

# 2013 Global Compliance and Ethics Benchmarking Survey



## I. Introduction

This 2013 Compliance and Ethics Benchmarking Report consolidates the results of an informational benchmarking survey of compliance and ethics (C&E) professionals conducted by SAI Global and Baker & McKenzie in the late fall of 2012, as they finalized their plans for 2013. SAI Global and Baker & McKenzie asked key client contacts and other C&E industry professionals to participate in the compliance and ethics benchmarking survey, which included questions related to:

- The participants, their departments, and their organizations,
- How participants measure the effectiveness of their programs,
- The participants' use of C&E resources,
- The participants' interaction with the Board and other senior management at their organization,
- The work of the participants' C&E departments, and
- The evolving nature of the participants' compliance, ethics, and risk functions.

For your convenience, the benchmarking survey questions and aggregated survey data are available upon request.

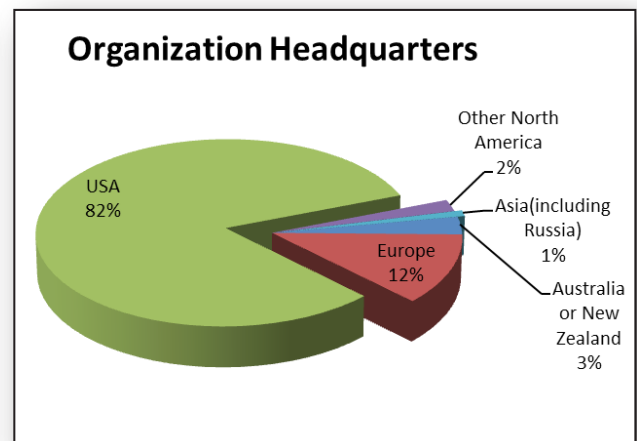
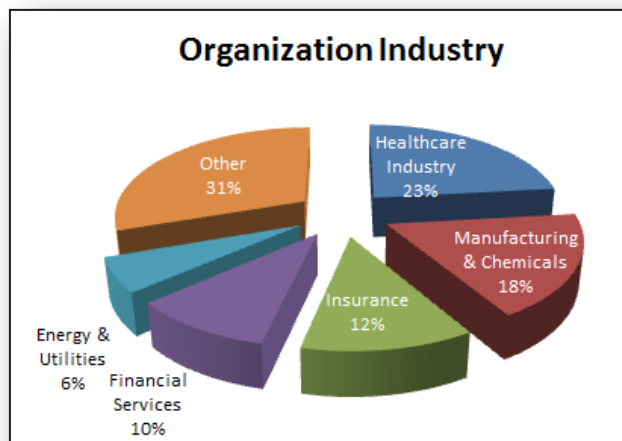


**A. Survey Objectives** – We originally developed the benchmarking survey in direct response to customer requests and to fill an identified need among compliance, ethics, and risk professionals. As we expected, this year's survey again yielded interesting and revealing results and should allow C&E professionals to compare their programs to those of their peers. Winning executive management and board support is critical to creating and maintaining a best-in-class C&E program. We trust that the results of the compliance and ethics benchmarking survey will help C&E professionals engage in the sometimes difficult discussions about just what it takes to get their jobs done.

**B. Methodology & Participation** – Both SAI Global and Baker & McKenzie invited clients and other key contacts to participate in the global compliance and ethics benchmarking survey. Representatives of 236 organizations responded to the online survey between October 2012 and January 2013, representing a significant increase in participation when compared to last year's survey.

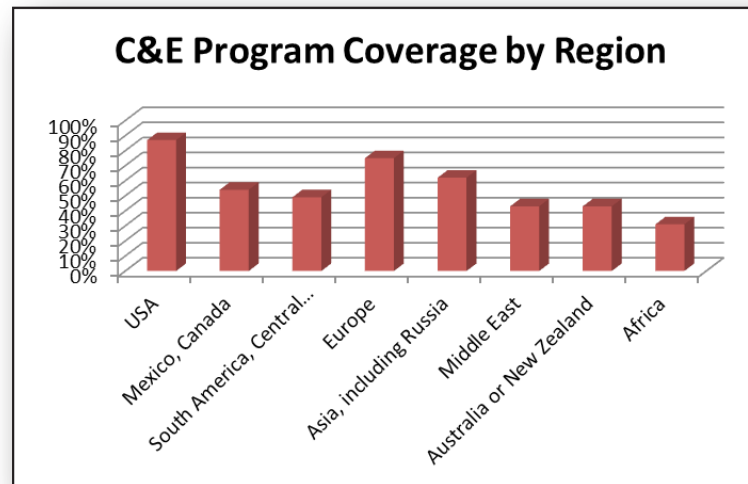
Responding companies represented a wide variety of industries. Participants from over 20 industries responded to the survey with the majority of respondents coming from Healthcare (23%), Manufacturing & Chemicals (18%), Insurance (12%), Financial Services (10%), and Energy & Utilities (6%).

The majority of responding companies (82%) are headquartered in the United States.

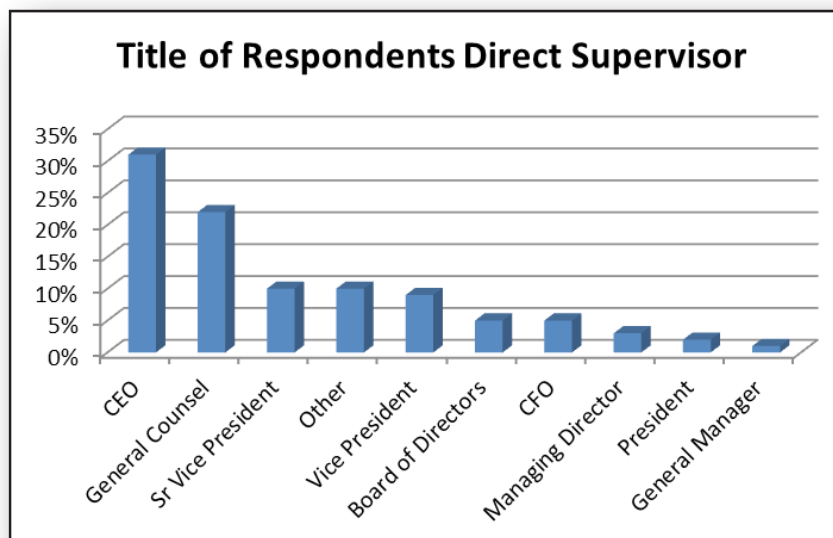


Looking at the respondents' corporate structure, the survey revealed that the majority of participating organizations have a centralized compliance function with decisions and strategy being centrally driven. Sixty-five percent (65%) of the respondents' C&E departments are part of 'corporate' or the organization's 'headquarters' with central authority for managing and administering all elements of the company's C&E program. Another 16% of participants also described their departments as residing in 'corporate' or at 'headquarters' with responsibility for the overall corporate C&E program. Their departments utilize a decentralized management structure down to the local level, however. The remainder of the respondents represent departments which are part of a local operating division or subsidiary.

Regardless of their organizational structure or the location of their headquarters, responding organizations clearly have an international employee base with operations spanning the globe; 87% of respondents have a presence in the U.S., 75% reported having operations in Europe, 54% in North America (in addition to the U.S.), 62% in Asia (including Russia), 49% in South America/Central America/Caribbean, 43% in both Australia/New Zealand and the Middle East, and 31% in Africa. A global reach, of course, results in greater risk and program complexity, and we believe programs will continue to diversify and expand in coming years, particularly in Asia, the Middle East, and Africa.



Not only did the level of participation increase significantly from last year's benchmarking study, but the participation level as measured by title was also impressive. Thirty-eight percent (38%) of our respondents are employed as Vice President, Chief Compliance Officer (CCO), or General Counsel (GC) of their respective organizations, and 63% of the survey participants report to the Board of Directors, the Chief Executive Officer (CEO), the GC, or the CFO at their companies.



**C. Ongoing Goals** - We intend to conduct an annual compliance and ethics benchmarking survey – or a variation thereof – and expand the reach to a broader group of C&E industry professionals in subsequent years.

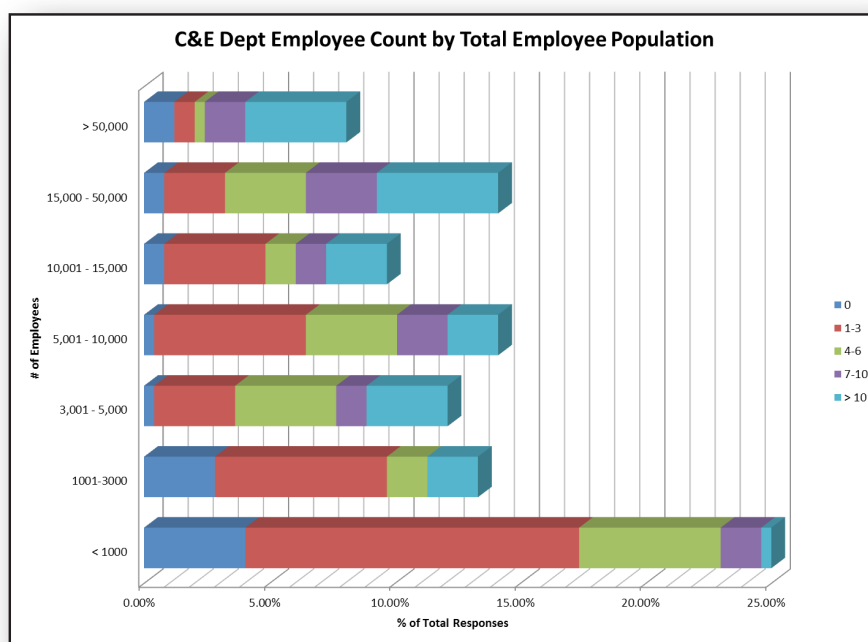
## II. Benchmarking Results

For ease of reference, we have divided the commentary in this report into the following categories: Program Resources, Program Management, and Program Effectiveness.

**A. Program Resources** – Program resourcing continues to be one of the topics about which we receive the most inquiries. The benchmarking survey included several questions – and yielded some very interesting information – about program resources, including dedicated staff, budget, and resource constraints.

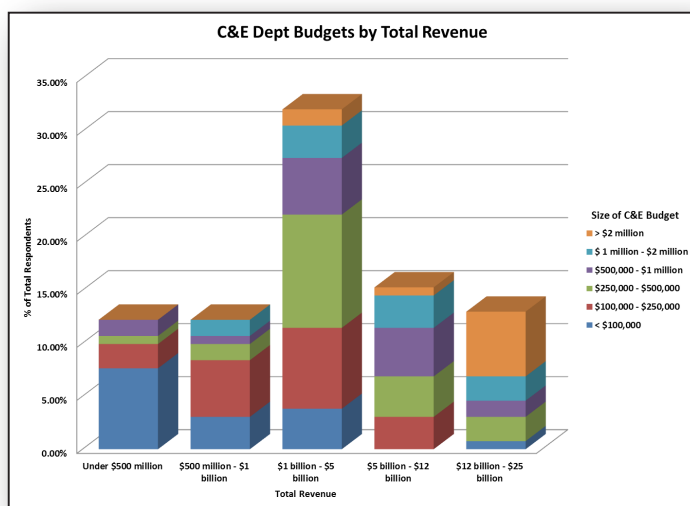
**1. Dedicated Staff** – 59% of respondents indicated their company has at least four full-time equivalent resources dedicated as C&E professionals, which is a significant increase from last year's survey, in which only 35% of participants responded in a similar manner. This increase may be closely linked to another trend noted in the survey results: 38% of respondents also indicated that the overall staffing level of their compliance and ethics function increased over the past year. Fifty-three percent (53%) of respondents indicated there was no change to their staffing level, while only 9% indicated their staffing level decreased.

Not surprisingly, as the number of employees at a company increases, so does the number of dedicated C&E staff. Whereas 65% of companies with less than 1,000 employees have three or fewer dedicated C&E professionals on staff, 75% of companies with more than 50,000 employees have four or more dedicated C&E professionals on staff. In fact, half of companies with greater than 50,000 employees have more than ten dedicated C&E professionals on staff.



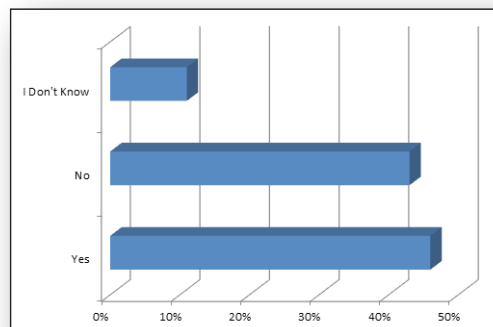
**2. Budgets and Resource Constraints** – Our benchmarking survey revealed that a significant number of respondents' C&E budgets have increased over the past year. While last year's survey indicated that most of the participants' annual budgets were under \$250,000, this year only 38% of respondents indicated that their annual budgets were under \$250,000. These results are in line with a separate question which revealed that 37% of respondents' budgets increased this year, with 10% increasing significantly.

Generally, as a respondent's company's revenue increased, so too did its C&E budget. Participants who reported their company's revenue at between \$12 billion and \$25 billion enjoy the largest relative C&E budgets, with nearly all respondents reporting budgets in excess of \$100,000, and two-thirds of them reporting budgets in excess of \$1 million. With regard to discretionary spending, 22% of our respondents spend less than 5% of their C&E budget on outside consultants, law firms, and other subject matter experts, while 40% of responding companies spend more than 10% of their C&E budget on external resources.



Even though budgets seem to be trending upward, many survey participants believe their departments are resource constrained, with 43% of respondents indicating that the C&E function did not have sufficient staff, control, authority, and budget to effectively measure, manage, and mitigate compliance risks at their organization. This figure is significantly higher for businesses based in the EU, where 58% of respondents felt that they were under-resourced.

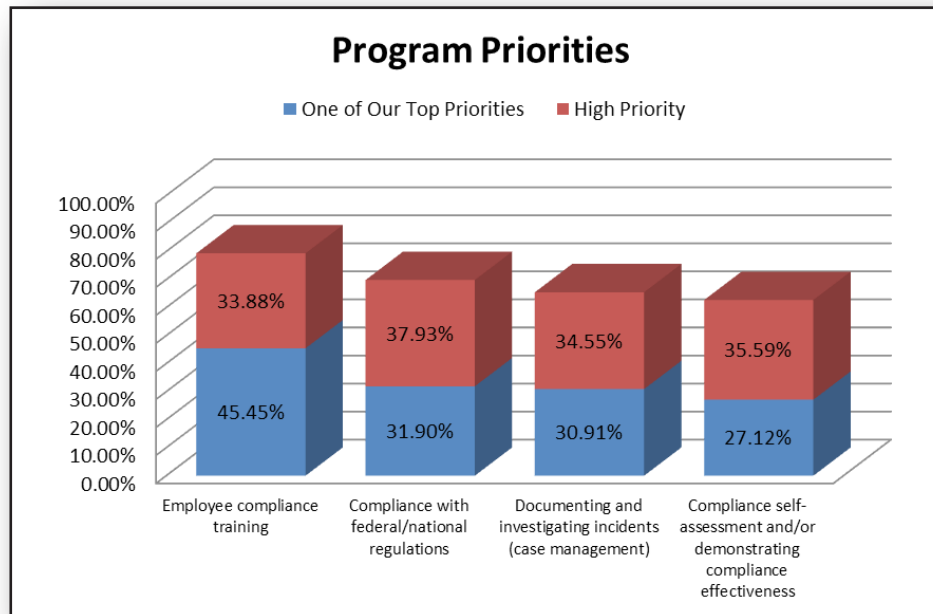
**Survey Question:** *Do you believe the corporate or legal compliance and ethics function in your organization has sufficient staff, control, authority, and budget to effectively measure, manage, and mitigate compliance-related risks at your organization?*



**B. Program Management** - As more and more companies promote their commitment to C&E in their public-relations efforts, it's interesting for us to learn more about how organizations manage their C&E programs, from their hotlines to their training and their risk assessment protocols.

**1. Program Drivers** – The survey highlighted the importance of protecting brand and reputation, which emerged as the primary driver for compliance programs across the board (77%). Pressure from the CEO or Board of Directors (59%) and pressure from regulators and external auditors (47%) were also frequently selected as a primary compliance program driver. These results again reinforce the increasing role of senior executives in setting the correct tone from the top. They also suggest that meeting stakeholder expectations, in order to protect hard-earned reputations, is increasingly perceived to be more important than simply checking a regulatory box.

**2. Program Priorities** – For 2013, responding companies indicated their priority areas of focus for the year were, for the most part, what one would expect them to be. Respondents selected employee compliance training as a priority area of focus more than any other of the listed selections. Compliance with federal/national regulations (70%), documenting and investigating incidents (case management) (65%), and compliance self-assessment and/or demonstrating compliance effectiveness (63%) were also selected frequently as a top or high priority.

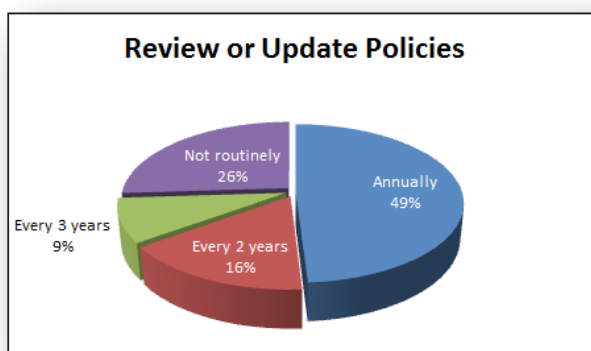


Nearly half of respondents (46%) indicated that the SEC's new whistleblower program has had no impact on their organization. Perhaps these organizations are confident that their internal whistleblower programs are performing as desired and that their employees are unlikely to report concerns to the SEC.

### 3. Program Components

- a. Policy Management** – It's clear that policy management is an important component of our respondents' responsibilities. Sixty-five (65%) review and/or update policies at least once every two years, and nearly half (49%) do so annually.

Yet, policy controls may be lacking. When asked about the greatest challenges to the effectiveness of policy management, nearly half of the respondents indicated that they "manage policies across the organization, and coordination is difficult." This challenge may be related to the fact that only 13% of participants maintain

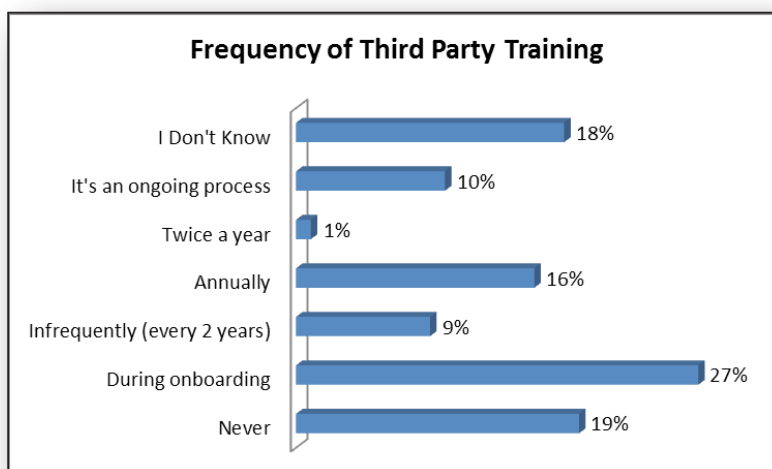


their policies in a policy management system. Other challenges to the effectiveness of policy management included: "our employees don't always understand our policies" (48%); "content covered from policy to policy is not always consistent" (41%); and "we don't have one central place where all policies are kept" (31%).

- b. Hotline and Case Management** – The results of the SAI Global/Baker & McKenzie benchmarking survey indicate a majority of companies use an outside vendor to answer their whistleblower hotlines (56%). A smaller percentage (35%) also externally source their web-intake function, while even fewer companies (17%) partner with a third party for their case management needs. Surprisingly, we found that 20% of our respondents still manage C&E-related cases with basic tools including spreadsheets, email, or other tools that are not linked to core systems for policy management, compliance management, or risk management. When we break out the responses for EU-based organizations, we see several interesting trends. The number of companies outsourcing their hotlines and web intake functions is higher at 60% and 47% respectively; however, they are far less likely to be linking their case management tools to core compliance systems. This suggests that EU-based organizations are more reliant on external assistance for managing their reporting systems and are less advanced in their abilities to integrate hotline and case management with the other elements of a compliance program than their US counterparts.
- c. Third-Party Risk Management** – The survey provided insights into trends regarding third party training, certification and due diligence. While many companies continue to struggle with their third-party C&E efforts, a growing number seem to have made significant improvements over the past year. Thirty-six percent (36%) of respondents indicated their companies do not train or do not know if they train their third parties, but this number is considerably lower than last year's (48%). For those who are providing third parties with training, a plurality of respondents (27%) conduct the training only as they initially engage with their business partners, with an increasing number of companies providing training to third-parties annually (16%). The concept of a supplier code seems to



be resonating, with half of respondents believing that third parties should receive a supplier or business partner code and 39% believing they should be required to certify.

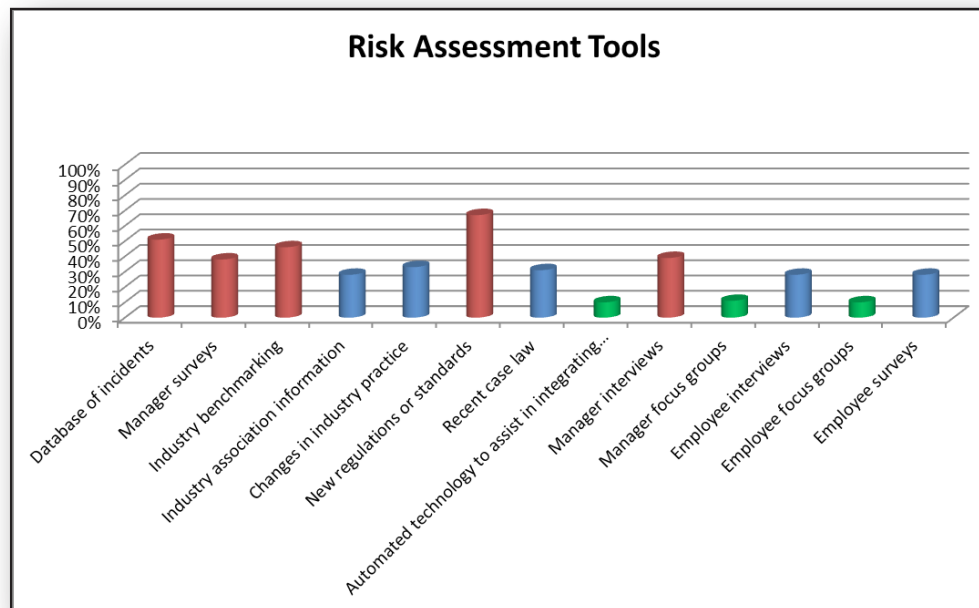


We were surprised to see that only 49% of survey participants feel their business partners should be required to complete a due diligence questionnaire; however, this number does rise considerably to 65% for EU-based organizations, possibly a result of the UK Bribery Act, which has brought the importance of third party due diligence to the forefront. EU-based companies are also twice as likely to have already implemented a third party due diligence system than those headquartered in other regions of the world. As companies continue to implement their planned responses to the FCPA and UK Bribery Act, we believe these numbers will increase globally in the coming years.

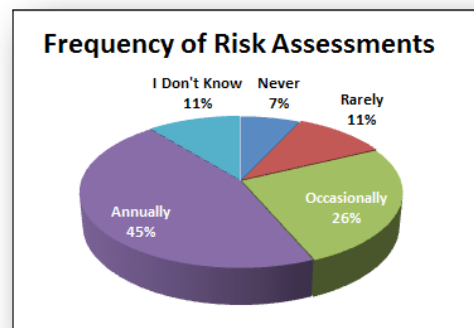
**d. Risk Assessment** – Risk Assessments and risk management are clearly becoming more important for many organizations. Sixty-two percent (62%) of respondents selected it as one of the three most critical elements to the success of their C&E programs. Survey respondents indicated the following tools as those most frequently used in their risk assessment processes:

- **New regulations and standards**
- **Database of incidents**
- **Industry benchmarking**
- **Manager interviews**
- **Manager surveys**

A majority of respondents reported using new regulations or standards (67%) and a database of incidents (51%) when assessing their organizations' C&E-related risks. Forty-six percent (46%) of respondents use industry benchmarking, 39% of respondents interview managers, and 38% of respondents survey managers when assessing their organizations' C&E-related risks. On the flip side, very few participants use employee (10%) or manager (11%) focus groups.



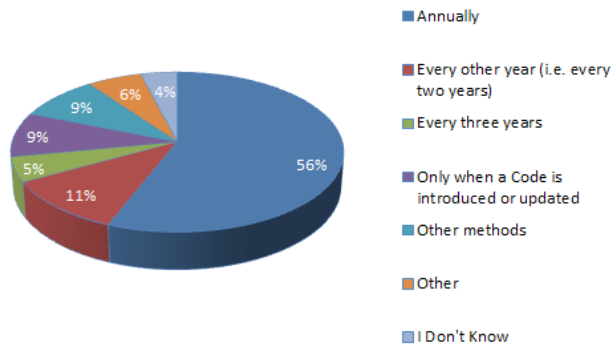
Eighty-two percent (82%) of respondents conduct risk assessments to address C&E risks. This number is up significantly from last year's affirmative response rate, where only 75% of respondents routinely assessed their C&E risks. Nearly half of respondents (45%) indicated they conduct risk assessments to address C&E risks on an annual basis. Surprisingly, only 11% are using automated technology to conduct risk assessments.



- e. Training** – Code of conduct training continues to be an area of focus for organizations with 56% of the companies providing their employees with annual online training, and over 70% of respondents provide online Code training at least every three years. This figure is significantly lower in organizations headquartered in the EU, where only 31% of organizations carry out annual code training.

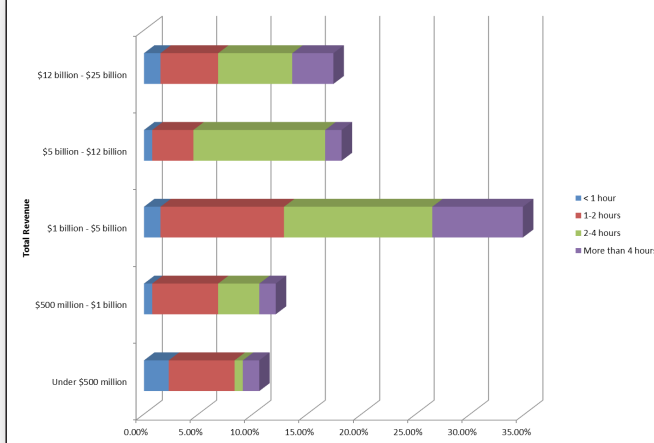
We have seen increasing pressure to reduce employee 'seat time' in C&E training over the past few years, as companies are doing 'more with less,' freeing up limited employee time for educational activities. This year's survey appears to bear this trend, as only 47% of responding companies provide more than two hours of C&E training per employee each year. In last year's survey, nearly 60%

### Frequency of Code Training



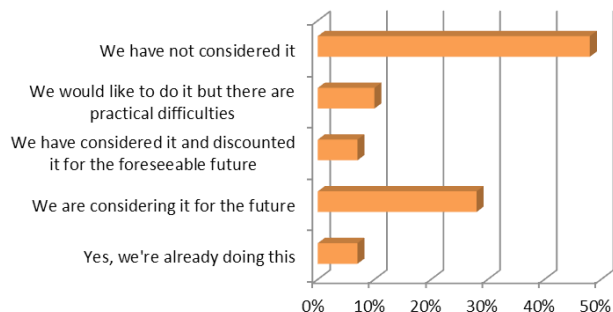
of respondents indicated their companies provide more than two hours of training per employee. This year a plurality of respondents (35%) indicated they provide their employees with 1-2 hours of C&E-related training. That said, a great majority of responding companies with revenue between \$5 billion and \$25 billion require in excess of two hours of their employees' time for C&E training. We believe the overall downward trend in seat time will continue over the next few years.

### C&E Training Hours by Total Revenue



Regarding the evolution of online training methods, the use of mobile technology for compliance training and awareness seems to still be in the early adoption phase, with a majority of respondents (55%) indicating that their companies either have not considered the use of mobile technologies (e.g. smartphones or tablets) to enhance their compliance learning program or have considered it but discontinued the idea for the foreseeable future. There is an interesting geographical split however, with EU-based companies seemingly being more advanced in this evolution. Twice as many EU-based respondents are already using mobile technology for compliance training as from other geographical regions. And while 28% of respondents globally indicated it will be unnecessary for elements of their compliance learning program to be delivered via mobile technology in the next three years, the remaining 72% see it as desirable or essential. This figure rises to 78% of EU-based respondents.

### Mobile Technology for C&E Learning

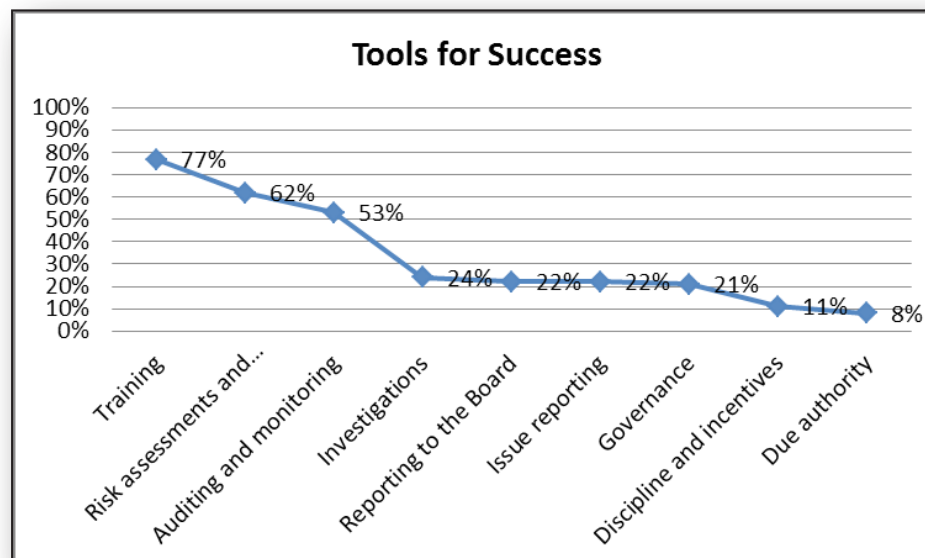


**C. Program Effectiveness** – Program effectiveness is an increasingly important topic for C&E professionals, and we see many organizations devoting additional resources to measuring the success of their efforts.

**1. Tools for Success** – When assessing the tools most critical to the success of C&E programs, we found a clear differentiation among the choices presented. Three tools:

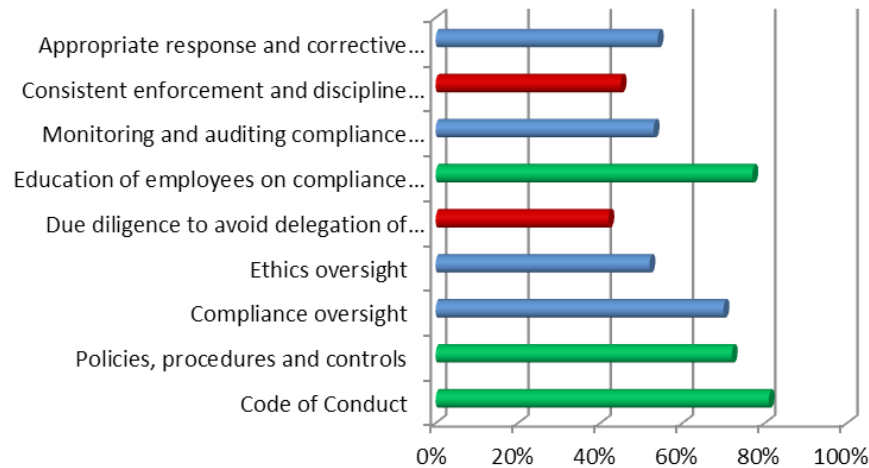
- Training,
- Risk assessments / risk management, and
- Auditing and monitoring,

were most commonly identified, with a precipitous drop off associated with the remaining choices.



**2. Assessing Effectiveness** – When asked about demonstrating the effectiveness of various elements of their C&E programs, respondents provided wide ranging answers. Eighty-one percent (81%) of respondents indicated their companies can demonstrate the effectiveness of their Code of Conduct; 77% indicated their companies can demonstrate the effectiveness of their C&E education programs; and 72% indicated their companies can demonstrate the effectiveness of their policies and procedures. However, less than half of the respondents believed they could demonstrate the effectiveness of their efforts to exercise due diligence to avoid delegation of authority to unethical individuals (42%) and consistent enforcement and discipline of violations (45%).

## Demonstrating Effectiveness



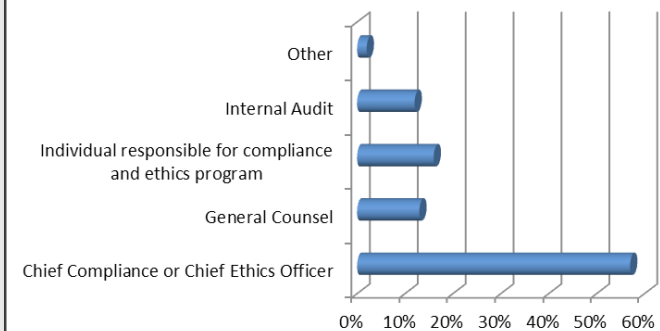
Interestingly, although 64% of respondents work with their audit colleagues when assessing C&E-related risks, only 12% feel that internal audit should lead the process to determine C&E program effectiveness.

The survey also took a deeper dive into the metrics used to assess effectiveness. The survey results indicate that many companies continue to rely on qualitative activity metrics, rather than quantitative results metrics, when measuring success.

By way of example, we found that more than half of respondents rely on training completion rates and hotline data to purportedly measure effectiveness, while less than 30% use employee exit interviews, follow-up testing, or quantitative reporting. The former metrics serve merely to report on activity, while the latter would serve to measure the true impact of a company's C&E efforts in terms of modified employee awareness, attitudes and behaviors. It seems there remains much room for improvement in terms of assessment of compliance effectiveness.

Finally, nearly 80% of respondents brief their boards on at least an annual basis, with 62% of them briefing their boards on a quarterly basis.

## Who should determine C&E Effectiveness?



### III. Conclusion

We thank all the C&E professionals who participated in the benchmarking survey and encourage everyone to participate again in their preparation for 2014. We often find that, although benchmarking information is much sought after, many people feel they do not have the time to provide it. We pledge to make the experience as easy and quick as possible. With your help, we aim to provide a growing year-over-year analysis of trends while continuing to support the varied needs of our customer base.

### About SAI Global Compliance

SAI Global Compliance is the world leader in providing organizations with a wide range of governance, risk and compliance (GRC) products, services and technology that help build organizational integrity and effectively manage compliance risk. Our global staff includes professionals and subject matter specialists in advisory services; program design, management and implementation; instructional design; and software development. Our focus is to help establish and enhance compliance effectiveness.

### About Baker & McKenzie

Founded in 1949, Baker & McKenzie advises many of the world's most dynamic and successful business organizations through more than 4,000 locally qualified lawyers and 6,000 professional staff in 72 offices in 45 countries. The Firm is known for its global perspective, deep understanding of the local language and culture of business, uncompromising commitment to excellence, and world-class fluency in its client service.

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### **Inside Perspective, Proactive Advice**

In today's global market, having a multijurisdictional approach to compliance is essential. When the government arrives at your door, you need a law firm that can quickly coordinate cross-border internal investigations to determine the scope of the problem and mobilize to protect you. With longstanding offices in key financial centers and emerging markets, Baker & McKenzie lawyers are already on the ground, ready to tackle high-stakes investigations from all legal angles.

Led by former U.S. Deputy Attorney General Paul McNulty, our Global Corporate Compliance Practice is filled with high-ranking former prosecutors who have earned the trust of local enforcement authorities — trust that can make all the difference in limiting the scope of investigations and minimizing damages. Our experience extends beyond local laws and business practices to working together from all corners of the globe to provide clear direction and real-time answers for clients.

We not only act as your advocate during investigations, but serve as your guide in establishing corporate compliance programs that address your greatest risks and mitigate problems before the government shows up. Compliance touches all aspects of your business: production, distribution, sales, marketing, finances, employees, data and corporate governance. How do you know which areas of risk to tackle first?

We start with an overview of your compliance obligations. Using our inside knowledge of which compliance violations the government tends to enforce, we help you prioritize areas of vulnerability and use your resources most effectively to minimize risk, providing you with protection where you need it most.

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## **Baker & McKenzie Compliance Consulting: Your Trusted Advisors**

Building on our experience as one of the first major law firms to focus on compliance, we created Baker & McKenzie Compliance Consulting (BMCC) to provide our clients with the best of both worlds: the legal insight and protections that come from working with a law firm, such as first-hand knowledge of government investigations and the shield of attorney-client privilege, and the experience of corporate compliance professionals who specialize in proactive, cost-effective risk management.

By working with our compliance consulting team, companies gain access to the full range of Baker & McKenzie's global compliance services: high-quality legal advice, real-world compliance experience, affordable assistance with day-to-day compliance problems and unparalleled global resources. Led by Stephen Martin, a former corporate compliance officer/in-house counsel and federal and state prosecutor, who understands both the business and law enforcement perspectives, our compliance consulting group is the first of its kind at any law firm.

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The Baker & McKenzie logo consists of a horizontal bar with a yellow-to-orange gradient on the left and a red-to-yellow gradient on the right. The text "BAKER & MCKENZIE" is written in white, uppercase letters across the red portion of the bar.

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## About SAI Global Compliance

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With well over a thousand organizations as clients and tens of millions of satisfied users around the world, we work with clients to integrate a flexible suite of solutions and services specifically tailored for a business and industry. Our products include the world's largest library of compliance and ethics learning, Code of Conduct advisory services and training, and the Compliance 360® GRC Software Suite to manage compliance, policy, incident and audit management. Our Cintellate™ EH&S Software addresses key issues in operational environmental health and safety management. For more information, please call us at the full service location nearest you or visit [www.saiglobal.com/compliance](http://www.saiglobal.com/compliance)

