

A man in a dark suit, light blue shirt, and patterned tie is seated at a desk, looking down at a large document or blueprint. The background is a bright, out-of-focus office space with large windows. An orange rectangular box is overlaid on the lower half of the image, containing the title text.

Key Trends, Issues and Best Practices in Compliance 2013

What Makes This Survey Different

Research conducted by independent third party

Clients and non-clients

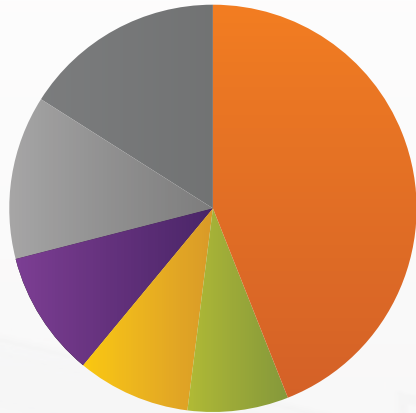
301 executive decision makers

35 qualitative interviews with ethics and compliance stakeholders

Cross-section of industries

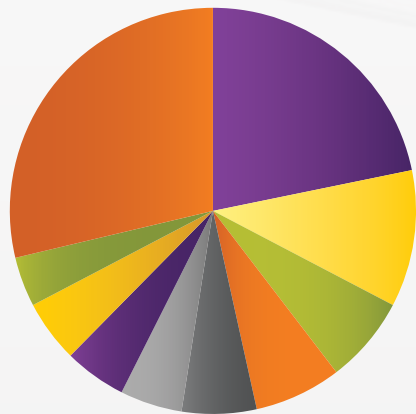
Cross-section of mid-size and large companies

NAVEX Global services the largest ethics and compliance community in the world. This survey is one example of our commitment to identify and communicate key trends and issues critical to business success. This independently verified data, gathered throughout 2013, helps to inform and continuously improve our product and services offering. We hope you gain new insight into your own program as well as a better understanding of your colleagues' challenges.



Title of Respondents

- 44% Legal, HR, Audit, and Other
- 8% Director / Manager, Risk
- 9% Risk Analyst
- 10% Chief Compliance / Ethics Officer
- 13% Compliance Analyst
- 16% Director / Manager, Compliance / Ethics



Industry of Respondents

- 22% Financial Services
- 11% Healthcare Industry
- 7% Manufacturing & Chemicals
- 7% IT & Technology
- 6% Defense & Government Contractors
- 5% Insurance
- 5% Energy & Utilities
- 5% Business Services
- 4% Transportation / Logistics / Supply Chain
- 29% Other

Size of Company

~50% of respondents work at companies with annual revenues greater than \$500M

This broad base delivers practical and actionable information and tips relevant to all companies.

What are the company's overall ethics and compliance priorities?

What impacts these priorities?

Are budget and other resources sufficient to manage these priorities?

The compliance function isn't always considered an organizational imperative

“Corporate management has its head in the sand and ignores problems until they become an embarrassment to upper managers. At which time, fire control is begun and lower level staff are identified, implicated and disciplined.”

Project Manager, Construction and Property Management Company

Some organizations continue to tie programs and budget into immediate business problems and address tactics rather than strategy.

Industry-Specific Issues Are Significant

“I think in the next few years, there will be serious ethics and compliance implementation. The Consumer Financial Protection Agency has banks very concerned because it has very broad and sweeping powers without a lot of guidance on how to be effective.”

FINANCIAL SERVICES
Former Deputy Chief Compliance Officer, National US Bank

“There’s the new law part of the ACA where all medical device and pharma companies have to have an effective compliance program by 2014. For companies that didn’t have compliance programs before, they’re mandated by law to have them. Part of having the program isn’t that you have it, it’s also that it’s effective. You have to demonstrate that you did the training.”

HEALTHCARE
Compliance Officer, Medical Device Company

Top Ethics and Compliance Budget Drivers

“What’s really driving the increase is the threat of regulatory enforcement. 5-6 years ago it was just about anti-corruption. These days, people are worried about data security, consumer privacy, controlling data.”

Editor-in-Chief, Major E&C Publication

The #1 item that drives budget decisions is increasing pressure from U.S. regulators and Internal Audit (45% of respondents).

The #2 Budget Driver Has Changed

“Regulations are driving ethics and compliance behavior. Companies do much more than the minimum required by regulations. If we have to do E&C, we may as well do it really well and protect our reputation/brand.”

Director of Ethics and Compliance, Global Defense Contractor

The need to increase protection around reputation and brand – going beyond legal protection and regulatory compliance – is the new #2 budget driver (33% of respondents).

Some Budget Drivers Remain Constant

#3

Increase in organization's overall employee population

(26% of respondents)

#4

Increased pressure from the CEO or Board of Directors

(20% of respondents)

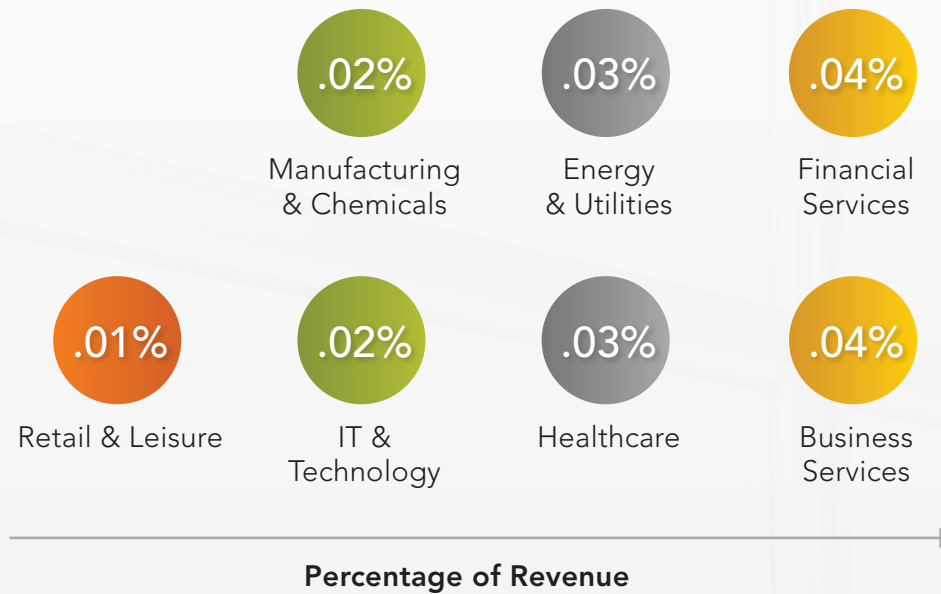
#5

Increase in the number of compliance-specific employees

(20% of respondents)

There's still agreement about **3** of the top **5** drivers

Annual Ethics and Compliance Budget



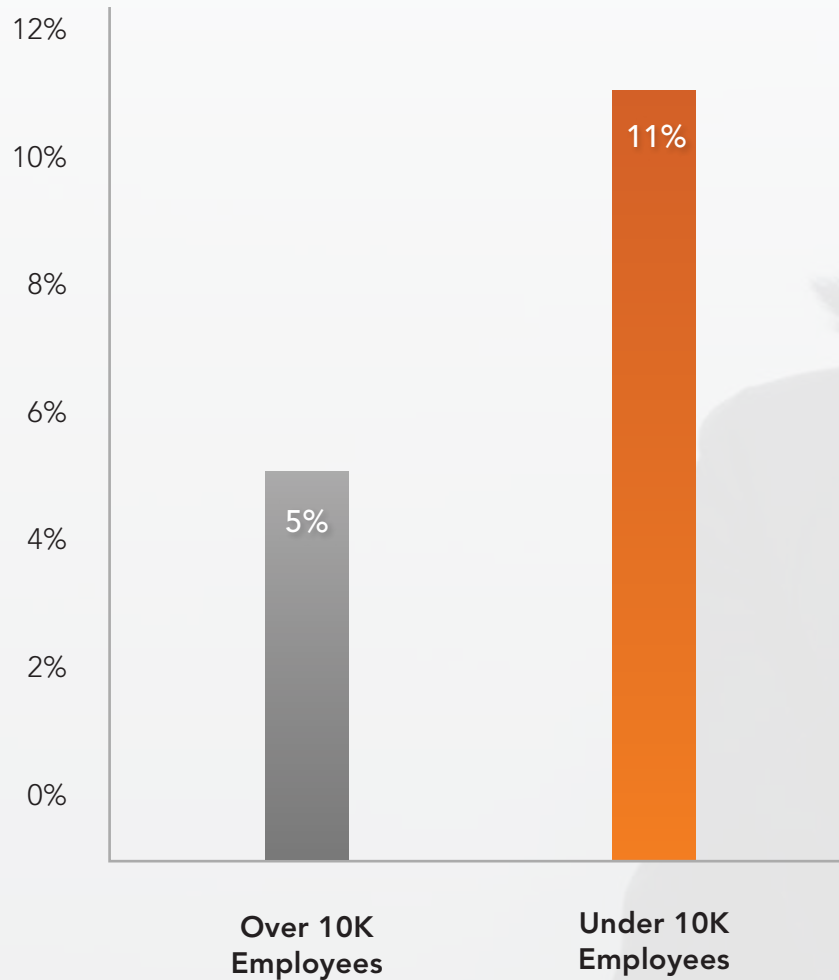
How much is allocated for spending for these priorities?

FACT:

Ethics and compliance budgets comprise only a small portion of annual revenue (~.01- .04%) regardless of industry differences

A budget imperative is to increase the value from every program dollar

Anticipated Budget Growth 2014

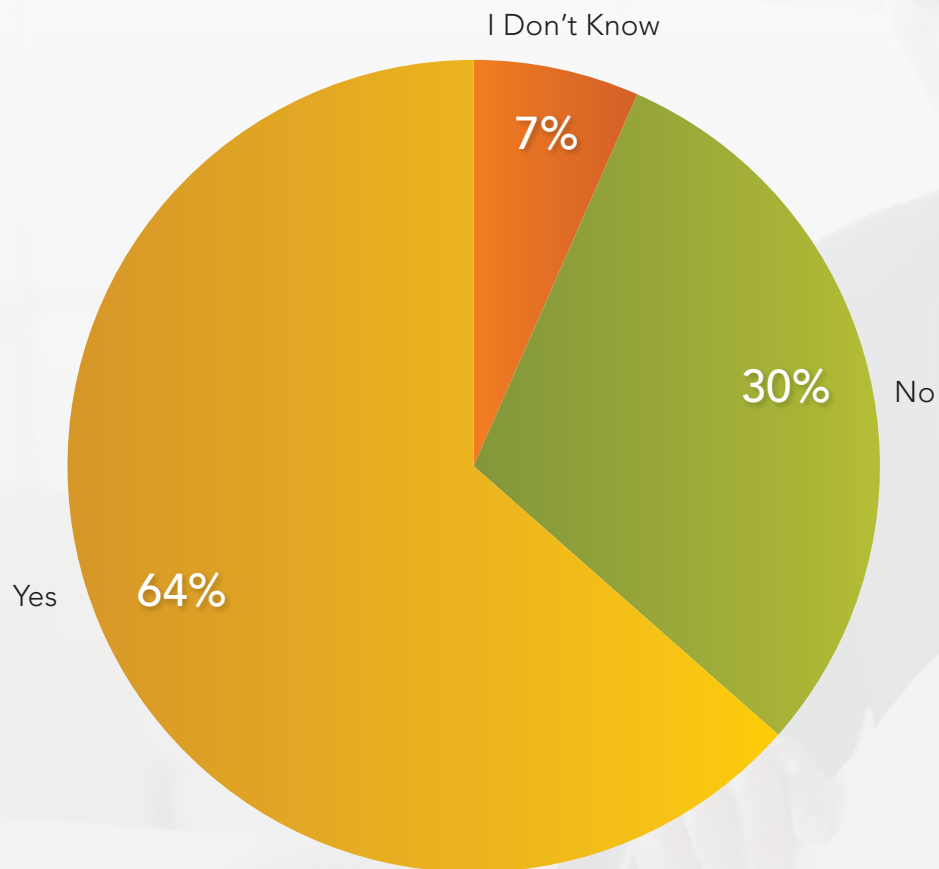


Smaller companies are increasing their budgets twice as fast as larger companies

Why? Less mature programs require funds to build process and infrastructure.

Overall, budgets in 2014 will grow ~5% compared to the ~8% growth that occurred in 2013.

Does the Ethics and Compliance Department have Sufficient Resources?



1/3 of respondents need more resources to manage their ethics and compliance risk

Budget, staff, control and authority need to be sufficient to manage not only the tactics but the strategies that transform ethics and compliance into an organizational imperative.

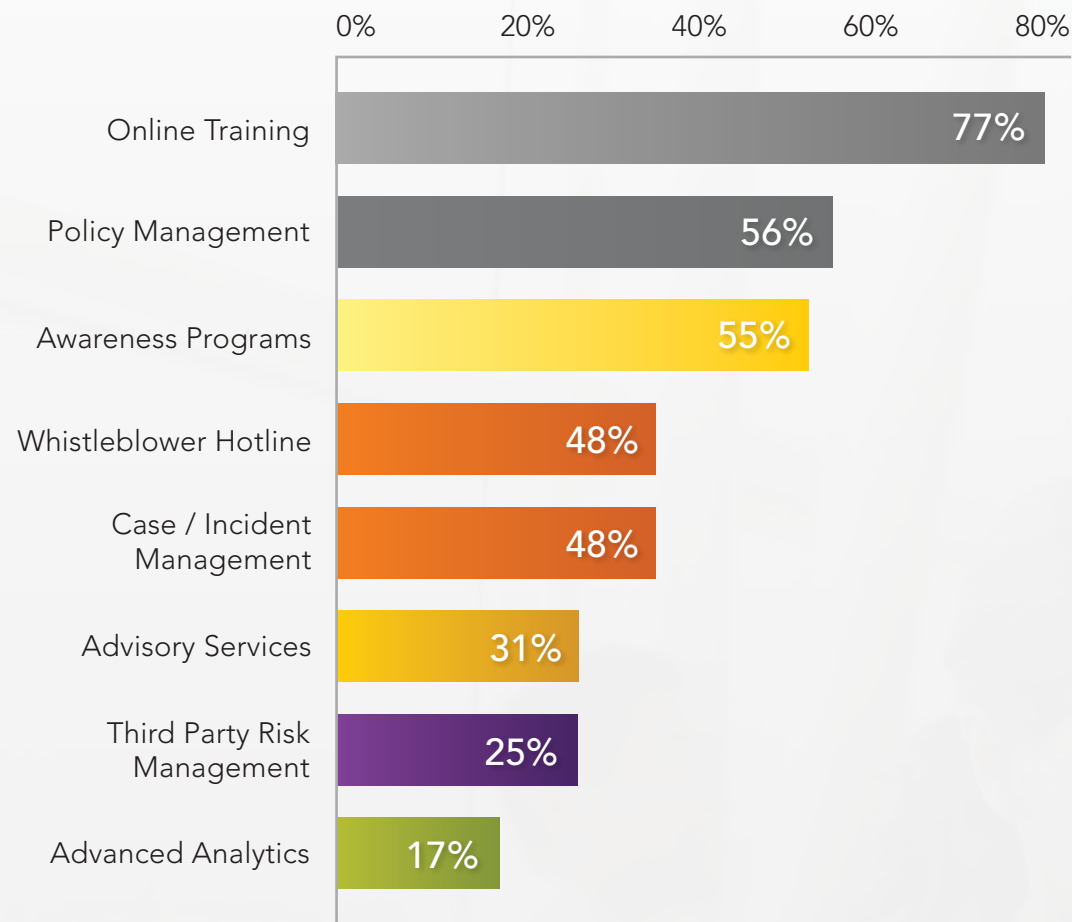
How is the budget allocated?

Where will spending be focused in the future?

What gets the most attention today?

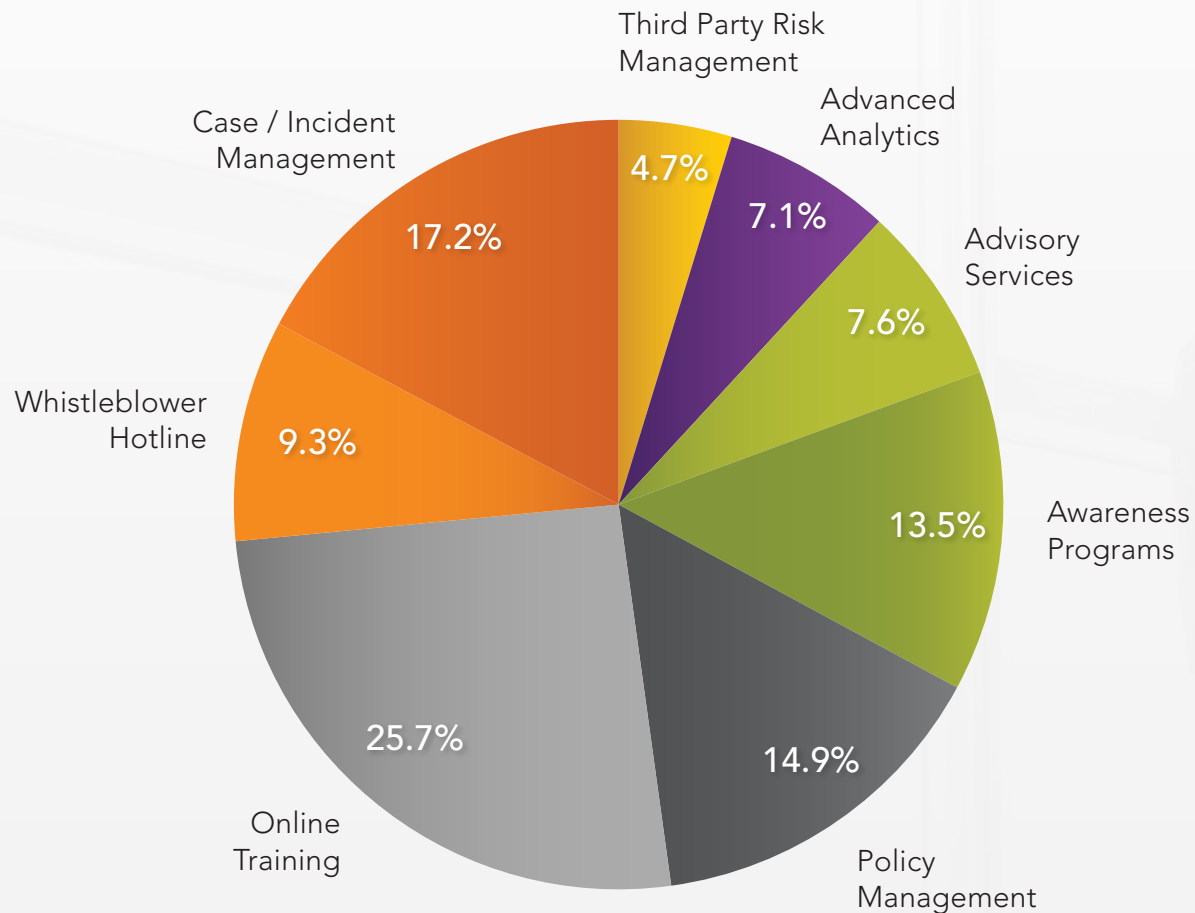
How is the value from every dollar maximized?

Percent of Companies that Currently Utilize a Specific Compliance Solution



Of all the elements in today's compliance programs, online training is the most mature and most frequently utilized. Third party risk management and advanced analytics are currently the least frequently utilized.

Breakdown of Budget Spending by Compliance Solution



Half of the total spend is allocated in 3 areas:

- hotline
- case management
- online training

Quality and effectiveness in these high-spend areas need to be top of mind

The truth about training...

Dispelling the misconceptions about the size and type of training library needed

Few courses are actually deployed

47% of companies deploy fewer than 3 courses annually to the all-employee base; 63% deploy fewer than 10 courses in total

Companies may be buying more courses than they can use

10 courses were cited as needed for long term planning (2+ years)

36% of companies purchased somewhat or far too many courses than they actually utilized

What's required in an effective library is changing

~45% of companies are using more or the same amount of mobile training Bursts. Traditional length courses are being replaced with shorter format courses and Bursts.

The real questions should be:

1. Is the library flexible enough so I can meet the needs of my workforce over the next 2-3 years?
2. Is the library continually refreshed in core subject areas in both long and short course formats?

Training Is the Most Significant Part of A Compliance Program

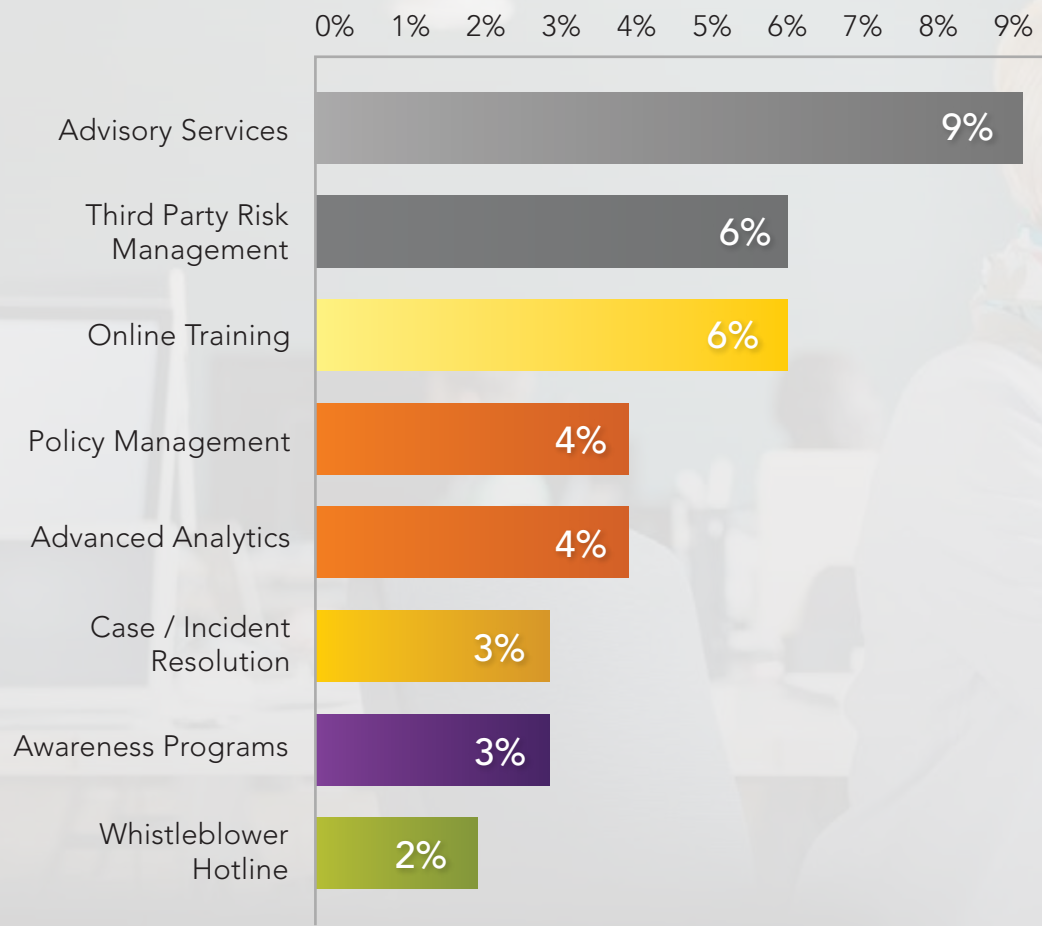
“ Our training budget will go up ~75%. It's very significant. We don't even have all the requirements yet but we have had to do 6-7 trainings for 2014 which is more than we currently do.”

Assistant Director of Corporate Compliance, Healthcare Services Company

“ Our training was designed in house but outsourced from a software perspective. We don't have the capabilities to do the software so we had it outsourced and custom developed.”

Former CCO, Food Services Company

Expected Change in Ethics and Compliance Budget by Compliance Solution (2013-2014)



Spending for third-party risk management, online training and advisory services is expected to grow at a faster rate than other categories

The Need for Externally Sourced Advisory Services Is Growing

“If you use an outside organization for advisory services, what you may find is that they have best practices and they are more effective in designing [a compliance program]. For an outside organization, [they] offer up the expertise that they have had from other companies.”

Former CCO, Food and Beverage Equipment Company

“I’m looking for the company who knows the specific services I need. I shy away from the jack of all trades. I want a specialist and someone who knows exactly what I need.”

CCO, Healthcare Services Company

The choice of who to hire is based upon overall ability as well as experience in the needed specific area.

Third Party Risk Management

Why it's growing and the need for outsourcing help

“Third-party risk assessment is very important given that our industry is of particular focus for governmental organizations. But it should be important to every organization that does work internationally. Under the Foreign Corrupt Practices Act, any company that wants to take advantage of mitigating factors has to do it.”

CCO, Fortune 500 Oil & Gas Services Company

“Third-party risk management is on our to-do list this year. It's totally manual, there's basically a questionnaire that they give. I don't even know if they're using a database in house or they're just doing a hard copy thing. We are looking to outsource these functions.”

CCO, Government Contracting Company

“Third-party risk management is more of an area of focus. We have actually had third-parties (lawyers, consultants) come in. It is important. It's not critical yet, but it is becoming more and more important.”

CCO, Government Contracting Company

Monitoring of Third Parties Needs Improvement

Deficiencies in frequency and sophistication add risk

Current Monitoring

38% of companies believe they monitor less of their third party partners than they should

Type of Monitoring

70% believe more sufficient monitoring is necessary beyond an initial screen

Sophistication of Monitoring

Only **4%** of companies had fully automated third party risk management solutions that could assess all third parties

“3P is definitely on the radar. It is the future. The government is holding us accountable on human trafficking, conflict diamonds, etc. so 3P is definitely increasing in importance.”

Director of E&C Global Defense Contractor

Third Party Training Is Being Addressed

Code of Conduct

52% of companies require Code of Conduct attestation less frequently than annually or not at all

General Ethics and Compliance Training

73% of companies require ethics and compliance training for the third parties they worked with

“ We always required code of conduct attestation. We’d ask for it about once a year. There was a policy around it. I would say that attendant to that, any time a new contract came up, there was time for a deeper dive. ”

Former CCO, Food Service Equipment Manager

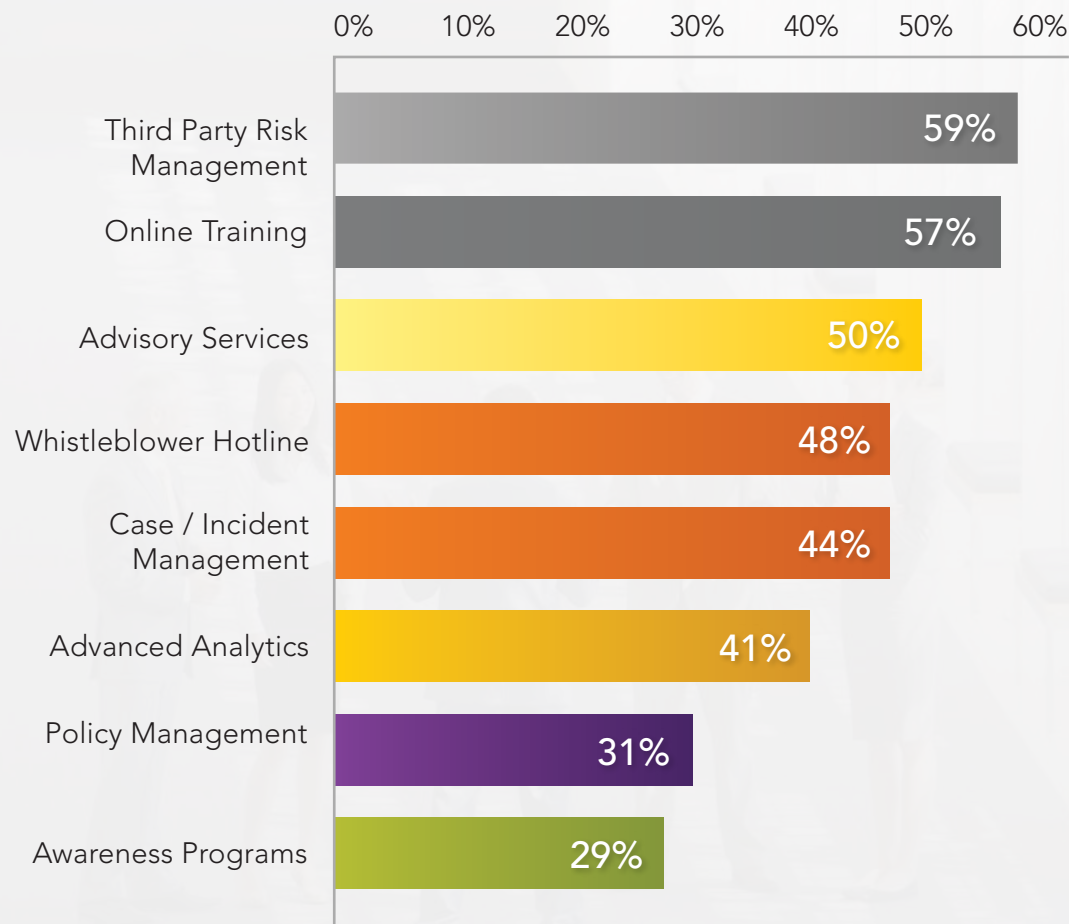
Outsourcing

Key Trends

What You Expect From Vendors

The Typical Buying Process

Percent of Companies that Outsource Compliance Solutions



Most often outsourced:

- whistleblower hotlines
- online training
- third party risk management

Most often handled in-house:

- policy management
- awareness programs

Outsourcing Imperatives

“[The hotline] absolutely has to be outsourced. You can't do that in house and be able to guarantee anonymity.”

Former CCO, Food Service Manufacturer

“We use a third party to manage our online training. We will sometimes make the content ourselves and then hand it off to them to program it and help us track completion. Sometimes we use their off the shelf solutions.”

CCO, Fortune 500 Oil & Gas Services Company

The Buying Process

Number of bids evaluated

The average ethics and compliance purchase involves **3 bids**

Number of people involved in purchase decision

Companies typically have a team of **6 employees** evaluate each vendor

Attractiveness of multiple solutions from a single vendor

~70% of companies believe that multiple solutions from a single vendor is attractive

When $\frac{1}{2}$ of all spending is in training, hotline and case management, using one vendor for all three is an attractive option

What's Driving The Outsourcing Decision?

“To me, it's the solution that vendors provide. Price does play a factor but it is not the end all of a decision. Sometimes you get what you pay for and it's really based on the solution that is provided. It's the solution, price and reputation, those are the top three things.”

Assistant Director of Corporate Compliance,
Healthcare Services Company

“For us, the most important offerings a vendor could provide are online training and whistleblower hotline. It's really just those two.”

CCO, Government Contracting Company

Importance of Purchase Criteria in Selecting Vendor



Customers identified **product quality** and **price** as the most important criteria when selecting a vendor for ethics and compliance products and services

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Practical Takeaways that Impact Your Program Planning, Your Budget and Your Vendor Relationships

Protecting brand and reputation is now the #2 driver of spend and program enhancement – a program needs to go far beyond legal protection and regulatory compliance

Budgets are growing but in small increments; there are opportunities to increase efficiencies and improve internal processes

Half of all spending is in the holy trinity of hotline, case management and online training – this is the backbone of your program so carefully evaluate quality and effectiveness

Don't let the misconceptions about training force you into a huge library that might not be the best solution. You likely need a core 10 courses, short and long formats, and content that's continually refreshed









An integrated solution can improve your department's day-to-day functioning and improve your overall value to the business – and stretch your dollars with a single vendor

Your most likely growing need is third party management – make sure a solution is scalable, manageable, centralized and affordable

NAVEX Global's Ethics and Compliance Ecosystem

It's the key learnings from independently verified research like this report that inform NAVEX Global strategies and product development. Our solutions are delivered either as standalone elements or via an integrated ecosystem that aggregates data across solutions, applies robust analytics, and generates reports with high value and actionable information. This is the foundation of our company – to help you minimize risk, increase efficiency and foster meaningful behavioral change.



-  Advisory Services
-  Policy Management
-  Online Training
-  Hotline Reporting Services
-  Case Management
-  Awareness Programs
-  Third Party Risk Management
-  GRC Insights

About NAVEX Global

NAVEX Global helps protect your people, reputation and bottom line through a comprehensive suite of ethics and compliance software, content and services. The trusted global expert for more than 8,000 clients in 200+ countries, our solutions are informed by the largest ethics and compliance community in the world. More information can be found at www.navexglobal.com.

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