



The Chief Compliance Officer
The fourth ingredient in a
world-class ethics and compliance
program



It takes an extraordinary leader to uphold the integrity of an organization.

Enterprise ethics and compliance executives represent a young, but rapidly maturing profession—one that began to emerge in the late 1980s when several government initiatives and high-level commissions began recommending that specific senior-level personnel should have responsibility for overseeing an organization’s ethics and compliance program. Since then, a host of new regulations and leading-practice guidance have been issued to enhance ethical behavior in the workplace and underscore the importance of assigning a high-ranking official to administer the organization’s ethics and compliance programs.¹

In practice, the job responsibilities and the titles for these professionals vary, from chief compliance officer (with or without ethics responsibilities) to chief ethics officer (with or without compliance responsibilities) to many models in between. Despite these variables in organizational design, individuals leading efforts to protect the company from ethics and compliance risks have a unique role and special importance within an organization. The principles discussed here apply to those leaders regardless of their title.

Chief compliance officers (CCOs) now operate in a dynamic legal, regulatory, social, and economic environment that is often characterized by complex and sometimes conflicting rules and regulations. Regulatory expectations have risen not just in the United States, but globally, placing tremendous pressure on organizations, particularly those with international operations. Designing programs that help ensure compliance with all of these regulations and guidelines falls squarely on the shoulders of CCOs.

Yet this is only a part of their responsibilities. CCOs must also respond to a host of rapidly emerging new risks. For example, enforcement authorities have reached an unprecedented level of cross-border cooperation in an effort to control bribery and corruption. Money laundering is no longer solely an issue for the banking sector, but for organizations across all industries. Cyber risk and digital crime represent enormous threats to businesses everywhere, and organizations need to step up their efforts to ensure compliance with internal policies designed to address those threats. In addition, a more aggressive focus on transparency has brought many previously hidden conflicts of interest to light.

As a result of these developments, the CCO profession has begun to shift in ways that are subtle yet profound—an indication that organizations are acknowledging the significant role that CCOs play. In short, these key business leaders are responsible not only for maintaining compliance, but also for safeguarding what is arguably an organization’s most valuable asset: its reputation.

A profession in flux: Where the journey is heading

While for some organizations the CCO role remains frozen in time, for others, it has transitioned into one that is both strategic and value-adding. Companies with world-class ethics and compliance programs make sure they have a world-class CCO leading the charge. These individuals have helped to bring the profession to a new level. It’s a level that many aspire to—and it’s also an indication of where the profession is headed.

¹ These include Chapter 8 of the US Sentencing Commission’s Federal Sentencing Guidelines, the Blue Ribbon Commission on Defense Management, the Defense Industry Initiative on Business Ethics and Conduct, the 1987 Report of the National Commission on Fraudulent Financial Reporting, the Sarbanes-Oxley Act of 2002, the 2010 Good Practice Guidance on Internal Controls, Ethics, and Compliance issued by the Organisation for Economic Co-operation and Development (OECD), the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, and the 2013 amendments to the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Following are examples of how the role has evolved in some organizations over the last decade:

From compliance gatekeeper to risk manager

As the risk landscape continues to shift, and as ethics and compliance functions become more integrated into the fabric of organizations, CCOs are assuming a much more strategic role when it comes to helping organizations manage compliance and reputational risk. In the past, risk management was the purview of other areas of the organization, while the CCO focused primarily on routine compliance risk management activities. However, in more recent years, many organizations have begun to recognize that the risks CCOs mitigate—in particular, reputational risk—are critical. As a result, assessing and raising awareness of risks that could call the organization's integrity into question has become a key part of the CCO's job. Today's CCOs not only need an understanding of the full range of reputational risks, they need an instinct for what can go wrong and how their organizations can prepare.

From legal program manager to senior-level advisor

Because a visible number of the CCO roles originated in response to enforcement activities, and because many of the more modern ethics and compliance functions evolved from regulatory compliance departments, many of the first CCOs came from legal backgrounds. These compliance officers either sat within, or reported to, the Office of the General Counsel (GC). This has clearly begun to change. In a recent survey of CCOs conducted jointly by Deloitte² and *Compliance Week*³, only 21 percent of respondents said they reported to the GC, while 36 percent said they reported directly to the CEO. Moreover, an additional 21 percent reported to the board of directors. From a governance perspective, especially in industries like financial services and health care, there is regulatory pressure for CCOs to move out from under the legal department: for money center banks, CCOs should report to the chief risk officer; in health care, The Department of Health and Human Services prefers to see an independent CCO, and one that is not subordinate in any way to the GC. At issue, at least in part, is the concern that the GC's fiduciary obligation is to its client, the company, but an independent CCO's obligation may be different.

This compliance and legal restructuring is also reflected in the changing background of many who enter the profession today. Increasingly, these CCOs have broad-based experiences, including stints in operations where they have had profit and loss responsibilities. More and more, organizations seek dynamic CCOs who can think strategically, communicate and persuade effectively, and work cross-functionally. The most sought-after candidates for the CCO role have skills beyond the ability to design the necessary compliance architecture, assess risks from across the business, develop training and communication strategies, evaluate data, and conduct sometimes critical investigations. These world-class leaders also have an aptitude for auditing and monitoring, the ability to influence organizational culture and behavior, and a solid grounding in public relations tactics, since a key part their role is to clearly communicate the vision, mission, and strategy of the ethics and compliance program.

To be effective, CCOs need to be involved not just in day-to-day issues, but also in the strategic decisions facing the enterprise. As the importance and prominence of the role increases, some CCOs are moving to higher levels within their organizations, with a seat on the executive committee and unfiltered access to the board. The changing reporting structure for CCOs can send a strong signal to all stakeholders, including personnel and regulators, that the organization takes ethics and compliance seriously.

World-class CCOs are more about starting conversations than shutting them down.

² As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

³ 2015 *Compliance Trends Survey*, Deloitte and *Compliance Week*.

From checking boxes to asking questions

Fundamental to the CCO's role is designing programs that help to ensure compliance with laws, regulations, and enterprise policies. This requires spending considerable time on the nuts and bolts and making sure the right resources, systems, and controls are in place. But in the eyes of many, this is "Compliance 101." In today's global economy, where organizations are under pressure to achieve transparency across their entire supply chain, simply operating in compliance with the law may not be enough. Enforcement authorities require measures that go beyond what is legally required, including embedding a culture of integrity to achieve appropriate prevention and detection of improper behavior. CCOs need to be able to get out into the businesses and ask the hard questions in order to determine where the organization might be vulnerable or exposed.

From an expense to an asset

In organizations with more mature ethics and compliance programs, the CCO is viewed as a business enabler rather than a source of overhead. These organizations recognize that the CCO's efforts ultimately protect the organization's reputation—perhaps its most important asset. The value of a reputation can be quantified—it is quite simply the market capitalization of the enterprise. All it takes is a rumor or hint of malfeasance or a social media post gone viral, and investor reaction can be swift and punishing. For companies that have suffered unfavorable news headlines, the value of maintaining integrity is more than apparent.

From no you can't, to yes we can

A common complaint and misperception about CCOs is that they are "police officers" or gatekeepers, whose primary duty is to point a finger at the activities that are disallowed by law or policy. In reality, CCOs in many organizations are viewed more and more as business partners, collaborators, strategists, and internal consultants. They add value by sitting down with the businesses and coming up with solutions for how to achieve objectives within the guidelines of what is permissible. Today's CCOs are more about starting conversations than shutting them down. When they can work hand-in-hand with the business to come up with a solution that works for everyone, this can become a competitive differentiator for the entire organization.

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From down in the weeds to up in the trees

What began as a primarily administrative role—involving inventorying and understanding the detailed regulations and laws that applied to an organization—has changed. Today’s CCOs are taking things to the next level—digesting and assessing risk information, determining what it means, and translating those insights into a consistent ethics and compliance program and framework for managing risks. In addition, the unprecedented velocity of change in the external environment means that CCOs must always be on the lookout for any new risks (for example, technological risks, customer information risks, emerging market risks) that are just over the horizon and may require enhanced policies or heightened enforcement. To prepare for these new and emerging risks, organizations need visionary CCOs who can view the entire risk landscape and “see around corners.”

From cleaning up to keeping clean

Over the years, a number of organizations have experienced the pain of an ethics or compliance crisis. In response, they have ramped up their compliance efforts for a specific period of time until the storm passed, later reducing the CCO’s role to more of an administrative one. Clearly, this kind of short-term response is fraught with peril, and can send a strong negative message to employees and regulators about what matters most and how an organization conducts itself when it believes no one is watching. Organizations that take compliance seriously task their CCOs with developing processes and a mindset that weave integrity into the fabric of the organization.

Key considerations about the CCO role

Organizations intent on finding a world-class CCO and creating an environment where they can thrive should consider the following questions:

- Does the CCO have access to the board?
- Does the CCO occupy a sufficiently senior position (e.g., executive vice president, senior vice president, vice president)?
- How often does the CCO present to the board or a committee of the board?
- How is the CCO’s performance measured?
- Does the CCO have sufficient oversight authority for compliance resources in the business units?
- Can the CCO drive or influence the organization’s culture?
- Does the CCO have operational experience?
- Does the CCO have a good understanding of the business?
- Does the CCO have the knowledge and passion for the profession?
- Does the CCO communicate with people inside and outside the organization to see how others are experiencing the role?
- Is the CCO seen as a role model for integrity inside the organization?
- Does the CCO have an aptitude for understanding and managing current and emerging risks?
- Is the CCO viewed as an authentic leader?

Conclusion

As the volume and potential impact of compliance risks raining down on organizations threatens to overwhelm them, the CCO has emerged as a beacon in the storm. No longer seen as a functionary within the administrative branch of the legal department, a back-office indexer of regulatory requirements, or an obstructionist gatekeeper, today's CCO plays a strategic role within the organization. The CCO helps to shape organizational strategy, setting the "tone at the top" while gauging the "mood in the middle" and the "buzz at the base." A visionary and activist, the CCO is instrumental to making compliance a dynamic, rather than a reactive, endeavor and establishing an ethics and compliance program that safeguards both the organization and its reputation.

Strategies for getting to world-class

Not every company has a world-class ethics and compliance program. But CCOs—whether they are new to the role or are more seasoned professionals—who are intent on moving their organizations in a world-class direction can start with a few leading practices. As we conducted research to build out the Deloitte Chief Ethics and Compliance Officer Transition Lab, a day-long tailored experience where the CCO creates a personal roadmap for success, the following leading practices emerged:

- Cultivate the right stakeholder relationships
- Build your organization's and team's bench strength
- Define your legacy
- Separate out the urgent from the important
- Overcommunicate integrity and values so it's clear what matters most
- Become a trusted advisor to the businesses
- Develop a network of internal and external subject matter experts to support your growth and development
- Connect with your peers: Sharing is common for CCOs across competitors and industries
- Stand up for what you believe is right
- Remember to stop, get out of the weeds, look up to the trees, and be strategic
- Manage your time and focus on priorities
- Be a lifelong learner: The best leaders are the best learners



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