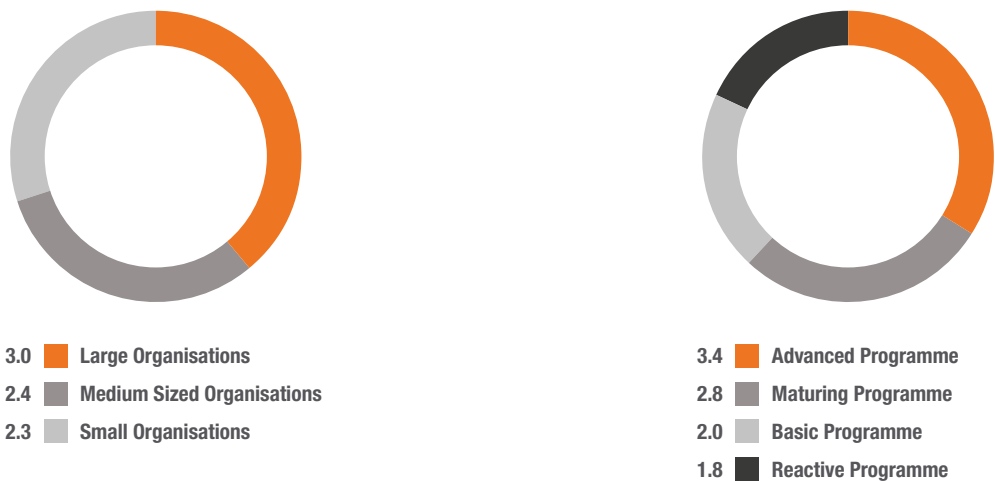
It is of some concern that the public sector appears to be behind the curve when implementing E&C tools. With recent high profile scandals coming to light, specialist software tools can help government departments identify and resolve risks at an early stage—before they develop into a crisis.

E&C Software Tools: Current & Planned

Respondents were asked to select the ethics and compliance tools that are already in place at their organisation and those tools that their organisation had plans to implement in the next 12 months.



Average Number of Software Components Used



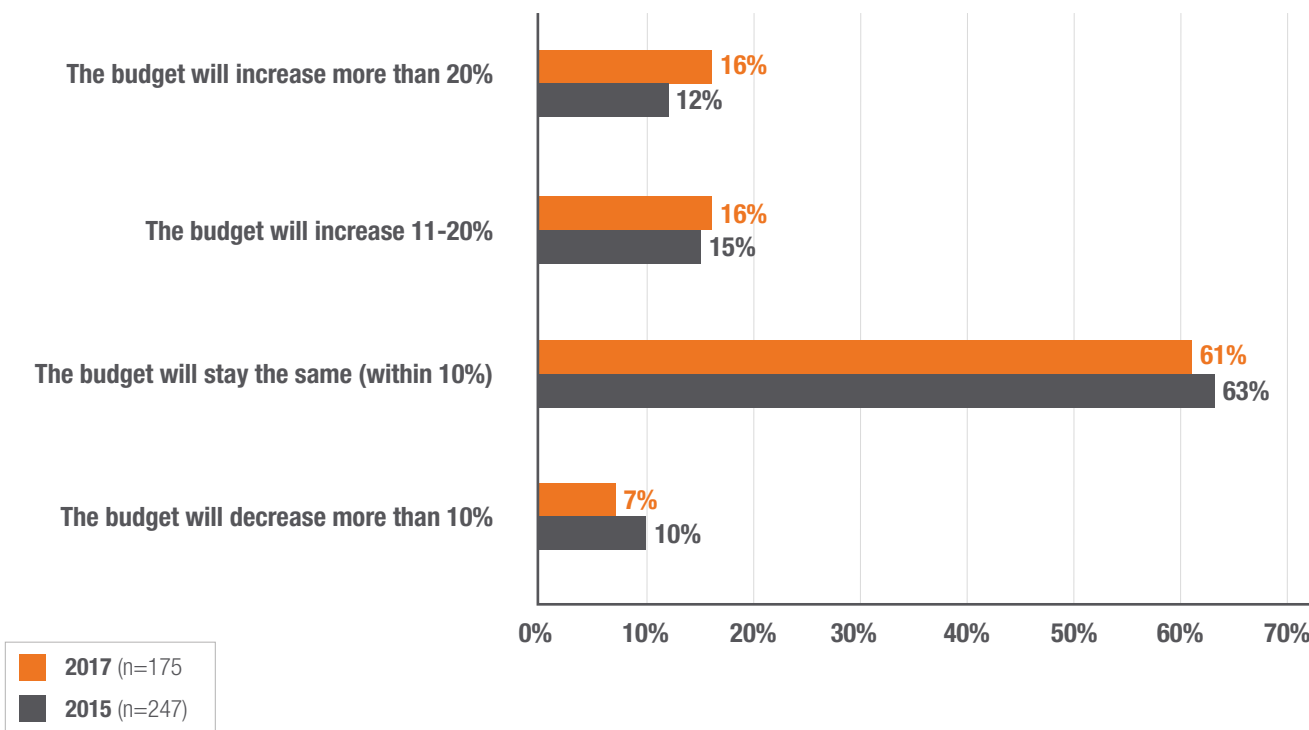
Note: Definitions of Programme Maturity on Page 22.

6. Budget Forecast for 2017

Findings: Three-fifths of organisations anticipate that their E&C programme budget will remain the same (61%) in 2017. One-third (32%) anticipate a budget increase of more than 10%, and 7% anticipate a decrease of more than 10%.

» Decision-Makers are more likely to state that their organisation's 2017 budget will remain unchanged (55%) compared to Non-Decision Makers (37%).

E&C Budget Change for 2017



Note: 'Don't knows' have been omitted.

Analysis:

The overall trend for 2017 is positive, with compliance budgets increasing year over year. However, 68% of respondents indicated that their budgets will remain the same or decrease in 2017. It is important that compliance professionals continue to find innovative ways to demonstrate the value they deliver while maximising the use of their current resources.

Aligning compliance resources to the organisation's risk profile and measuring programme effectiveness are key methods for improving programme efficiencies, outcomes and building the business case for additional funding. Compliance officers will also want to look at partnering with other departments to help pay for important tools and initiatives in order to make the most of organisational resources.

KEY FINDINGS

B. Key Areas of Risk & Concern

Innovation
Branding
Solution
Marketing
Analysis
Ideas
Success
Management

1. Top Risk Areas Receiving Most Attention

Findings: 'Bribery & Corruption' was mentioned as the top risk area receiving the most stakeholder attention with 65% of respondents indicating it was their top concern. This was followed by 'Data Protection' at 55%.

- » 'Bribery & Corruption' received most attention in the Chemicals/Energy sector (84%).
- » 'Data Protection' received more attention in Technology organisations (72%).
- » 'Workplace Behaviour' received more attention in Government/Education/Not for Profit organisations (45%).

Analysis:

Bribery and corruption continues to be the risk area receiving the most attention from stakeholders. Initiatives in Europe, and particularly the UK, to create greater transparency around company beneficial ownership, company payments to governments and the awarding of public sector contracts, will keep the spotlight on boards and senior management to continue to take accountability for managing corruption risks.

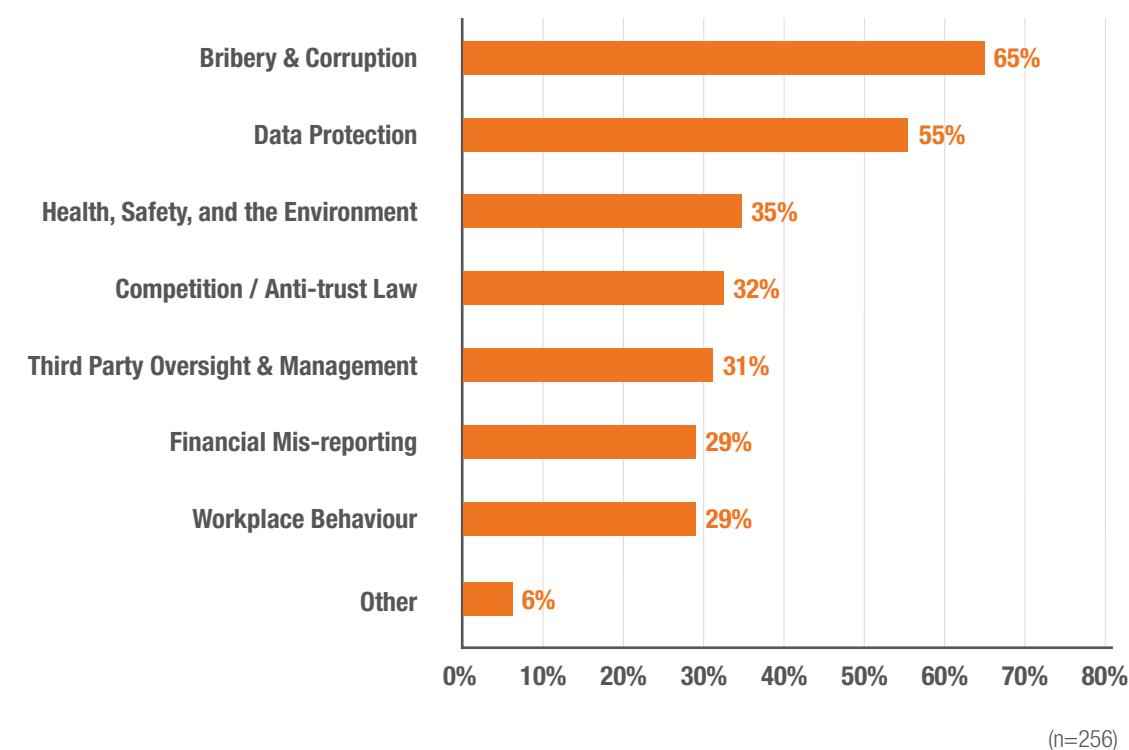
The EU is also taking the lead in data protection through the introduction of additional reforms to protect personal and corporate data that will go into effect in May 2018. This is likely to keep data protection top of mind for organisations that

operate, or have customers, based in the EU for the foreseeable future.

Third parties can extend an organisation's risk of bribery and corruption, but can also create a weak link for other critical business practices such as cyber security. Both the Department of Justice (DOJ) and the Serious Fraud Office (SFO) have increased resources to specifically tackle these types of issues that often involve third parties. These enforcement agencies, and recent legal cases, increasingly view third parties as a direct extension of the procuring organisation. Taking the right steps to safeguard against these risks is a growing concern for many compliance officers.

Risk Areas Receiving Most Attention

Respondents were asked to select the top three risk areas that receive the most attention from their stakeholders.



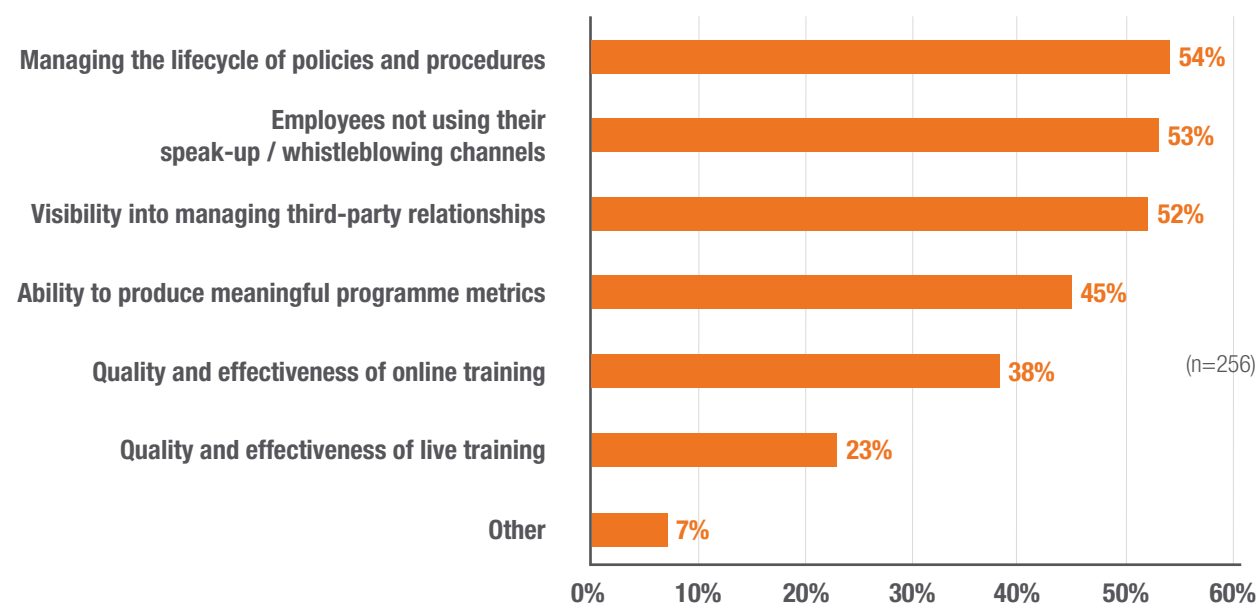
2. Top E&C Programme Implementation Concerns

Findings: The top ethics and compliance programme implementation concerns were 'Managing the lifecycle of policies and procedures' (54%), 'Employees not using their speak-up/whistleblowing channels' (53%), and 'Visibility into managing third-party relationships' (52%). These concerns are in line with the results from our previous report.

- » 'Managing the lifecycle of policies and procedures' was more of a concern for small organisations (67%). It was less of a concern for organisations with advanced E&C programmes (33%).
- » 'Visibility into managing third-party relationships' was cited as the greatest concern for the Technology sector (68%) and Manufacturing/Construction (64%). It was less of a concern for organisations in the Financial/Insurance sector (38%).
- » Organisations headquartered in Europe (54%) are more likely to cite 'Visibility into managing third-party relationships' compared to those in Asia (33%).

Most Worrying E&C Implementation Concerns

Respondents were asked to select their top three most worrying E&C programme implementation concerns



Analysis:

Managing the lifecycle of policies and procedures is the top concern. Almost half of organisations, including many smaller organisations, manage more than 100 unique policies, procedures and related documents at any one time.¹ It is also common for different departments to own various types of these documents. As a result, organisations may find their existing policy management programme is unable to keep up with the pace at which policies and regulations evolve. Organisations looking to automate these policy management tasks should focus on the processes associated with policy creation, approval, distribution and employee attestation of policies, as well as the more generic activities around version control, access and storage.

Encouraging employees to report misconduct continues to be a top concern. Lack of awareness or understanding of an organisation's hotline, or of the follow-up processes, increases fear of using the system. Regular awareness efforts and a broadening of the scope of a hotline to include opportunities to ask for advice and to answer questions around any ethics, behavioural and compliance topic, can increase employee trust and reporting levels.

Implementation of third-party oversight must at a minimum cover the basics. This should include the development of a standard set of third party risk evaluation criteria, a centralised programme to ensure process and documentation consistency, and pursuing a risk-based approach to screening, on-boarding, monitoring and managing the life cycle of each third party engagement.²

¹ NAVEX Global 2016 Ethics & Compliance Policy Management Benchmark Report
www.navexglobal.com/en-uk/resources/benchmarking-reports/navex-globals-2016-ethics-compliance-policy-management-benchmark-report

² NAVEX Global Definitive Guide to Third Party Risk
www.navexglobal.com/en-uk/resources/ebooks/definitive-guide-to-third-party-risk



3. Supervisor Risks

Findings: Respondents expressed a broad range of risks facing their organisation's supervisors, namely: 'Supervisors feeling or exerting pressure to compromise standards in order to achieve business results' (a high level concern for 39%), 'Supervisors attitudes or conduct are not reflective of our commitment to ethics and compliance' (39%), and 'Supervisors mishandling or downplaying complaints or reports from employees' (38%). Pressure on supervisors to compromise standards was also the top concern from our previous report (46%).

- » Small organisations were more concerned about their E&C programme not being strongly backed by senior leaders (44%) than large organisations (24%). They were also more concerned about retaliation (33%) than large organisations (11%).
- » Respondents in Government/Education/Not for Profit sectors were more concerned about retaliation from supervisors (45%) whereas Manufacturing & Construction (17%) and Banking & Insurance (20%) were the sectors that were least concerned about retaliation.

Analysis:

When financial and workplace performance pressures combine with limits on time and resources, compliance teams need to safeguard against supervisors feeling pressure to compromise on ethical standards. An ethics and compliance programme needs to demonstrate to supervisors the importance of achieving their business goals in the right way and provide them with the tools and resources to support them when they are feeling pressure or conflicted.

Ensuring supervisors attitudes are aligned with company policy requires additional training to help them fulfil the compliance oversight role and to help them 'make the right decisions'. Having multiple and potentially conflicting responsibilities can be difficult for supervisors to navigate. Therefore, it is important to regularly

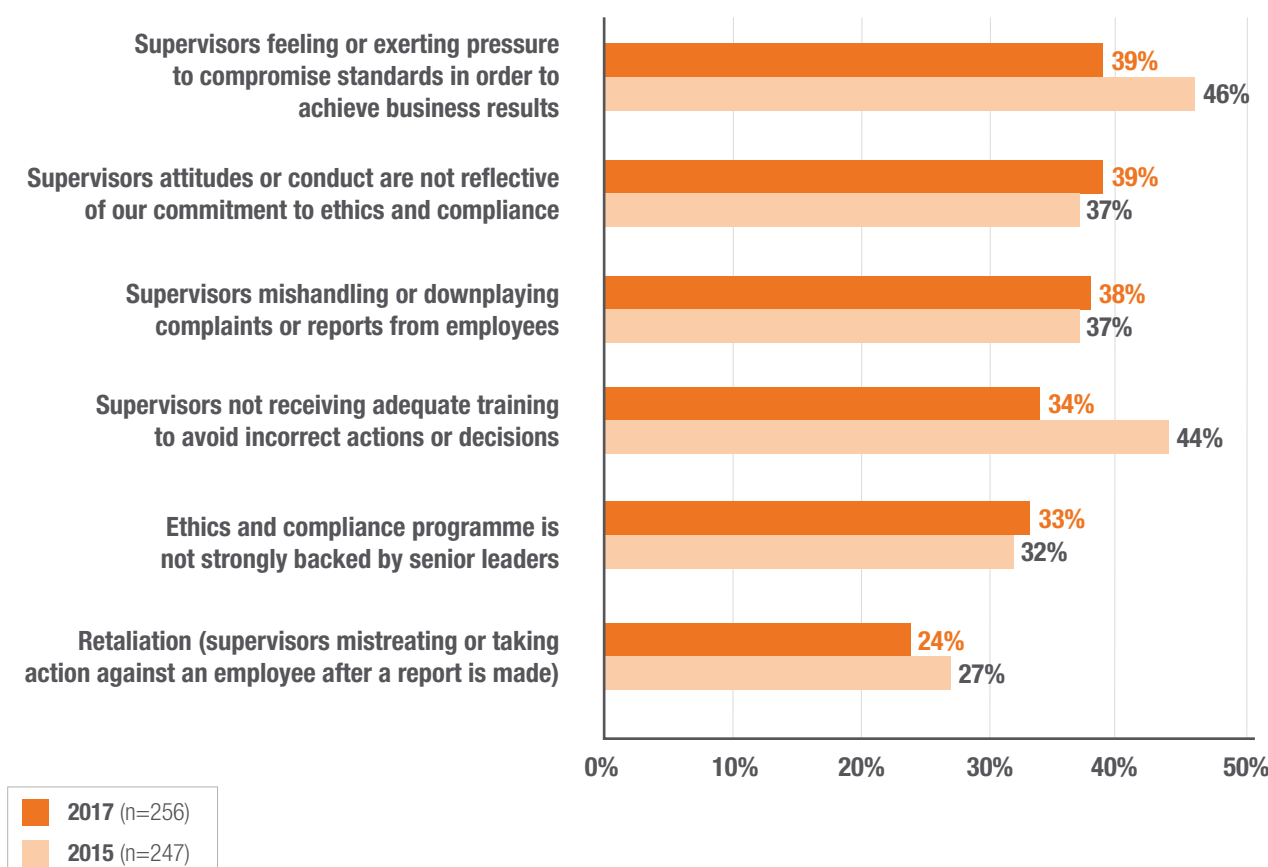
communicate with and support supervisors so they can successfully drive delivery of the company's ethics and compliance programme with their teams.

Employees with a question or concern are typically encouraged to report this to their manager before using other channels such as a whistleblower/speak-up hotline. As the go-to individuals, when an employee wants to address an issue or report potential wrongdoing, supervisors must be given the practical tools and training to enable them to deal with every concern appropriately and to act upon each one and submit them consistently.*

* NAVEX Global Definitive Guide to Incident Management
www.navexglobal.com/en-uk/resources/ebooks/definitive-guide-to-incident-management

Risks Facing Frontline Supervisors

Respondents were asked to rate the risks facing their supervisors from 1 (not a concern) to 5 (a major concern). Results are shown for scores of 4 and 5.



KEY FINDINGS

C. Measuring, Monitoring and Rating Ethics & Compliance Programmes

1. E&C Programme Maturity

Findings: Most respondents rate their organisation's ethics and compliance programmes as either 'Basic' (34%) or 'Maturing' (37%). One-fifth (20%) say they have 'Advanced' programmes, while nine per cent say they have 'Reactive' programmes, which is the lowest rating available in our survey.

- » 'Advanced' programmes were more likely to be found in large organisations (27%) and those in the Technology sector (36%).

- » 'Basic' programmes was the most common response for the Transportation sector (56%) and 'Reactive' programmes were more common in the Government/Education/Not for Profit sectors (28%).

Analysis:

Our findings show that programme maturity corresponds to the size of organisation, with larger organisations more likely to have advanced E&C programmes. Earlier in the report we also highlighted that mature programmes are more likely to use specialist E&C software tools.

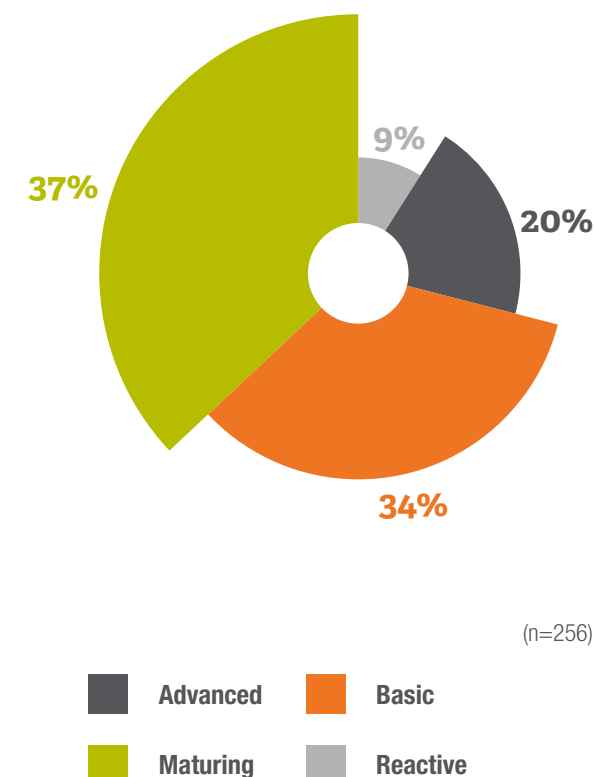
When we look at specific industry sectors, technology companies were most likely to have advanced programmes than any other sector. Technology companies often act as data service providers and can be held liable for data breaches suffered by their clients, as well as by their own organisation. This is likely to have driven the compliance agenda within this sector with cybersecurity and data privacy high on the priority list. Government/Education/Not for Profit sectors are the most likely to have only

reactive E&C programmes. Despite concerns around transparency, health and safety and poor standards by third party providers, the pressure of public spending may have resulted in a lack of compliance tools and resourcing in these sectors.

Irrespective of compliance programme maturity, continuous improvement, periodic testing and performance reviews will help to accelerate programme results and effectiveness. Organisations should regularly review and audit their E&C programme. This should include testing the effectiveness of the organisation's compliance controls and the methods of collecting and analysing compliance data. Regular engagement with employees, senior management and third parties will help identify any resourcing and risk gaps.

E&C Programme Maturity

We asked respondents to assess the maturity of their organisation's ethics and compliance programme.



Advanced:

- » We use dedicated software tools and services to support our E&C programme and are able to measure its effectiveness.
- » We run cultural programmes/assessments to drive ethical behaviour with both our employees and board of directors.
- » We have a global E&C programme that has localised versions of our policies and Code of Conduct available in multiple languages that we update, train and certify our employees on an annual basis.

Maturing:

- » We use existing software tools to support our E&C programme and outsource some components of our E&C programme.
- » We use regulatory requirements as the minimum benchmark for setting E&C programme goals.
- » We run separate E&C programmes across different areas/regions of our organisation and translate, update and train on our policies and Code of Conduct when required.

Basic:

- » We occasionally use existing software tools to support our E&C programme. We do not outsource any of our E&C processes.
- » We meet the basic regulatory requirements that are enforced within our business sector.
- » When an issue or a need arises we create a policy to address it. Department managers often create policies on their own. We carry out training on basic E&C topics only.

Reactive:

- » We do not use any software tools or services to support our compliance initiatives.
- » We identify regulatory requirements on an ad-hoc basis.
- » We do not have a Code of Conduct.

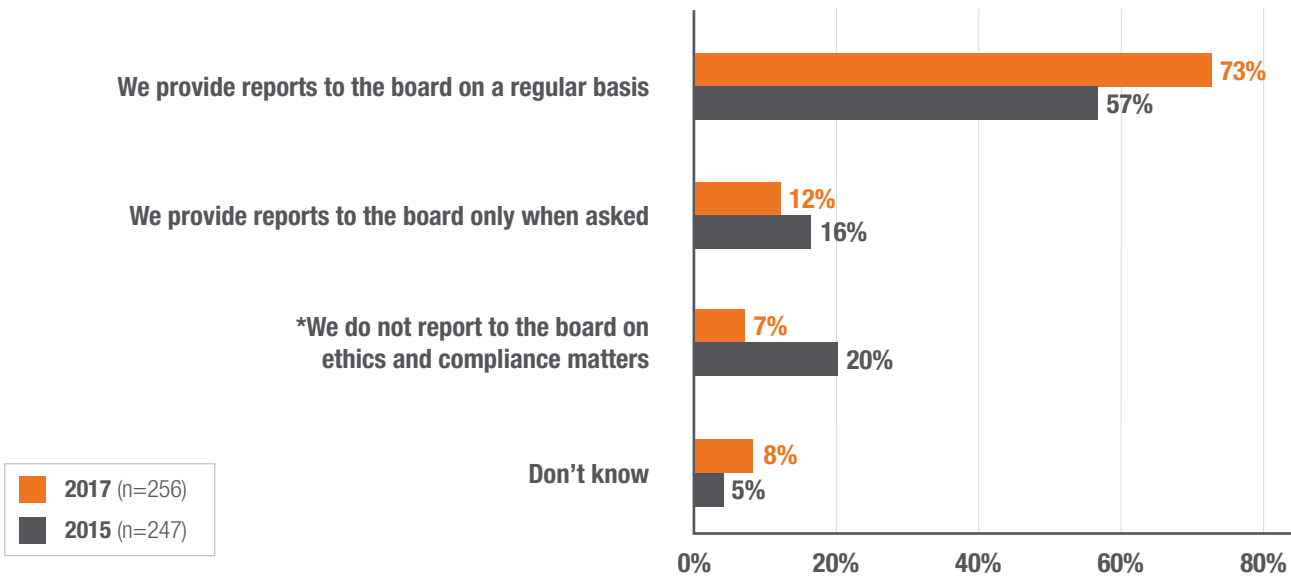
2. Compliance Reporting & Board Engagement

Findings: Nearly three-quarters of respondents reported that their organisation provides compliance reports to the board on a regular basis (73%). This is up from the previous report that showed 57%.

Only seven per cent of respondents stated that their organisation does not provide any reports to the board on ethics and compliance matters, a drop from 20% from the previous report.

Compliance Reporting & Board Engagement

Respondents were asked to select which statement best reflects how their organisation reports to the board on ethics and compliance matters.



*Note: The 2015 score is a combination of the following two data points: 'lack necessary reporting capabilities to provide detailed reports' and 'Board does not ask for reports from compliance'. Results do not include 'Other'.

Analysis:

The data shows a significant improvement in board reporting compared to the previous report. This indicates an important development in board engagement for compliance issues.

The increase in board reporting may have been influenced by recent regulations that are specifying further responsibilities for boards of directors and individual accountability within matters of compliance. The UK's Senior Managers Regime and Sapin II in France describes responsibilities for board members and senior management for enhanced corporate governance. This is in addition to continued education from professional bodies and industry

associations around the importance of board engagement, resulting in more regular board reporting—an important and positive trend.

Many boards may now be receiving compliance reports for the first time. Compliance teams should therefore make sure that their directors understand the nature of the oversight that is expected of them. Some board members may lack the experience needed to confidently oversee corporate compliance and risk management. So in addition to providing regular reports, and asking for their oversight, board members should also be trained on what that oversight entails.

3. Measuring Compliance Programme Effectiveness

Findings: The most commonly used approaches to measure and monitor ethics and compliance programmes included: 'Tracking employee breaches of the Code of Conduct/internal policies/expenses' (51%), 'Tracking whistleblowing reports, retaliation & substantiation rates' (50%), 'Tracking ethics and compliance training and policy attestation rates' (49%), and 'Conducting employee surveys' (48%). Sixteen per cent of those surveyed did not formally assess or monitor the effectiveness of their E&C programme.

- » Whistleblowing reports, retaliation and substantiation rates were used most often in organisations with over 5,000 employees (62%). Those in the Financial/Insurance sector (35%) were less likely to use this approach than for other industry sectors.
- » Ethics and compliance training and policy attestation rates are least likely to be used by those in Government/Education/Not for Profit (17%).

Measuring & Monitoring Effectiveness of Ethics & Compliance Programmes

Respondents were asked how the organisation measures and monitors the effectiveness of its E&C programme.



(n=256)
*Note: Respondents were asked to select all that applied.

Analysis:

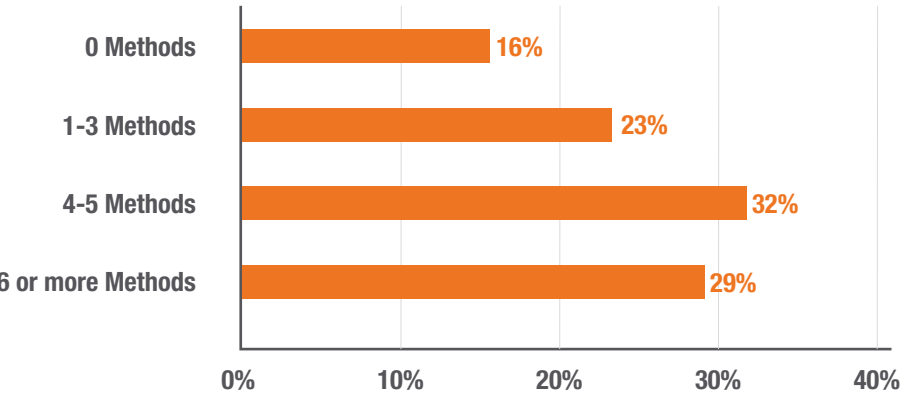
The data shows a lot of activity around E&C programme monitoring and measurement within organisations. However, as noted earlier in this report, measuring the effectiveness of a compliance programme remains the top challenge. The broad range of metrics that respondents are using points to the challenge of selecting the most appropriate metrics for the individual organisation. And indeed, high quality assessment and measurement should be based on a combination of factors to be meaningful. Tracking internal policy breaches, whistleblowing reports and training attestations are often not only the easiest metrics to capture, but also the most consistent in nature. This helps organisations to identify trends in improvements over time.

It is interesting to note that the data also shows lower reliance on direct input from employees

including from surveys, culture assessments, exit interviews and feedback on social media. Ultimately, compliance programmes are designed to support employees, so to truly know if the programme is effective, it is important to engage directly with the end users—the employees.

When reporting programme effectiveness, E&C teams should ensure they broaden the scope of the ethics and compliance function to describe its full impact across the business. When using metrics, include relevant context and how the data compares to industry norms and trends over time. Also, combine data sources to get the most accurate picture of risk. When delivering multiple metrics show how the various elements add up to an effective whole. For example, link your hotline reporting data to delivery of training around your key reporting topics, or link third party due diligence to improvements in supplier audits.

Number of Methods used by Organisations to Measure Effectiveness



About one-third of respondents (29%) indicated that their organisation uses six or more different methods to monitor the effectiveness of their ethics and compliance programmes, with just eight per cent using nine or more methods. Only two

per cent report using all methods. Unsurprisingly, organisations with advanced programmes are more likely to use six or more methods (43%) to measure and monitor ethics and compliance programme effectiveness.

4. Ethics & Compliance Programme Performance

Findings: Sixty-six per cent of respondents indicated that their organisation tends to perform best at keeping up to date with new regulations, rating their programmes as ‘Very Good’ or ‘Excellent’. ‘Managing incident reports and investigations’ was the second most selected response (64%), and ‘Legal defensibility & governance’ the third (61%). ‘Measuring compliance programme effectiveness’ (36%) and ‘Managing third party risks’ (37%) received the lowest performance ratings.

- » Small organisations were less likely to provide high performance ratings for whistleblowing/speak-up channels where 39% rated this as ‘Very Good’ or ‘Excellent’.
- » Organisations with an annual revenue of \$1B or more were more likely to provide high performance ratings for addressing environment, health and safety issues (67%).

Ethics & Compliance Programme Performance Ratings

Respondents were asked to rate the performance of their organisation’s ethics and compliance programme on the following areas.



*Note: Respondents were asked to rank each area as Poor, Fair, Very Good or Excellent. Results shown are for ratings of Very Good & Excellent.

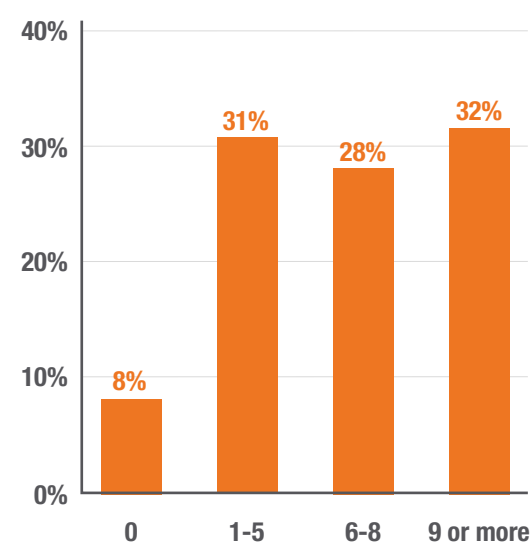
Analysis:

Perhaps the most unexpected result in this survey is that 'Keeping up to date with new regulations' was stated as the best performing area. This deserves further investigation as earlier in the report 'Managing regulations across different jurisdictions' was a top three programme challenge. However, the report also shows that organisations have identified this challenge and are acting to improve this area of risk. A word of caution—without conducting an effective risk assessment organisations may not be aligning

their policies correctly to their key risk areas, which could dramatically reduce the performance of their E&C programmes.

Measuring compliance programme effectiveness and managing third party risks are shown as the two activities with significantly lower scores. This confirms previous indications that organisations are struggling with these areas.

Number of Areas Rated as 'Excellent' or 'Very Good'



About one-third of respondents (32%) rated their organisation's ethics and compliance programme performance as 'Excellent' or 'Very Good' for nine or more areas. But with 39% of respondents showing five or less areas as 'Poor' or 'Fair', this shows ample room for improvement.

Not surprisingly, organisations with advanced programmes were more likely to provide strong performance ratings where 63% rated nine or more measures as 'Excellent' or 'Very Good'.

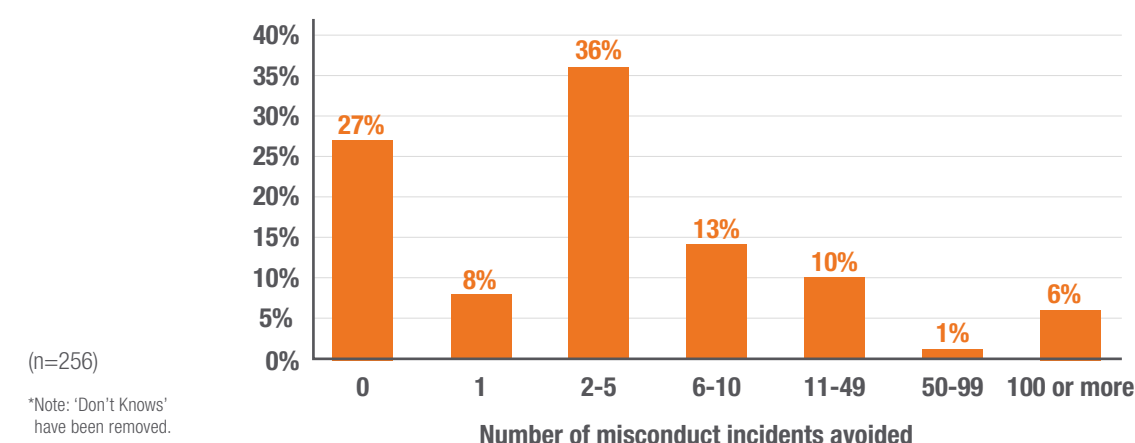
5. Misconduct Prevented by E&C Programme

Findings: Nearly three-quarters of respondents (73%) indicated that their organisation had avoided at least one misconduct incident in the past two years due to their ethics and compliance programme. Close to one-fifth of organisations had avoided 10 or more incidents.

- » Organisations with advanced programmes (43%) were more likely to have avoided more than five incidents than those with basic programmes (19%).
- » Large organisations (42%) were more likely to have avoided more than five incidents than small organisations (11%).

Number of Misconduct Incidents Avoided Due to Ethics & Compliance Programme

Respondents were asked to recall any occasion in the past two years where their organisation's E&C programme had prevented misconduct



Analysis:

The value to an organisation of preventing one major incident can be incalculable. In fines alone it can often pay for the entire compliance budget many times over. So it is an extremely positive sign that the vast majority of respondents have been able to identify at least one major incident that has been prevented due to their organisation's E&C programme.

Our findings show that the number of incidents avoided increases as programme maturity increases, demonstrating that when a programme incorporates elements such as: dedicated compliance tools, regular training, culture and risk assessments, and has a high level of board engagement, it is likely to prevent more incidents of misconduct.

When incidents do occur it is crucial that organisations have a process to determine the root cause and to adapt their programmes to

mitigate similar incidents in the future. This can be done by asking a number of questions: What activity identified the misconduct and could it have been identified earlier? Are misconduct reports made to management and what is the remediation process? How have management and the board followed up on this and how are the action items tracked? Did processes support escalation of issues in a timely way?

Preventing serious cases of misconduct not only reduces the prospect of enforcement penalties and fines, and in extreme cases imprisonment of culpable employees, but the organisation's reputation is also protected. Intangible assets such as intellectual property, customer base and the organisation's brand now account for over 80% of total corporate value, compared to under 20% 40 years ago.* This greatly increases the total cost of misconduct for an organisation when a reputational crisis does occur.

*Ocean Tomo LLC, 2015. Intangible asset market value study. S&P500 www.oceantomo.com/blog/2015/03-05-ocean-tomo-2015-intangible-asset-market-value/

CONCLUSION & KEY TAKEAWAYS

- » **Implement E&C programme activities that focus on improving organisational culture.** Evolving a culture of integrity, ethics and respect was identified as the most important ethics and compliance programme objective for 2017. However, only 32% of respondents indicated they are planning to undertake a culture or ethics assessment, and 'Workplace Behaviour' was rated as the lowest area of risk receiving stakeholder attention. This disconnect between priorities and planned actions warrants further attention and review.
- » **Do not be complacent about issues of retaliation.** A focus on eliminating the risk of retaliation should be top of mind for every compliance professional, leadership team and board of directors. Few issues hurt an organisation's reputation more than stories of a culture of retaliation among its employees and leadership. NAVEX Global's hotline benchmarking reports find that very few employees raise concerns of retaliation internally, yet data from regulatory bodies show that reports of retaliation are frequently going outside the organisation. Discuss issues of retaliation regularly at the board and executive level and develop proactive plans to identify and manage this issue.
- » **There is an opportunity to take board engagement to the next level.** This report saw a significant increase in board engagement and programme oversight—this is very good news. That said, in response to recent high-profile compliance failures in both EMEA & APAC, external stakeholders are increasingly looking directly at the role of the board in these events. Compliance officers have an opportunity now to help their boards understand these expectations and provide them with actionable information

that will allow them to ask the right questions and provide appropriate oversight of the programme.

- » **Provide ethics and compliance training for specific business areas and groups.** Role relevant training has always been a hallmark of an effective programme. Ongoing evaluation and refinement of training focus and targets will yield far better results than a 'one-size-fits-all' approach. Developing and executing 2-3 year communications and training plans help maximise the use of scarce time and resources, and demonstrates to employees that a respectful organisation has taken the time to provide training that is applicable to their role.
- » **Understanding the value of automation.** This survey found that more mature programmes make good use of technology and automation to improve programme effectiveness and reduce time spent on routine administrative responsibilities. Reducing time spent on routine operational functions allows the compliance team to focus on more strategic and risk based programme decision-making.
- » **Increase employee input when measuring programme effectiveness.** The survey shows that in measuring programme effectiveness, there is a lower reliance on obtaining direct input from employees through surveys, culture assessments, exit interviews and feedback on social media. In the end, ethics and compliance programmes are designed to support employees so to truly know if the programme is effective, it is important to engage directly with the end users—your employees.

ADDITIONAL TOOLS & THOUGHT LEADERSHIP RESOURCES

NAVEX Global also offers many valuable resources relating to improving ethics & compliance programmes. Visit our resource centre at www.navexglobal.com/en-uk/resource-center to find these tools and more.

Research Reports

- » 2016 NAVEX EMEA & APAC Global Ethics & Compliance Whistleblowing Hotline Benchmark Report
<http://www.navexglobal.com/en-uk/resources/benchmarking-reports/navex-globals-2016-ethics-compliance-emea-apac-whistleblowing-hotline-benchmark-report>
- » 2016 NAVEX EMEA & APAC Global Ethics & Compliance Policy Management Benchmark Report
<http://www.navexglobal.com/en-uk/resources/benchmarking-reports/2016-emea-ethics-compliance-policy-management-benchmark-report>
- » 2016 UK Financial Services Whistleblowing Regulation Survey
<http://www.navexglobal.com/en-uk/resources/benchmarking-reports/uk-financial-services-whistleblowing-regulations-report>
- » 2016 NAVEX Global Ethics & Compliance Third-Party Risk Management Benchmark Report
<http://www.navexglobal.com/en-uk/resources/benchmarking-reports/2016-third-party-risk-management-benchmark-report>
- » 2016 NAVEX Global Ethics & Compliance Training Management Benchmark Report
<http://www.navexglobal.com/en-uk/resources/benchmarking-reports/navex-globals-2016-ethics-compliance-training-benchmark-report>

Definitive Guides

- » Definitive Guide to Incident Management
<http://www.navexglobal.com/en-uk/resources/ebooks/definitive-guide-to-incident-management>
- » Definitive Guide to Ethics & Compliance Training
<http://www.navexglobal.com/en-uk/resources/ebooks/definitive-guide-to-ethics-compliance-training>
- » Definitive Guide to Policy Management
<http://www.navexglobal.com/en-uk/resources/definitive-guide-policy-management>
- » Definitive Guide to Third Party Risk Management
<http://www.navexglobal.com/en-uk/resources/ebooks/definitive-guide-to-third-party-risk>

Whitepapers

- » Top 10 Ethics & Compliance Predictions and Recommendations for 2017
<http://www.navexglobal.com/en-uk/resources/whitepapers/top-ten-ethics-compliance-predictions-and-recommendations-2017>
- » Solving the Top Five Concerns of Compliance Professionals
<http://www.navexglobal.com/en-uk/resources/solving-top-five-concerns-compliance-professionals>
- » What GRC Will Look Like by 2025 and How to Plan for It Now
<http://www.navexglobal.com/en-uk/resources/whitepapers/what-grc-will-look-like-by-2025-how-to-plan-for-it-now>
- » An Holistic Approach to Anti-Corruption Compliance
<http://www.navexglobal.com/en-uk/resources/whitepapers/Holistic-Approach-Anti-Corruption-Compliance>

On-Demand Webinars

- » How Do I Prove My E&C Programme is Effective? The Art & Science of Effectiveness Measurement
http://www.navexglobal.com/en-uk/resources/webinars/how-do-i-prove-my-ec-program-is-effective_the-art-and-science
- » Become a Strategic Partner to the Board & C-Suite: Advance Your Programme and Career
<http://www.navexglobal.com/en-uk/resources/webinars/vc-2016-becoming-strategic-partner-to-board-c-suite>
- » Benchmarking 101: Shaping your E&C Programme for Maximum Value
<http://www.navexglobal.com/en-uk/resources/webinars/vc-2016-benchmarking-101-shaping-your-ec-program-for-maximum-value>

Blog Posts

- » Understanding the Benefits of Benchmarking & How to Do It Successfully
<http://www.navexglobal.com/blog/understanding-benefits-benchmarking-how-do-it-successfully>
- » ISO 37001: Insights into the New Anti-Bribery Standard
<http://www.navexglobal.com/blog/iso-37001-lets-talk-specifics>
- » New Compliance Regulations for France & Italy Demonstrate the Convergence of Anti-Corruption Standards in Europe
<http://www.navexglobal.com/blog/new-compliance-regulations-france-and-italy-demonstrate-growing-convergence-anti-corruption-and>

ABOUT THE AUTHORS



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Carrie Penman is the Chief Compliance Officer and Senior Vice President, Advisory Services for NAVEX Global. Carrie has been with NAVEX Global's Advisory Services team since 2003 after serving four years as deputy director of the Ethics and Compliance Officer Association (ECOA).

Carrie was one of the earliest ethics officers in America. She is a scientist who developed and directed the first corporate-wide global ethics programme at Westinghouse Electric Corporation. Since joining NAVEX Global's Advisory Services team, she has conducted numerous programme and culture assessment projects for its clients and regularly works with and trains company boards of directors and executive teams. She also serves as a corporate monitor and independent consultant for companies with government agreements.

Carrie is the author of numerous compliance related articles and commentary and is regularly quoted as a compliance expert in press and publications. Carrie has been featured in the *Wall Street Journal* and most recently on the cover of *Compliance Week* magazine.



Ian Painter

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Ian Painter is Associate Director, EMEA Marketing for NAVEX Global. A business graduate, Ian started his career in marketing communications promoting some of the world's largest high-tech brands across the European business community. Since then, Ian has authored several blogs and white papers discussing best practice recommendations for improving information management and ethics & compliance programme performance. He has also conducted market research, and presented, on the impact of a number of FCA regulations, and established numerous thought leadership conference events including NAVEX Global's 'Ethics & Compliance Roundtables' for senior compliance practitioners.

ABOUT NAVEX GLOBAL

More than 12,500 clients around the world trust NAVEX Global to power their ethics and compliance (E&C) programmes. Our flexible, scalable solutions make E&C programmes more effective, and complex E&C tasks easier to manage. NAVEX Global's integrated suite of proven E&C tools, content and services equips organisations to identify and contain compliance risks and threats. Whether you need one solution or our full suite, we're ready to help protect your people, reputation and bottom line.

Policy Management: PolicyTech™

Centralise, simplify and strengthen your policy management lifecycle with PolicyTech™. Automating this foundational process of your E&C programme reduces legal risk while increasing productivity, accessibility and accuracy of your policies.

Online Training

Strengthen your organisational culture, meet legal requirements and inspire behavioural change by deploying our award-winning online ethics and compliance training. Our robust library of courses, exclusively endorsed by the Association of Corporate Counsel (ACC), sets the industry standard for quality.

Hotline Reporting & Incident Management

Trusted by thousands of clients around the world, our hotlines help employees, customers, suppliers and other stakeholders quickly and easily report potential ethics and compliance issues. Our integrated incident management solutions capture and investigate E&C reports from across the organisation helping you spot trends and take corrective action before minor issues become major.

Enterprise Due Diligence: RiskRate™

Protect your organisation from third party risk with continuous due diligence. RiskRate™ is an affordable, highly automated platform that performs around-the-clock, third party risk monitoring and enhanced due diligence—the industry standard for effective enterprise risk management.

Strategic Consulting

Our Advisory Services team is recognised worldwide for their experience and expertise. No other organisation offers experts with the specific E&C depth and breadth as our Advisory Services team.



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