

**The LRN ethics and compliance
risk management practices report**

2007

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More than ever before, companies must advance business cultures that value legal and ethical business conduct. Regulators, investors, business stakeholders and the public are increasing their demands for companies to conduct business with integrity, honesty and trust. Growing data demonstrate a link between ethical business cultures and corporate success, indicating that companies that operate with high standards of legal compliance and ethical conduct can enhance customer loyalty, build investor confidence and strengthen employee recruitment and retention.

Increasingly, nurturing a strong corporate culture is recognized as a key element in managing ethics and compliance risk. To be effective, however, ethics and compliance risk management requires a systematic, holistic approach. Companies must implement integrated risk management processes that work together in complementary fashion to define and identify risks, educate workers, detect violations, conduct investigations and continually fortify the corporate culture.

In the past decade – and especially since the revised U.S. Federal Sentencing Guidelines – companies have put in place a wide range of ethics and compliance risk management practices. In an effort to measure how widespread risk management efforts have become, which practices are most commonly followed, and whether companies are truly moving toward an integrated, systematic process, LRN conducted a survey of senior personnel from ethics and compliance, legal, risk and audit departments.

This report presents the results of the LRN survey and analyzes the data for patterns and trends. The findings can help ethics and compliance professionals gain valuable insight into how others are managing their ethics and compliance risks. Comparing practices employed in other organizations can help ethics and compliance professionals benchmark their own programs, assess their overall effectiveness and target improvements. In addition, companies with operations outside the United States will find the results useful in contrasting their practices at headquarters with those at international operations.

The LRN survey found numerous challenges still remain in implementing effective ethics and compliance risk management programs. The discussion section at the end of this report highlights those challenges and proposes solutions that ethics and compliance professionals can integrate into their efforts to improve risk management and advance their goal of developing strong ethical business cultures.

The LRN ethics and compliance risk management survey will be conducted annually and broadened to provide regular comparison of ethics and compliance practices and to chart progress over time.

RESPONDENT PROFILE

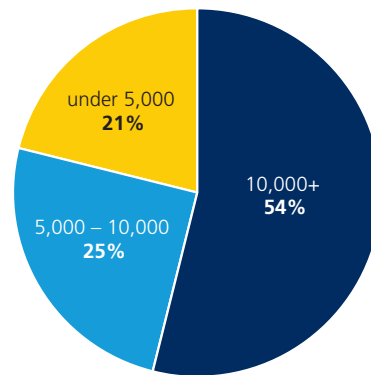
Title and role of respondents

All respondents had senior titles in one of the following fields: ethics, compliance, legal, risk or audit. Sixty-four percent of respondents had primary responsibility for their organizational ethics and compliance initiatives.

Size of companies

Survey respondents represented companies ranging in size from a few thousand employees to more than 10,000. The majority of respondents, 54 percent, were from large companies with more than 10,000 employees.

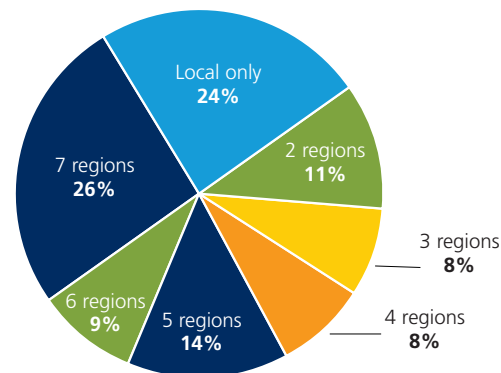
Company size by number of employees



Location of headquarters and presence in global regions

The majority of respondent companies (90 percent) were headquartered in the United States, with others headquartered in Canada, Europe, Asia/Pacific and Africa. Nearly two-thirds of respondents had operations in multiple (two to seven) regions of the world.

Breakdown of companies according to number of regions of operation



The table below shows a breakdown of the number of regions of operation among respondents according to the location of their headquarters.

Location of headquarters	Number of regions of operation						
	1	2	3	4	5	6	7
US	38	15	12	13	19	12	36
Canada	0	0	0	0	1	1	0
Europe	1	1	1	0	2	1	5
Asia/Pacific	0	1	0	0	0	0	1
Africa	0	0	0	0	0	0	1

*No respondents were headquartered in the Middle East or South America/Central America/Caribbean.

Industries represented

The survey participants represented organizations from a broad range of industries, including:

- Aerospace and defense
- Agriculture
- Banking
- Chemical
- Communications, media
- Consumer products and electronics
- Energy, power, oil and gas
- Financial services
- Government
- Healthcare
- Information technology and technology services
- Insurance
- Manufacturing
- Pharmaceuticals
- Retail
- Transportation

SURVEY METHODOLOGY

Conducted in October–November 2006, LRN e-mailed an invitation to complete the survey to 1,839 senior ethics, compliance, legal, risk and audit professionals, of which 161 completed the survey. The survey was completely anonymous and each respondent could take the survey only once. (A possibility exists that there might be multiple responses from one company, though LRN estimates this number to be extremely limited). The survey questionnaire included multiple choice questions developed in collaboration with experts in the ethics and compliance risk assessment field.

Significance has been analyzed using the chi-square statistics. The threshold for reporting differences or relationships as statistically significant is: $p < 0.05$. This survey was self-administrated using the Instant Survey online tool from GMI (Global Market Insite, Inc.). Rounding may occasionally cause some total results to add up to greater than 100 percent.

1. Ethics and compliance risk assessments are sometimes integrated with other company risk assessments, but the majority of companies do not involve their executives and business managers in the risk assessment.

About half of the surveyed companies integrate their ethics and compliance risk assessments with other business risk assessments. However, in the risk assessment process, only 42 percent obtain input from their executives and only 37 percent obtain input from their business managers.

2. Companies regularly report the results of their ethics and compliance risk assessment and the evaluations of their prevention programs to senior leadership, but lag in reporting to operational managers.

Most companies (80 percent) share the findings from the risk assessment process with their top executives. Almost all companies (95 percent) make relatively frequent reports on the progress of their ethics and compliance education programs to their senior executives and board. However, they involve management far less frequently, with only half of companies (51 percent) sharing the risk assessment results with business managers.

3. Most companies have multiple functions collaborate in the ethics and compliance risk assessment process and in investigating violations.

More than three-quarters of companies involve the legal department in performing ethics and compliance risk assessments and in investigating reports of incidents and potential violations. Two-thirds of companies involve internal audit in assessments and investigations. Close collaboration between the legal, internal audit and/or compliance department in the risk assessment process is also highly common.

4. Companies offer a wide range of risk prevention programs such as online education and certifications, but programs are consistently less robust at international locations than at headquarters.

Companies with international operations employ a spectrum of prevention programs (e.g., online or on-site education, certification and performance reviews). The most common prevention effort is a code of conduct, offered by all respondents (100 percent) at their headquarters operation. However, reported results for every type of prevention program are consistently lower for companies' international locations than for their headquarters.

5. Many companies still express concerns that employees fear retaliation for reporting incidents, despite the prevalence of anonymous reporting technologies.

Almost all (98 percent) respondents offer an anonymous phone line or a confidential reporting channel. However, almost two-fifths (39 percent) of companies believe their employees still fear retaliation for reporting.

6. Detecting ethics and compliance violations presents a significant challenge for companies.

About three-quarters of companies report significant difficulty in detecting ethics and compliance violations, both in their home markets (67 percent) and in their international operations (73 percent). The reasons cited include employees fearing retaliation by the company, feeling unmotivated or failing to understand company policies.

7. Many companies are confident in their ability to conduct effective investigations.

Conducting investigations received the highest percentage of companies (32 percent) reporting no significant challenges compared to other risk management processes, perhaps because companies have greater experience in investigating than in defining, preventing, and detecting ethics and compliance risks. However, the remaining respondents cite a range of challenges, including lack of resources and a scarcity of qualified investigators. Companies with operations in multiple regions also cited problems investigating incidents occurring at international locations.

8. Compliance professionals frequently cite a lack of resources (budget and staff) as their leading risk management challenge.

About half of ethics and compliance officials named inadequate resources as their biggest challenge in conducting the risk assessment (49 percent) and in implementing prevention programs (53 percent). Lack of adequate resources was also cited as the second biggest challenge in investigating allegations.

9. Companies attempt to accurately evaluate the effectiveness of their ethics and compliance programs and use the data to improve their programs.

A majority of companies use qualitative (63 percent) or quantitative (52 percent) measures to evaluate the impact of their ethics and compliance process, and 47 percent use internal program/process audits. With the data collected, 82 percent of companies attempt to improve their process.

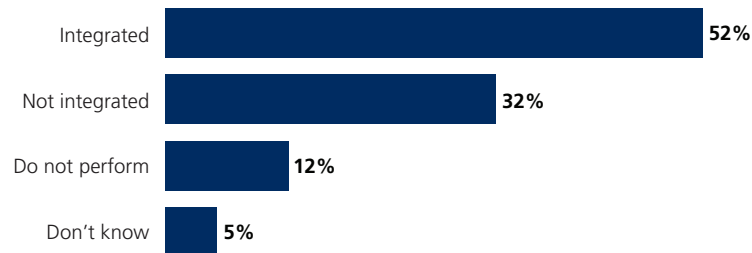
10. Despite the prevalence of strong program evaluation efforts, some companies find the interpretation, analysis and application of the data collected challenging.

Even with the above qualitative and quantitative evaluations, many companies cite challenges in correlating the data captured to results (38 percent), as well as correlating the results to business improvements (33 percent) and aggregating and analyzing data (29 percent) across programs.

DEFINING ETHICS AND COMPLIANCE RISKS

1. Is your ethics and compliance risk assessment process integrated with other risk assessment processes within the enterprise?

Ethics and compliance risk assessment Integration with other risk assessment processes



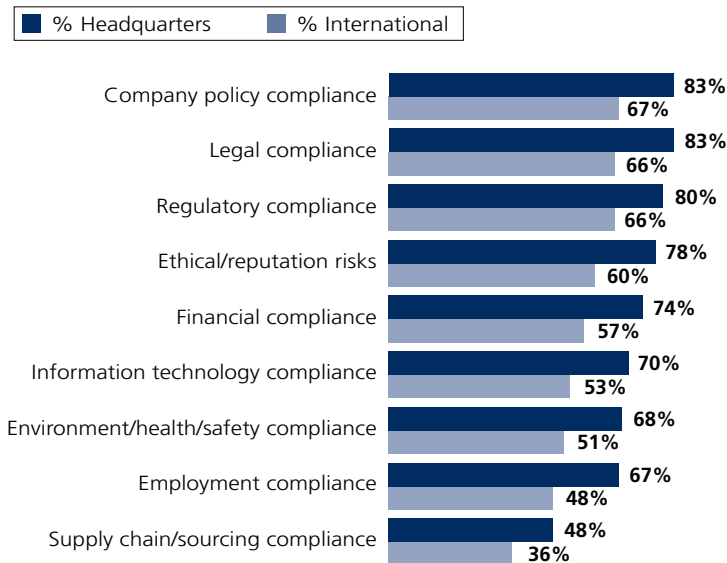
84 percent of companies surveyed conducted an ethics and compliance risk assessment, either as a stand-alone process or as part of other risk assessment processes within the enterprise. The majority – 52 percent – reported integrating the ethics and compliance risk assessment with other risk assessment processes, but a significant minority – 32 percent – conducted the ethics and compliance assessment as a stand-alone process. Only 12 percent of respondents said their companies did not perform an ethics and compliance risk assessment, while the remaining five percent did not know whether or not their company conducted such an assessment.

Most companies perform ethics and compliance assessments and a slim majority integrate them with other business risk assessments in the company.

Historically, ethics and compliance officers were viewed as specialists in responding to allegations of wrongdoing. However, this narrow view of ethics and compliance is changing. A substantial majority of companies performs an ethics and compliance risk assessment, and a slim majority now recognizes the value of integrating ethics and compliance risk assessments with other risk assessment processes. Integration helps deepen the company's understanding of the risks it faces, allowing more effective prevention techniques. Existing risk assessments also tend to overlap in some areas with ethics and compliance, so integration creates a more efficient process.

2. What types of ethics and compliance risks does your company examine as part of its risk assessment process?

Types of ethics and compliance risks examined in multinational companies



Among companies with multinational operations, approximately three-fifths of respondents reported examining company policy (83 percent), legal (83 percent) and regulatory (80 percent) compliance at their headquarters location. About three-quarters of respondents also reported including ethical/reputational risks (78 percent) and financial compliance (74 percent). Fewer respondents cited examining information technology compliance (70 percent), environmental/health/safety compliance (68 percent), or employment compliance (67 percent) in their home location.

In their international regions, companies reported examining risks to lesser degrees, but risk assessments remain grouped into the same three tiers of priority. Company policy (67 percent), legal (66 percent) and regulatory (66 percent) compliance are most often included in an assessment, followed by ethics/reputation (60 percent), financial (57 percent) and IT (53 percent), and finally by environment/health/safety (51 percent) and employment issues (48 percent).

In both headquarters and international regions, supply chain/sourcing compliance was the least assessed category of risk. A little less than half of respondents (48 percent) reported examining supply chain compliance in their home markets, while only 36 percent did so in international regions.

U.S. companies examine a broad array of ethics and compliance risks at home but are less comprehensive in their operations abroad.

Given that 88 percent of the multinational participants worked in companies headquartered in the United States, this result generally reflects practices at U.S.-based companies with international operations. The reduced levels of risk assessment internationally may reflect cultural and legal differences that act as obstacles to implementing U.S. standards and guidelines abroad. Decentralized ethics and compliance functions that are not able to coordinate well across international borders may be another barrier to consistent international practices.

Across all regions, supply chain/sourcing compliance received the least amount of attention from ethics and compliance risk assessments. More than half did not examine them at home, while even more – about two-thirds of respondents – did not examine these issues in their foreign regions of operation. The apparent low interest in the supply chain risk assessment may reflect the inherent difficulties of balancing the independence of suppliers with the enforcement of mutual standards. Suppliers based entirely in a foreign country, for example, may be under no legal obligation to follow the standards of their customers, nor have the appropriate systems or procedures in place to meet them voluntarily. However, the risks of supply chain/sourcing channels are equally critical for companies to consider.

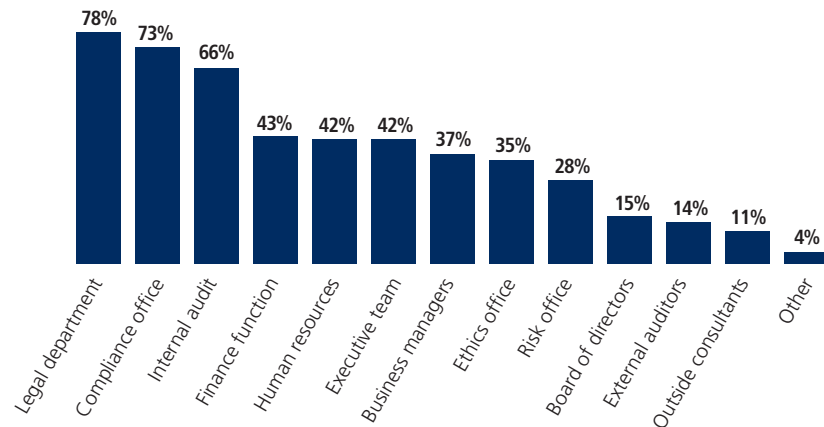
Despite these challenges, separate research by LRN, combined with the fact that just over half of respondents are considering supply chain compliance, suggests that there is an upward trend in ethics and compliance toward assessing risk throughout the extended enterprise.¹ Such a trend may reflect the influence of the U.S. Federal Sentencing Guidelines which counsel large organizations to “encourage small organizations (especially those that have, or seek to have, a business relationship with the large organization) to implement effective compliance and ethics programs.”²

1. Source: LRN client community interviews, conducted during the week of October 3, 2005.

2. Source: “2005 Federal Sentencing Guidelines Manual and Appendices” (United States Sentencing Commission, effective 1 November 2005) <http://www.ussc.gov/guidelin.htm>.

3. Who is involved in performing your ethics and compliance risk assessment?

Departments involved in ethics and compliance risk assessment



A solid majority of companies surveyed involved the legal department (78 percent), compliance office (73 percent) and internal audit (66 percent) in performing ethics and compliance risk assessments. A minority of respondents reported that either the risk office (28 percent) or the business managers (37 percent) took part in performing assessments.

The executive team, human resources and finance function were also sometimes involved, with 43 percent of respondents involving finance and 42 percent partnering with executives or personnel from human resources. However, boards of directors as well as external auditors and consultants were rarely participants in performing ethics and compliance risk evaluations. Only 15 percent of respondents reported involvement by the board of directors, 14 percent involved external auditors, and just 11 percent looked to outside consultants.

Despite their proximity to operations, business managers are often not involved in risk assessments.

Integrating business managers into the risk assessment process appears to be lagging. The fact that little more than one-third of respondents reported involvement of business managers suggests that integration of the risk assessment process down to the business unit level may not yet be a recognized practice. However, business managers are closest to the day-to-day operations of the company and often have the greatest knowledge of potential risks. Including business managers in risk assessments would likely strengthen the process.

Otherwise, companies generally reported involving multiple departments in assessments – as shown in the following table – often using a combination of legal and compliance or internal audit. A significant number of respondents reported using teams composed of all

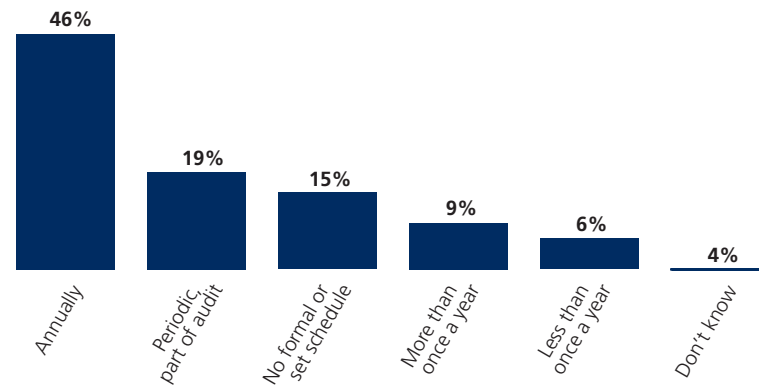
detailed results

three departments: compliance, legal and internal audit. Legal's involvement likely reflects the fact that ethics and compliance are so often a part of the legal function.

Departments involved in ethics and compliance risk assessment	Responses	% Total
Legal and compliance	85	60%
Legal and internal audit	79	56%
Compliance and internal audit	67	47%
Compliance and legal and internal audit	59	42%
Totals among companies that assess ethics and compliance risk	142	100%

4. How often do you conduct your ethics and compliance risk assessments?

Frequency of conducting compliance risks assessments



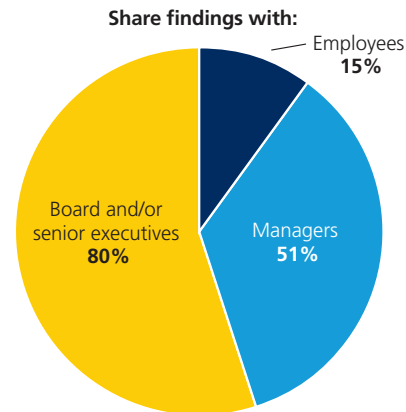
A combined total of more than 50 percent of companies surveyed conducted ethics and compliance risk assessments either annually (46 percent) or more than once a year (9 percent). Only 6 percent performed the assessment less than once a year, and 15 percent followed no set schedule at all. A further 19 percent tied the evaluation process to financial auditing, which may occur annually or less frequently, depending on the status of the company (public vs. private) and applicable accounting standards.

Performing an annual risk assessment is the most common practice.

Companies appear to practice risk assessments on a regular, consistent basis.

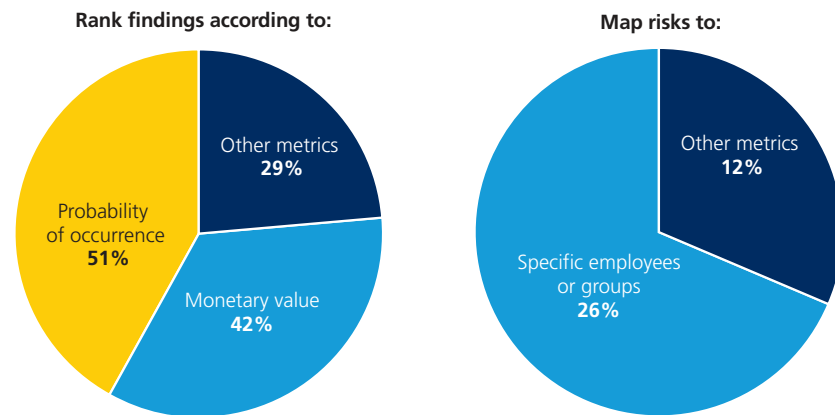
5. How do you use or apply information from your ethics and compliance risk assessment?

Using ethics and compliance risk assessment findings



Companies usually shared the findings of their ethics and compliance risk assessment with their board of directors and senior executives. Among respondents, 80 percent reported that assessment results were communicated to the board and/or senior executives. In contrast, 51 percent shared results with managers; only 15 percent of the companies released results to employees.

Using ethics and compliance risk assessment findings



Using information gathered in risk assessments to either rank or map risks was less common than sharing results. A little more than half of respondents (51 percent) said their company ranked ethics and compliance risks by probability of occurrence. Fewer companies (42 percent) reported ranking risks according to their monetary value; the smallest percentage (29 percent) ranked by other metrics. The percentages for mapping risks to specific employees or groups (26 percent) and to other metrics (12 percent) were even lower.

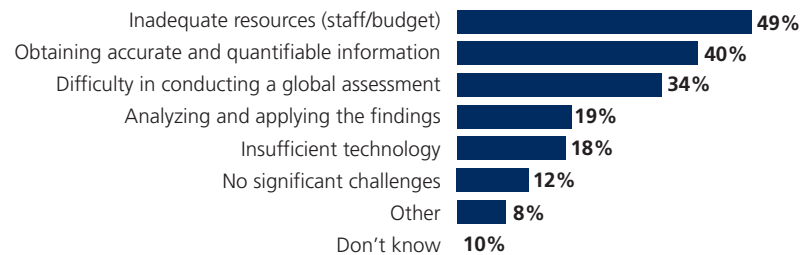
Ranking and mapping risks are not yet common practices.

Almost half of respondents do not apply any type of ranking methodology to the risks uncovered in their assessments. Ranking is a useful practice because it not only identifies possible immediate trouble spots but helps ensure that education curriculums and other prevention techniques are targeted at the risks most likely to occur or those with the potential for greatest impact. The current difficulty of mapping risks to specific employees or groups may explain why it is even less implemented than ranking. One reason is that HR systems are typically not equipped to capture activities associated with specific risks. However, leading companies are increasingly using automated tools that allow them to survey employees to capture responsibilities and map risks in a bottom-up fashion.

The popularity of sharing findings with boards and senior executives is understandable, given that government regulations place ethics and compliance responsibilities on these officers. Looking back at who is involved in conducting assessments (16 percent of boards, 42 percent of executive teams, 37 percent of business managers), and when assessments are conducted (46 percent annually, 9 percent more than once per year), it might be concluded that most boards see only the annual results of assessments while a solid majority of executives see more regular updates even though they are not engaged in guiding the assessment process in a significant way.

6. What are the biggest challenges you face in conducting your ethics and compliance risk assessment?

Challenges in assessing ethics and compliance risks



According to nearly half of respondents (49 percent), a lack of resources was the biggest challenge they face in conducting ethics and compliance risk assessments. Forty percent of respondents were also concerned about obtaining accurate and quantifiable information. Approximately one-third (34 percent) reported difficulties in conducting global assessments. Two other challenges were less commonly cited; only 19 percent of respondents viewed analyzing and applying findings as a significant challenge, and only 18 percent believed they needed additional technology.

Constrained resources and collecting accurate data challenge risk assessments.

Lack of adequate resources was cited as the leading challenge in conducting risk assessments. One solution to this reality is for the ethics and compliance function to reach out to other functions in the organization in order to establish a wider base of leaders and business managers who can champion the importance of the risk assessment and help the process gain support, momentum and assistance.

The second leading challenge, obtaining accurate and quantifiable information, points to the need for companies to enhance their use of automated systems to collect ethics and compliance risk assessment data (versus paper-based methods that many companies are still using). As companies increasingly turn to advanced analytics and metrics, automated systems will aid greatly in capturing accurate and quantifiable information that can drive the risk assessment process.

The third most commonly cited challenge is conducting global evaluations. This response may help explain the earlier finding that fewer types of risk assessments are done in the foreign operations of most companies compared with their headquarters.

PREVENTING ETHICS AND COMPLIANCE RISKS

7. What activities or programs does the company have in place to educate and/or certify employees in specific ethics and compliance risks at the headquarters and in international regions?

Activities and programs to educate or certify employees

Activities/programs in place to educate/certify employees in ethics and compliance risks	Headquarters	International
Code of conduct/ethics	100%	86%
Internal communications efforts	90%	77%
Online education	88%	70%
Electronic certifications/attestations	81%	64%
In-person education	76%	63%
Formal CEO/senior mgmt involvement	67%	56%
Written certifications/attestations	62%	57%
Management/leadership development	56%	46%
Site visits	57%	48%
Employee performance reviews/other incentives	51%	38%
No formal programs in place	7%	7%
Other	3%	2%

Among respondents with multinational operations, a first tier of prevention stood out, including the use of a code of conduct (100 percent locally, 86 percent internationally), internal communications (90 percent locally, 77 percent internationally), and online education (88 percent locally, 70 percent internationally).

detailed results

The next tier of prevention methods included electronic certifications (81 percent locally, 64 percent internationally) and in-person education (76 percent locally, 63 percent internationally).

The following activities were less commonly implemented: formal involvement of the CEO and senior management (67 percent locally, 56 percent internationally), written certifications or attestations (62 percent locally, 57 percent internationally), management and leadership development (56 percent locally, 46 percent internationally), site visits (57 percent locally, 48 percent internationally), and employee performance reviews and other incentives (51 percent locally, and 38 percent internationally). Only 7 percent of respondents said their companies had no formal education or certification programs in place.

Most companies approach prevention using a variety of means, though headquarters locations consistently report higher levels of prevention activities than international locations.

The high percentage of respondents who cite education activities both locally and internationally demonstrates a positive trend toward using multiple means of risk prevention.

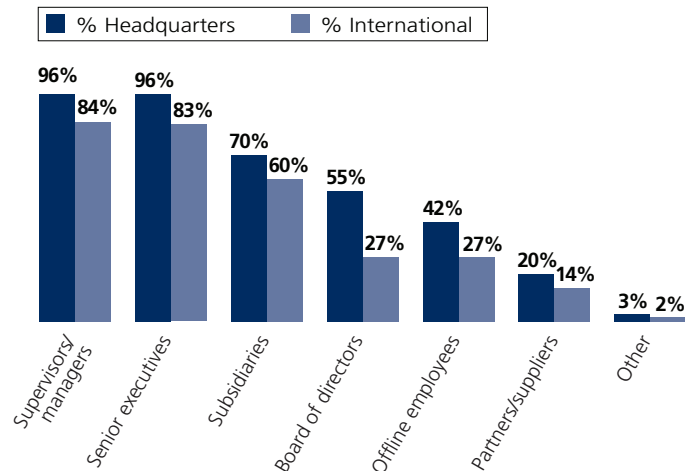
Certain types of prevention activities are less frequently implemented, perhaps because they require greater investment, personalization or resources, such as management/leadership development and site visits. Of particular note is the lesser emphasis placed on two types of management activities: formal CEO/senior management involvement (67 percent locally, 56 percent internationally) and management/leadership development (56 percent locally, 46 percent internationally). This result is deserving of further study given how important management education can be in prevention and in communicating the importance of prevention to frontline employees. Likewise, incorporating ethics issues into employee performance reviews is an effective way for companies to link their risk concerns with employee behavior.

The findings also point out that companies do not yet offer the same scope of prevention methods in their international locations. Causes may reflect the challenge of deploying efforts globally (e.g., translating education and certification programs into preferred languages, identifying culturally relevant experiences, and reaching a dispersed workforce).

8. To which non-employee groups do you provide the ethics and compliance education and/or certification activities/programs?

Ethics and compliance educational programs

Who multinational companies reach



Among companies with multinational operations, the groups most targeted by ethics and compliance programs in home markets include: supervisors and managers (96 percent), senior executives (96 percent) and subsidiaries (70 percent). The top three international targets were the same, though the percentages were slightly lower. In international regions, 84 percent of respondents reported targeting supervisors and managers, 83 percent provided education to senior executives, and 60 percent educated or certified subsidiaries.

Respondents were least likely to provide education and certification programs to boards of directors (55 percent locally, 27 percent internationally), offline employees (42 percent locally, 27 percent internationally), and partners and suppliers (20 percent internationally, and 14 percent locally).

Almost all executives and managers are being reached by ethics and compliance education efforts.

Regulations requiring that companies encourage an ethical corporate culture and establish effective compliance programs have clearly inspired leadership to consistently infuse ethics and compliance education throughout the organization. Somewhat surprising, however, is the lesser degree to which board members receive education, given the U.S. Federal Sentencing Guidelines, which assign ultimate responsibility to the board. Board education is an area to watch for future development.

detailed results

Meanwhile, suppliers and partners are the least targeted groups for education. They are likely to become important elements of effective ethics and compliance education in the future for two reasons. First, the U.S. Federal Sentencing Guidelines suggest that large organizations encourage smaller partners to “implement effective compliance and ethics programs.” Second, the public doesn’t differentiate between the actions of a company and those of its suppliers and partners, expecting ethical business conduct from both.

9. How many employees do you reach with your ethics and compliance education and/or certification activities/programs?

	US	Canada/ Mexico	Europe	South America/ Caribbean	Asia/ Pacific	Africa	Middle East
All employees	65%	56%	49%	45%	47%	40%	40%
Most employees	27%	31%	37%	28%	28%	31%	29%
Some employees	8%	11%	12%	25%	25%	25%	29%
No employees	0%	2%	1%	3%	0%	4%	2%

Responses reflect answers only for those companies doing business in each region.

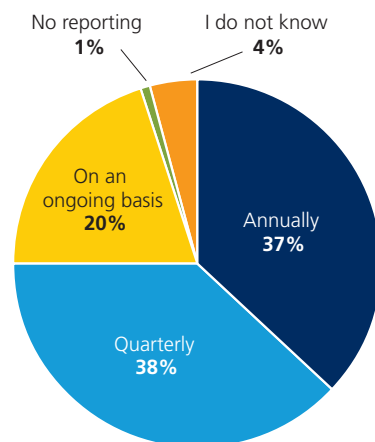
- In the U.S., a combined total of 92 percent reported reaching all (65 percent) or most (27 percent) of their employees with ethics and compliance education.
- In Canada and Mexico, 87 percent reported reaching all (56 percent) or most (31 percent) of their employees, while 11 percent reported reaching only some employees.
- In Europe, 86 percent believed all (49 percent) or most (37 percent) employees participated in education or certification programs, while 12 percent reported some participation.
- In South American and the Caribbean, 73 percent of respondents reported that programs successfully included all (45 percent) or most (28 percent) employees, while 25 percent of companies believed their programs included some employees.
- In Asia/Pacific regions, a slightly higher percentage of respondents (75 percent) believed all (47 percent) or most (28 percent) employees were being reached by education or certification, while one-quarter of respondents believed only some employees were being reached.
- In Africa, 71 percent reported reaching all (40 percent) or most (31 percent) employees, and one-quarter reported reaching some employees.
- In the Middle East, 40 percent of respondents reported reaching all employees, while 29 percent reported reaching most, making the combined percentage for the Middle East slightly lower than Africa’s and the lowest of all. The Middle East also had the highest percentage of ethics and compliance education that reached only some employees – 29 percent.

Across the world, companies reach all or most of their employees with their education or certification programs.

In every region, about 70 percent of companies reach *all* or *most* of their employees. This accomplishment is achieved despite the significant number of workers that can be difficult to reach in certain industries surveyed such as agriculture, energy, manufacturing, retail, transportation and sales where workers spend the majority of their time in the “field,” without either ready access to an Internet kiosk or a setting in which to complete online ethics and compliance education.

10. How often do you report to senior executives or the board on your ethics and compliance education and/or certification activities/programs?

Reporting on ethics and compliance education programs



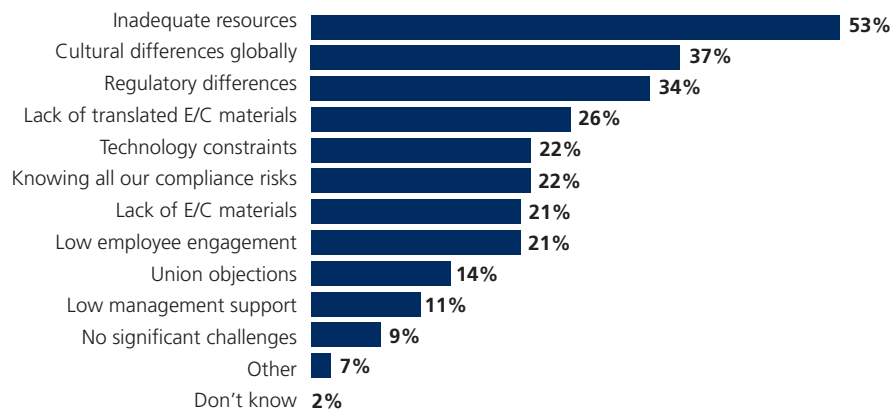
Almost all of respondents (95 percent) reported to senior executives or the board of directors about their ethics and compliance education and certification activities. Among these, 38 percent said they report on a quarterly basis, 37 percent report annually and 20 percent provide ongoing updates.

Quarterly and ongoing reporting on education efforts are more common practices than annual reporting.

Increased liabilities for ethics and compliance violations have made the progress of ethics and compliance prevention programs an important issue for executives and directors. As a result, the majority of companies (58 percent) expect progress reports more frequently than annually, either quarterly or ongoing. In future studies, LRN will continue to study this area for further changes to the frequency and importance of reporting.

11. What are the biggest challenges you face in providing ethics and compliance education and/or certification activities/programs?

Challenges in providing ethics and compliance education programs



The top challenges in providing ethics and compliance education included a lack of adequate resources, cultural and regulatory differences in international operations, and translating. More than half of respondents (53 percent) cited inadequate resources, 37 percent named global cultural differences, and 34 percent referenced regulatory differences. More than one-quarter (26 percent) of companies had difficulty translating materials into foreign languages.

Four additional challenges nearly tied in frequency: technology constraints (22 percent), knowing all the compliance risks on which to educate (22 percent), lack of education and/or certification materials in some risk areas (21 percent), and low engagement and interest on the part of employees (21 percent).

The least frequently cited challenges were union objections (14 percent) and a low level of support from management (11 percent). Only 9 percent of companies reported no significant challenges in deploying ethics and compliance education and certification programs.

Inadequate staffs and budgets lead the challenges to education and certification programs, followed by various globalization and translation issues. However, union objections present few problems.

About one in two respondents believe they do not have enough resources to support their ethics and compliance education and certification programs. This result may explain in part why certain types of programs such as management/leadership development and site visits are implemented less frequently. Again, this finding points to the need for the ethics and compliance function to reach out to other departments within the organization to enlist greater resources and support for quality prevention programs.

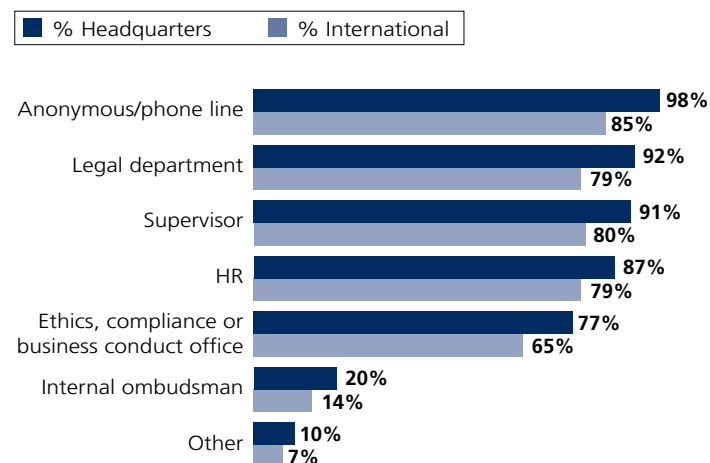
The numerous additional challenges cited lagged far behind the resources issue. However, several of them reflect the globalization challenge, including cultural and regulatory differences as well as translations of ethics and compliance materials. Not surprisingly, companies that cited cultural differences as a challenge also generally had difficulties with regulatory differences and translating materials.

One note of interest for those in unionized industries is that the figures for problems with union objections are low. Comparatively few companies cited unions as one of their biggest challenges compared with the other difficulties.

DETECTING ETHICS AND COMPLIANCE VIOLATIONS

12. What are the methods you provide for employees and others to report ethics or compliance violations?

Violation reporting methods in multinational companies



Nearly all companies with international operations (98 percent) provided employees in home regions with a confidential channel, such as an anonymous phone line, to report ethics and compliance violations. Most respondents (85 percent) also provided a confidential reporting channel in their international regions.

Other avenues for reporting ethics and compliance violations that were commonly provided in home markets were the legal department (92 percent), a supervisor (91 percent), human resources (87 percent), and an office of ethics and compliance or business conduct (77 percent). But fewer respondents indicated their international operations sought reporting through a supervisor (80 percent), the legal department (79 percent), human resources (79 percent), or an office of ethics and compliance/business conduct (65 percent). By far the least popular method of reporting offered to employees was the internal ombudsman, which 20 percent of companies provided at home and only 14 percent provided in foreign markets.

Nearly all companies use a combination of anonymous reporting and other methods to detect violations.

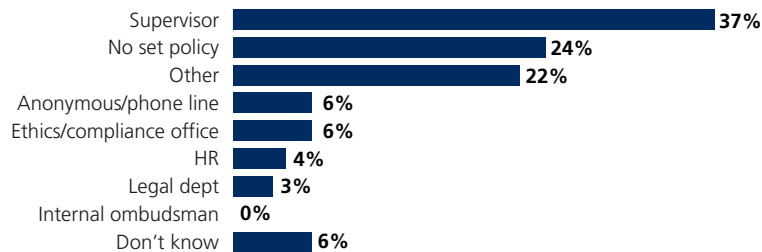
Companies recognize that different reporting channels are valuable for different employee groups and circumstances. In fact, 99 percent of respondents offered multiple ways for employees to report potential ethics and compliance violations in the company's home market. The median number of channels offered for reporting was five.

Given the majority of participants are headquartered in the U.S., the most frequent practice in the headquarters region is an anonymous/confidential phone line, as required by Sarbanes-Oxley.

Meanwhile, a lower percentage of multinational companies indicate using each reporting channel, although they too offer multiple systems with a median of four channels in place. Because international jurisdictions can present challenges to ethics and compliance efforts, multinational companies must often create separate reporting systems with local technologies and personnel who speak the local languages in order to conform to local laws. Even when such systems are in place, local cultural differences may discourage the use of the system.

13. To whom are employees expected to report an ethics or compliance violation first?

First means of reporting



The largest group of respondents (37 percent) said that employees reporting potential ethics or compliance violations are expected to turn first to supervisors. Almost a quarter (24 percent) reported no set policy with regard to whom an employee should see first, while the third leading answer (22 percent) was "other." Because respondents sometimes chose more than one means of reporting, the low percentages in the remaining categories – 6 percent for anonymous phone lines, 6 percent for compliance and ethics office, 4 percent for human resources, 3 percent for the legal department, and 6 percent for "don't know" – add up to more than 100 percent.

detailed results

Companies often do not have a set practice regarding where employees are expected to turn first to report ethics and compliance violations.

Although turning to supervisors appears to be the leading answer, many respondents elected to write in the “other” box, and the majority of those written answers also reflected no set policy or preference. A common example was the write-in “All,” thus effectively signifying that no set policy truly existed. In this sense, the combined percentage of *Other* and *No set policy* (46 percent) suggests that the most common practice among companies is not to have a firm policy about reporting. Still, companies must understand which methods are being used (e.g., supervisors, helpline function) and devise education and awareness programs accordingly. For example, if employees are to report first to supervisors, companies must educate supervisors on how to handle allegations effectively and in confidence, as well as educate employees about when to call the helpline if they cannot resolve an issue with their supervisor. On the other hand, if employees are to use the helpline first, companies must be sure to have qualified personnel to answer the lines and refer allegations to the appropriate function.

One point of interest here is that, despite the proliferation of anonymous/confidential helplines, supervisors remain the most popular first choice for reporting, possibly reflecting their role as the first line of defense. Given this, however, it is vital that supervisors be educated on how to respond appropriately when their direct reports come to them with information.

14. What are your biggest challenges in detecting ethics and compliance violations?

Challenges in detecting ethics and compliance violations in multinational companies



detailed results

Almost four in 10 respondents with multinational operations believed their greatest challenge in detecting violations at both their local and international locations was employee fear of retaliation. More than a quarter of respondents were also concerned that both local (26 percent) and international (28 percent) employees were not motivated to report violations. Difficulties dealing with inappropriate uses of reporting mechanisms at headquarters (28 percent) and regional locations (16 percent) were the next most common responses.

Three remaining categories of challenges were selected with less frequency: employees do not understand how to report (14 percent locally, 15 percent internationally); lack of a formal management process for detection (10 percent locally, 7 percent internationally); and insufficient staff to respond (6 percent locally, 5 percent internationally). However, a third (33 percent) in home operations and a quarter (27 percent) in international locations reported not having significant challenges in detecting risk.

Employee fear of reporting still inhibits detection of violations, but more significant are issues relating to the improper use of reporting mechanisms and employee motivation and understanding.

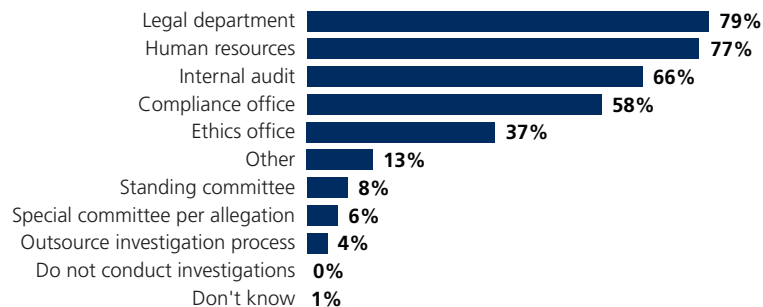
A potential whistleblower's greatest fear is often company retaliation, and this fear remains an impediment to companies seeking reliable reporting of potential ethics and compliance violations. The simple existence of anonymous reporting methods does not address the root causes of this fear, as shown by the fact that 98 percent of respondents reported the use of anonymous reporting methods at headquarters (see above) but 39 percent still cited fear of retaliation as their greatest challenge. (Ironically, in *the LRN Ethics study on workplace productivity*, only 5 percent of employees themselves cited fear of retaliation as the reason they do not report suspected violations. In that study, the biggest constraint for employees was their lack of trust that their employer would handle their report correctly. Overall, these contrasting results between the practices study and the workplace productivity study suggest a breakdown in communication between ethics and compliance managers and employees.)

The greatest concerns relate to a lack of employee understanding and motivation. In headquarters operations, 28 percent of respondents believe that employees inappropriately use reporting mechanisms, 26 percent say employees are not motivated to report, and 14 percent indicate that employees do not understand how to report. Results on these three issues are almost as high for international operations as well. Combined, these numbers add up to two-thirds of companies that believe work remains in educating, motivating and instilling trust before employees will report suspected violations and self-govern at the level required to protect the company's culture and reputation.

RESPONDING TO REPORTED ETHICS AND COMPLIANCE VIOLATIONS

15. Who typically is involved in investigations arising from reports of violations?

Departments involved in investigations arising from reported violations



More than three-quarters of respondents reported involving the legal department (79 percent) and human resources (77 percent) while two-thirds (66 percent) involved internal audit in investigations that arose from reports of ethics and compliance violations. The next tier of involvement was either the compliance office (58 percent) or ethics office (37 percent). Only a small percentage of respondents employed a standing committee (8 percent) or special committees (6 percent). Other methods are employed by 13 percent of other respondents. A very small proportion (4 percent) outsourced the investigative process.

The most common investigating practice involves teaming legal with the HR and/or internal audit departments.

The high participation of legal and human resources departments in ethics and compliance investigations is to be expected, given the nature of most allegations and the potential legal impact they can have on a company. Two-thirds of respondents reported the participation of internal audit in investigations. Beyond those single department involvements, many companies employ a team approach, as the following table shows.

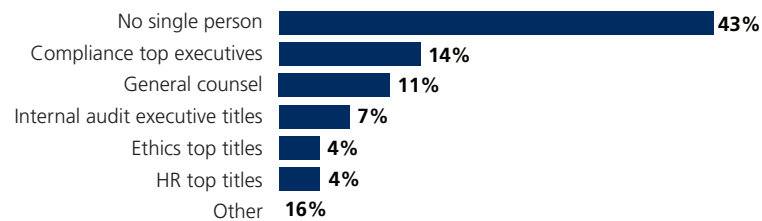
detailed results

Departments involved	% Total
Legal and internal audit	67%
Legal and compliance	53%
Compliance and internal audit	46%
Compliance and legal and internal audit	42%

Using multiple departments reflects the fact that companies recognize that specialized expertise is usually necessary to conduct investigations and that suspected violations can lead to many repercussions. In many ways, this team approach to ethics and compliance investigations parallels the cross-departmental approach of the assessment process.

16. If one person typically leads your investigation, what is the person's job title?

Key title to lead compliance investigations



The largest share of respondents (43 percent) typically did not designate a single role to lead ethics and compliance investigations. The remainder of respondents designated a variety of leaders, such as compliance top executives (14 percent), the general counsel (11 percent), internal audit executives (7 percent), and the top titles in the ethics (4 percent) and human resources (4 percent) titles. Other roles within an organization were also tagged as leading investigations in 16 percent of companies.

Not having a single role head up an investigation is the most common practice.

Possibly in line with the previous question showing that a team approach is often used for investigations, nearly half of respondents appear not to designate a consistent leader to conduct their ethics and compliance investigations. This trend probably reflects that different investigations require different skills and knowledge. Relatively small percentages of companies appoint a single person, with the top three leaders being either a compliance executive, the general counsel or an internal audit executive.

17. What are your biggest challenges in investigating allegations?

Challenges in investigating allegations



Of the companies surveyed, nearly one-third (32 percent) believe they did not face any challenges in investigating allegations of ethics and compliance violations. Of those who reported challenges, the major areas of concern were a lack of resources (26 percent), difficulties in investigating incidents occurring at international locations (19 percent) and insufficient training or insufficiently trained/qualified investigators (both 16 percent). Another 15 percent of respondents also reported reluctance on the part of people to cooperate in investigations.

Resources and lack of qualified people lead the challenges in investigating.

Investigation processes have had longer to mature than other aspects of the ethics and compliance function. As a result, the percentage of companies that report no significant challenges with investigations (32 percent) is far higher than the percentage of companies that cite no challenges in assessing ethics and compliance risks (12 percent) or preventing risks (11 percent).

Nevertheless, a combined total of 58 percent of respondents believe issues relating to either resources or to the education and knowledge of investigators are challenges. This is important for companies to heed given the critical nature of conducting investigations quickly with accuracy, fairness and legal aptitude.

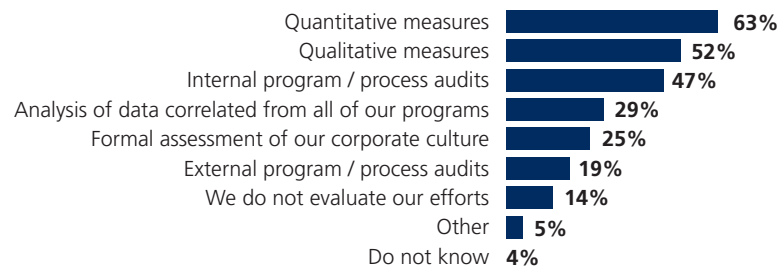
Two additional challenges are also worthy of note. First, nearly one in five (19 percent) believe that they experience difficulty conducting investigations in their international operations. This finding is important for multinational companies, especially as they expand operations to distant or culturally varied locations. Second, 15 percent of respondents cite the reluctance of people to cooperate. This result may reiterate the idea that they lack the knowledge and education to do investigating, or it could point to other considerations such as lack of time. Whichever the cause, companies should be sure that their employees have the knowledge, skills and commitment to become

involved in investigations whenever their assistance is necessary. Here again, having the ethics and compliance function reach out to enlist resources and get the support of other functions can help reduce or eliminate both these challenges.

EVALUATING THE ETHICS AND COMPLIANCE PROCESS

18. How do you formally evaluate the impact of your overall ethics and compliance process?

Evaluating the impact of the ethics and compliance process



Companies most often used three approaches to measure the impact of ethics and compliance programs. Among respondents, 63 percent reported using quantitative measures such as the number and types of helpline calls. Another 52 percent employed qualitative measures, such as surveys of employee attitudes, and 47 percent relied on internal program and process audits. Fewer, but still more than a quarter of respondents (29 percent), reported correlating the data across ethics and compliance programs. Exactly one-quarter of companies conducted formal assessments of corporate culture. External audits were the least popular method of evaluating ethics and compliance programs; only 19 percent of respondents reported using them. Finally, 14 percent of companies did not evaluate the impact of ethics and compliance programs.

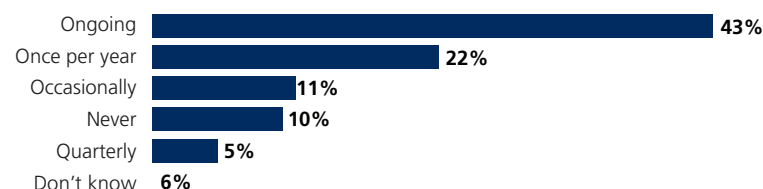
The use of quantitative measures to assess the impact of ethics and compliance programs is gaining ground.

The majority of companies use quantitative measures to assess the effectiveness of their ethics and compliance programs, slightly more than qualitative or other measures. Further, companies use their internal resources rather than going outside to external program or process audits. One item for further study is that only 29 percent of companies say they correlate their collected data from their ethics and compliance risk assessments with data from other assessments in the company. However, integrating such other data might prove useful in strengthening the overall risk mitigation efforts.

Also notable is the finding that one-quarter of companies perform a formal assessment of their corporate culture as a means to evaluate their programs. This methodology is growing because it helps companies analyze and understand their corporate culture on a more holistic basis, including risk assessment, work processes, employee attitudes, and many other factors that reflect the entire corporate character. This larger cultural evaluation will be a measure to track for a potential upward trend in future years. The U.S. Federal Sentencing Guidelines require companies to encourage an ethical culture, and it has become evident that doing so requires more than simply having programs in place. Companies must pay attention to and actively advance their entire culture if they are truly to manage their ethics and compliance risks and enhance business performance.

19. How often do you evaluate the impact of your overall ethics and compliance process?

Frequency of ethics and compliance process evaluations



Forty-three percent of respondents reported evaluating ethics and compliance process on an ongoing basis. Only 22 percent perform a review annually, while 5 percent do quarterly evaluations. About one in 10 companies (11 percent) reported doing only occasional evaluations while another one in 10 (10 percent) had no evaluations of the ethics and compliance process.

Most companies evaluate their ethics and compliance process on an ongoing basis or at least once per year.

Seventy percent of the companies surveyed evaluate their ethics and compliance process at least annually, whether it is quarterly, ongoing, or once per year. An interesting correlation to other findings in this study is that the 48 percent of respondents reporting quarterly or ongoing evaluations is close to the 58 percent of respondents who report quarterly or on an ongoing basis to senior executives and board members about education and certification progress. This suggests that a large share of companies is making an effort to monitor their progress in addressing risks on a fairly regular basis.

20. What do you do with the information you derive from evaluating your overall ethics and compliance process?

Applying ethics and compliance risk assessment findings



Companies used their evaluations of the ethics and compliance process in two main ways: to improve their programs (82 percent) and to inform their senior management and board of directors (80 percent). A small, but significant number of companies (22 percent) shared the findings with the entire company, while sharing the findings with outside stakeholders (6 percent) was as unpopular as doing nothing with the information.

Companies make use of the information they collect in evaluations to improve their programs and to apprise their board and senior management.

Evaluations are vital to help companies improve their ethics and compliance process by enabling better assessments, more targeted and deeper education and prevention programs, and more effective detection and investigation methods. Board members and senior executives need data from the evaluations to understand more clearly what ethics and compliance risk they face and how effectively their companies are mitigating those risks. Not surprisingly, boards and senior executives hear about program evaluations at the same frequency level (80 percent) as reported in the risk assessment definition phase.

One issue for further study is whether the trend will rise beyond the current 22 percent among companies that share the ethics and compliance program evaluations with their entire organization. Open, honest information can help engage and enlist employees, as it sends a strong signal that the company is truly serious about advancing a culture of responsibility and integrity.

21. What are your biggest challenges in evaluating your overall ethics and compliance process?

Challenges of evaluating overall ethics and compliance process



The top two challenges, cited by one-third or more respondents, were correlating data to results (38 percent) and correlating results to business improvements (33%). An additional set of challenges hovered in the 20-30 percent range, including aggregating and analyzing the data (29 percent), overcoming the lack of adequate resources in terms of staff and budget (26 percent), and collecting data about programs in international regions (22 percent). By comparison, only 13 percent felt challenged by collecting data about programs in their headquarters region. The final major challenge was a lack of adequate management tools and technology (15 percent). A moderately sizable group of 15 percent said they did not know what challenges they faced.

Companies appear to be still struggling with collecting data and correlating it to results and business improvements.

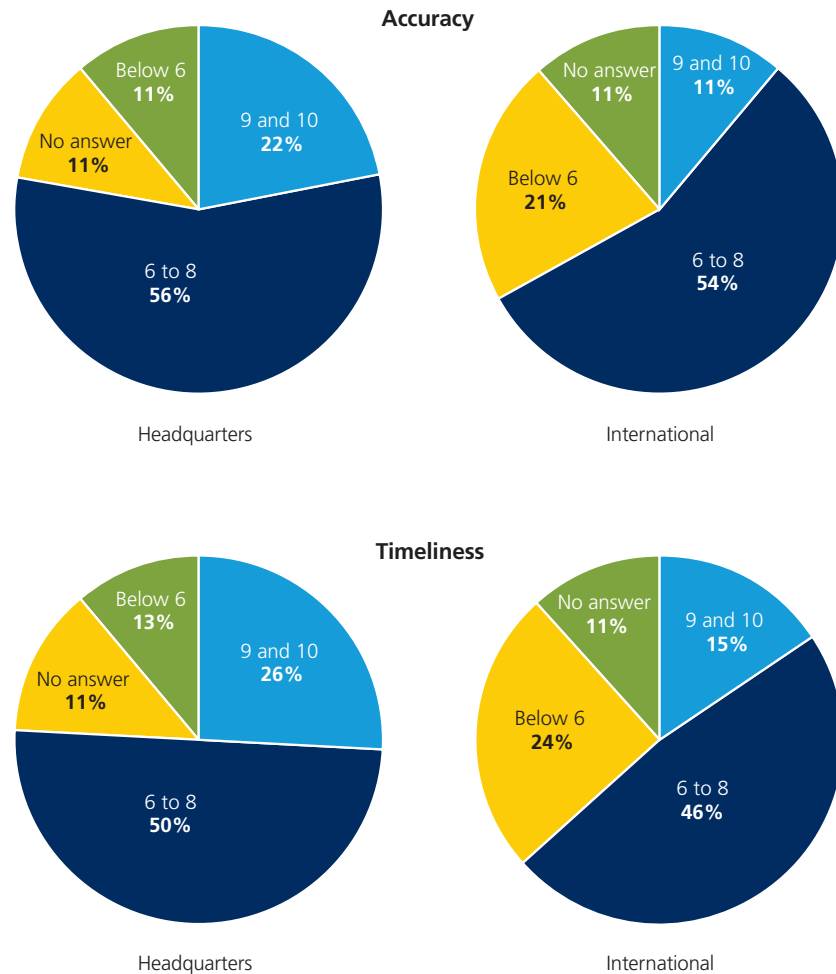
The challenge in ethics and compliance program evaluation is in the collection and use of data, not resources (as it is for the assessment and education processes). Whether it's correlating what they learn to results, correlating results to business improvements, or aggregating and analyzing the data, companies are not reaping as much return from their evaluation feedback as they could. Further study is required to understand the causes of these impediments, assessing whether the wrong data is being collected or if more education is needed to make best use of data.

As with other areas, global companies should take note of the fact that one in five companies (22 percent) reported being challenged by collecting data in their international regions compared to a far lesser number (13 percent) having this challenge in their headquarters region. This probably results from a higher level of maturity in the systems and processes used in headquarters.

OVERALL SELF-ASSESSMENT

22. On a scale from 1–10, how would you rate your company's overall capability to address and mitigate ethics and compliance risks with accuracy and in a timely manner?

Overall ethics and compliance process rating



Companies with international operations rated their ethics and compliance performance roughly equally for timeliness and accuracy in their headquarter region. The average rating for accuracy at headquarters was 7.7 and for timeliness was 7.6 (out of a scale of 10). In contrast, their self-rating was at least a full point lower in evaluating effectiveness in their international regions, with an average rating of only 6.7 for both accuracy and timeliness.

Companies are moderately confident about their ethics and compliance effectiveness in their headquarters regions, but less confident about performance in international operations.

Companies rate themselves as doing a moderately good job for the accuracy and timeliness of their risk management processes. This clearly reflects several years of build-up in the deployment of risk assessments, prevention programs and investigation experience. It is understandable that companies gave themselves slightly lower average ratings in their international operations. The gap in effectiveness clearly reflects the greater challenges companies face in implementing ethics and compliance across distances and among culturally diverse workers. Numerous study findings reinforce that companies see themselves as facing tougher challenges in their international programs, so having less confidence about their ability to manage risk in their foreign regions is understandable until those challenges are mastered.

The LRN study demonstrates ethics and compliance professionals have established several robust ethics and compliance risk management practices, yet remained challenged to overcome issues in certain areas. Companies indicate that they integrate ethics and compliance risk assessment into other corporate business risk assessment processes. Board members and C-suite executives are involved in ethics and compliance issues, regularly reviewing both evaluations of risk and educational programs. About half of the board members at headquarters participate in education and certification programs, and almost all senior executives are educated or certified in ethics and compliance. Further, companies implement many methods of prevention, including codes of conduct, online and in-person education and electronic or written certifications. Companies are also skilled in conducting investigations. These accomplishments justify the moderately high rating respondents gave themselves for the accuracy and timeliness of their ethics and compliance programs.

However, the LRN study also shows that numerous key challenges remain, specifically:

- A lack of resources in performing risk assessments, prevention and investigations.
- Fear of retaliation and lack of employee motivation to report allegations.
- Difficulty in implementing the same high level of ethics and compliance efforts in regional locations as achieved in headquarters.
- Collecting accurate and quantifiable data about risks, aggregating compliance data from disparate operations and applying findings from their evaluation processes to business improvements.

Companies may work toward resolving these challenges independently, such as by increasing budgets, educating employees about reporting, engaging regional offices on common principles or purchasing better software to collect data. However, such singular efforts will not achieve the standards in ethics and compliance that companies need to ensure effective risk management. Each of the four challenges actually reflects underlying issues in the company's ethics and compliance efforts and possibly in its culture. Following is a brief analysis of each challenge indicating the depth and breadth of holistic efforts needed to address it.

Addressing the lack of resources challenge

While a lack of resources may reflect real budgetary or staffing issues, the root of the challenge lies in the corporate commitment to nurture a culture that values legal and ethical conduct. Beginning at the highest levels – the boardroom and C-suites – the organization must adopt the stance that *how* it conducts business matters. Company leadership and the ethics and compliance office need to work together to define and communicate the company's values regarding legal compliance and ethical workplace conduct.

As this tone from the top disseminates throughout the organization, the ethics and compliance office will be increasingly able to work around resource deficits. Improvements in the risk management process will occur by virtue of strengthening the integration of ethics and compliance into every department and function, involving line managers directly in the risk assessment process and reaching out to form supportive relationships with key executives and managers who encourage their direct reports to buy into the importance of the company's ethics and compliance prevention efforts.

These strategies depend less on actual resources available than on tapping into the organization's commitment to make ethics and compliance both a priority and a horizontal responsibility across all functions. By integrating ethics and compliance into the fabric of the entire organization, the effort becomes *a priori* more systemic and risk management gains in strength. Everyone – board members, leadership, managers and employees – becomes attuned to the importance of legal and ethical conduct and engaged in supporting the company's values.

This approach also transforms the role of the ethics and compliance officer from one of acting as the “corporate cop” who reacts to problems into “corporate coach” whose role is to teach and inspire others to higher standards of conduct. Operating the ethics and compliance function from this perspective also serves to mitigate budgetary or staff resource limitations, given that the company now has its executives, managers and employees becoming stewards and protectors of the company's values, thereby moving the organization beyond mere compliance to true self-governance.

Addressing the employee fear and lack of motivation to report challenge

Employee fears of retaliation and lack of motivation to report incidents also reflect a systemic problem in a company's ethics and compliance program. In essence, fear and lack of motivation stem from a corporate culture that lacks trust. When employees don't see or feel that their organization values ethical conduct or that reporting violations and ethical lapses is worthwhile, they do not develop the internal belief system that they can safely go to their management or an anonymous helpline to discuss ethical issues or reveal violations they witnessed.

Eliminating employee fear and motivating them to safeguard their own culture must ultimately be approached through broad-based initiatives. Just as with lack of resources, the solution begins with a strong organizational commitment to fostering an ethical culture. The company must establish firm policies about reporting and be transparent in sharing them with employees. Employees must know in advance how management will handle and retain data, and how they will uphold confidentiality to protect individuals who report. It must also educate employees on how and when to report, what actions qualify as reportable, how cases will be handled, and what procedures to follow when using the helpline or coming to a manager. Then, to lock in trust, employees must know that the company will respect and act on reports made. They must hear about or see concrete examples of how the company has taken quick action to respond fairly and consistently to reports, without favoritism or exception.

In short, turning fear and lack of motivation into trust and willingness to report involves a holistic effort to infuse the entire corporate culture with the spirit of ethics and compliance. As with resources, the true challenge is ultimately about transforming the organization's fundamental character from one in which employees acquiesce to compliance to one in which employees seek to become self-governing through their own commitment to safeguard the culture.

Addressing the global challenge

The LRN survey indicated that on nearly every issue where respondents contrasted their risk management processes at their home office with their international locations, the headquarters fared better. Here again, bringing a global organization's ethics and compliance programs to parity in all locations requires a holistic perspective and systemic solutions.

The company must declare that it has a common set of values and principles that guide all employees, regardless of location, in their business conduct. These values must then be transmitted to all employees and all offices through such efforts as company-wide communications and messages, a uniform code of conduct and corresponding certification program in which employees attest to their understanding, and finally, corporate wide education and prevention programs that impart the regulations and standards of conduct. Companies must also make available to all global employees the necessary reporting mechanisms such as anonymous or confidential helplines or websites that employees can easily use to report violations. Companies must also investigate allegations with the same rigor from country to country. These efforts illustrate how globalization truly requires the full gamut of risk management processes in each and every office or location.

However, the key to solving the global challenge requires a shift in how the risk management processes are systemically integrated into the organization. In effect, global companies must think globally but act locally. The company's ethics and compliance initiatives need to make room for local customs and work habits, as long as they don't violate essential core values. The solution is for companies to formulate universal *principles* while allowing for local *practices*. For example, the company might establish a principle that business gifts are not allowed if they are against the law in a location or can be perceived as unethically influencing decisions. At the same time, regional offices can issue local policies that allow for reasonable business gifts when the local cultural traditions view gifts as important business customs.

Risk management in multinational companies also requires culturally relevant communications in order to engage employees in each location. Companies must make efforts to provide their ethics and compliance messages, educational courses, and documents not just in translated form, but in a culturally accurate context for their employees. Helplines or other reporting tools must also be available in the appropriate languages and in time zones where employees are located.

In short, international companies must conceive of their ethics and compliance risk management programs as supportive of a unified corporate culture, but at the same time they must demonstrate sensitivity and respect for the national and ethnic cultures of all employees.

Addressing the data collection and application challenge

Finally, the LRN study indicated that ethics and compliance professionals are challenged by the need to collect accurate and quantifiable data about their risks, aggregate their data and apply their findings to business improvements. The solution requires a holistic approach that encompasses integrating ethics and compliance into all business processes, raising awareness of the interrelationships that exist between all units' risk management data, and educating leadership and managers on how to analyze and use the data to improve not just risk management but corporate performance.

The first action, greater integration of ethics and compliance into all business processes, can significantly improve data collection around risk management. It is only logical that the most accurate data is that which comes directly from business units and their managers who are the closest to company operations and potential violations. Unfortunately, the LRN survey indicated that a majority of companies do not involve business managers in their risk assessments, and almost half do not share assessment findings with managers, missing the chance to capitalize on their own internal resources. Involving managers in risk assessments and analysis of the data is thus a prerequisite to a strong risk management process.

The second action, raising awareness about the interrelationship of all company data, pays off by helping managers across all business functions recognize that the risks in their unit do not exist in isolation. Increased awareness of corporate-wide risks can thus help companies improve how they measure risks, prioritize them, and map them to specific departments or units. The goal of this action is to improve data aggregation and correlation so that more meaningful analysis can occur.

The third action, educating leadership and managers on interpreting and applying the data, is the capstone of a holistic approach to risk management. The foundation for this education is a single principle: investing in an ethical business culture builds sustainable advantage. Increasing research shows that compliant and ethical business conduct leads to higher levels of customer loyalty, greater investor interest and improved employee recruitment and retention.

Once companies adopt the perspective that ethics and compliance programs can significantly enhance company performance in these three parameters, interpreting and applying the data becomes more meaningful, focused and logical. Executives and managers can begin examining the risk management results to find areas where the company's identified risks potentially jeopardize its reputation in the market, its capability to retain its talented human capital and its ability to satisfy the needs of long-term investors seeking to put their money into companies with sustainable market advantage.

These three actions all represent a shift in how companies must perceive the value and use of their data from the risk management process. Seen in this light, the data can reveal critical systematic changes the company must make in its ethics and compliance initiatives in order to support and advance its performance. In short, the data becomes linked more deeply to being true indicators of the corporate culture.

FINAL PERSPECTIVE

Companies have in place solid risk management infrastructures to build upon for the future. However, the four challenges cited – lack of resources, employee fears and lack of motivation to report, global management and data collection and application – indicate that, across the board, companies still have barriers that prevent ethics and compliance efforts from achieving the desired goals of fostering self-governing workplaces. With time, experience and increased understanding and expertise, companies should be able to strive for a more effective, holistic risk management process that truly transforms their organizations into high performing, principled cultures.

FOR FURTHER STUDY

Several ethics and compliance risk management practices deserve continued study in future years to track their trends:

1. Will companies go beyond simply identifying risks to ranking and mapping them?
2. Will companies further integrate ethics and compliance risks into other types of business risk assessments?
3. Will CEOs, senior managers and board members receive higher levels of ethics and compliance education given their responsibilities?
4. Will progress reports on the status of education programs rise in frequency to a quarterly or even ongoing basis?
5. To what degree will a lack of resources continue to challenge companies when it comes to performing risk assessments; educating their leadership, management and workforces; and building solid investigation professionals?
6. Will companies begin correlating data from all programs to evaluate the effect of their ethics and compliance program?
7. Will companies increasingly do a formal cultural assessment?
8. Will companies increasingly share ethics and compliance program evaluations with the entire company?
9. Will companies evolve in using evaluation data to improve ethics and compliance results as well as improving business results?

About LRN

LRN is dedicated to assisting its clients with developing ethical, sustainable and profitable cultures through a combination of robust education and management solutions, in-depth research and analysis and best practice advice and knowledge sharing. Founded in 1993, the company has reached more than 10 million employees, operating in more than 120 countries around the world. Headquartered in Los Angeles, LRN also maintains offices in New York and London. More information is available at www.lrn.com.



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