Corporate Integrity and Compliance
Getting it right
Maybe five years ago a culture of corporate integrity would be viewed as “nice to have” but neither essential, nor a boardroom priority.

Since then the world has changed, and with it people’s attitudes. The breakdowns in trust, not just in individual organisations but sometimes entire business sectors, have been profound and lasting.

Businesses urgently need not just to rebuild trust but to take it to another level. Stakeholders, including employees and customers alike now have much higher expectations of the integrity of their employers and suppliers. Regulators have raised the stakes. These expectations continue to grow as more and more people experience the benefits of dealing with organisations that get integrity right.

Although the consequences of failure can be devastating, the positive message is that getting this right delivers benefits across your business. Judgements on corporate behaviour will become an integral part of the decision making process: being able to show you can deliver on this agenda will not only attract the best people and customers but reduce the costs associated with doing business and compliance.

Ultimately this is about the choices people make: how can we structure and organise a business such that people are more likely to make the right choices?
The value of integrity

Companies and their stakeholders are increasingly recognising that value in the business and the values of the business are intertwined. Although financial performance is still crucial, the drivers of growth are also increasingly coming from non-financial assets and benchmarks.

There is an increasing desire for greater transparency and accountability. As a business leader you are now expected to demonstrate how the business operates across a range of areas, many of which are inextricably linked with the values of your business and the trust that individuals have that it will live up to them:

► Customer focus: Is your business focused on your clients and customers? Does your business make a contribution to society beyond the bottom-line.

► Engaged and enthusiastic workforce: Do your values attract the best people to work for you? Do your employees really understand the values of the business and behave in such a way that they are reflected in day-to-day practice?

► Trust: Do people not only trust your company's products and services, but also your organisation as a custodian of personal data and financial investments? How are you viewed by regulators?

► Brand: Do you have the reputation that inspires others to buy, to invest and to work with you? How are you safeguarding it?

► Environmental responsibility: Does the future of your business depend on access to natural resources? Can you demonstrate that you are working sustainably and with respect for the environment?

What links these issues is the notion of corporate integrity: It is about more than espousing a set of values at board level and much more than just complying with the letter of the law and regulation.

Expectations have changed. Employees and customers, shareholders, regulators and the media: all of these stakeholders now expect organisations and their leaders to be able to demonstrate that their profitability and growth is achieved both in a sustainable way and in accordance with its stated purpose and values.

Can your organisation meet this expectation? Despite heavy investment in compliance frameworks and risk management, scandals and prosecutions continue and confidence in business remains fragile. These investments need to be underpinned by the right culture, values and behaviours.

In the following pages we will consider how you can obtain confidence that your business is operating in alignment with your core values and purpose. That you will deliver value through a “culture of integrity” that will engage, motivate and inspire your stakeholders.
Risks affecting corporate integrity

Most business leaders would want to demonstrate that their organisation acts with integrity, but often fail to do so. These are some of the factors that we have observed might lead to a loss of integrity:

► A purpose which fails to serve society
► Fundamental changes in top level strategy have not been reflected in operating models
► Tried-and-tested approaches fail to work as organisations enter new markets or territories
► Operating models and supply chains have become more complex with increasing reliance on third parties
► Failure to understand how people think, react and make decisions, with potentially catastrophic consequences
► Existing compliance frameworks become massively complex, stifle entrepreneurship and fail to adapt to changing business conditions and regulations
► Repeated compliance initiatives risk creating “compliance fatigue”
► Senior management lack detailed knowledge of what is happening in every territory
► Businesses are the custodians of ever-increasing amounts of data, which they need to manage and guard as well as exploit
► Global media coverage exposes businesses to uncontrolled and unmediated external reporting
► Regulators are increasing their scrutiny, setting higher expectations of decisions and behaviours, aided by more stringent legislation, cooperation across borders and availability of information.

To promote a culture of integrity it must be “hard-wired” into the priorities of the board, governance structures and compliance of all parts of the organisation.
Corporate integrity: the key to long-term growth

Values, ethics, morals: these are highly subjective words and views on what is meant or correct can vary — perfectly validly — from individual to individual and from organisation to organisation.

Integrity is the word we use to describe a person, a group or an organisation and is an objective measure of how well they succeed in living up to their stated values and putting them into practice. Integrity should also be distinguished from compliance, which means living up to the letter — but not necessarily the spirit — of external requirements from regulators and the law.

Your level of corporate integrity is therefore demonstrated in all the ways in which your organisation conducts itself globally: in dealing with customers, suppliers, employees, shareholders, regulators and the general public. Successful businesses care for their customers. They resolve tensions between all stakeholders fairly. They hire bright people to create new ideas or technologies to make the world a better place.

Similarly, regulations and legislation speak in terms of what is permitted or prohibited, not what is right. Integrity means asking yourself not only “Is this legal?”, but “Is it right?” Does your organisation’s behaviour, even if permitted by law, live up to your values?

We believe that a culture of integrity is critical to achieving sustainable growth. High levels of trust and reputation make it easier to operate, thereby reducing friction with regulators, attracting and retaining staff and customers and paving the way to enter new markets with confidence. Achieving a culture of integrity should therefore be right at the top of the leadership agenda and a central priority for the board.

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The consequences of failure

Fines by regulators running into the hundreds of millions, collapses in share prices, desertion by customers and employees, the withdrawal of licences to operate, even the collapse of entire businesses – these are some of the consequences of failures of integrity and compliance.

Corporate history is littered with stories in which failures of integrity and compliance have inflicted long lasting damage on or even destroyed a business. We estimate that even the initial announcement that there may be a problem can lead to a loss of around 10% of market capitalisation.

Often the initial failure to prevent the breach has been compounded by a failure to detect it and the commercial damage amplified by an inadequate response when it becomes public.

In the UK alone, fines levied by the financial regulators since 2002 exceed £1.55bn and continue to rise.

Some recent examples of failure in integrity and compliance are:
► A lack of ethics or transparency
► Breaches in key controls such as data security
► Health, safety or environmental failure

Ask yourself: does my organisation have the integrity to:
► Establish the controls to help prevent such breaches in the first place?
► Detect and report them when they occur?
► Respond adequately if they happen?

Total cost of failure could be much higher, including:

Direct costs
► Fines, legal fees and damages
► Professional fees
► Civil damages

Commercial Impact
► Loss of customers and sales
► Damage to brand and reputation
► Inability to retain and attract employees
► Banning from tenders and markets

Directors Liability
► Personal fines
► Jail sentences and criminal records
► Disqualification
► Loss of reputation

The long-term consequence is a loss of trust and a lack of confidence that there will not be more incidents or revelations in future. It is difficult to rebuild trust, so as long as corporations fail pro-actively to address the issue of corporate integrity, trust will continue to be withheld and value lost.
It will not be possible to fully mitigate all of the risks, all of the time and companies will need to establish appropriate business continuity plans to help manage the critical threats that materialise against their business.
Corporate integrity and compliance framework effectiveness

EY’s compliance framework as shown below, highlights the key elements of an effective compliance programme and some questions to ask for your organisation, both in relation to internal activities as well as engagement and management of third parties.

► How do you assess that your investigations get to the root causes and robustly address these?
► How consistent are your investigation processes across the full breadth of your business operations?
► Do your oversight processes give you enough transparency and early warning for areas of potential concern?
► Does the right information, trends and issues get escalated robustly to the right level?
► How effective are your dashboards and what actions do they drive?
► What are you reporting externally and how do you get assurance over it?

► How much time are you spending on detecting and responding vs. preventing? Is the balance right?
► How robustly are you assessing the appropriateness of third parties?
► How are you using data analytics in your monitoring processes? Are you maximising the level of assurance you can get here?
► Are you getting the benefits from an integrated framework?
► Is your overall framework supported by an effective second line function that provides the appropriate level of support and challenge to your first line teams?
How do you let your employees know how they should be doing business?

Does your code and supporting policies reflect your full compliance risk universe?

Where operations are global how do you ensure that codes/policies are understood and aligned with local laws?

What does your compliance programme look like?

How do you assess the effectiveness of your training?

How meaningful is the training for various roles?

Does your training make use of case studies and scenarios to make the policies come alive and to be meaningful to your employees?

How do you assess the robustness of your controls?
Understanding the root causes

By considering mistakes of the past we can obtain a better understanding of what can be done to prevent, detect and respond to relevant risks.

We have observed a number of key areas which can lead to damaging failures of integrity in your organisation.

**A corporate purpose that does not serve society**

Research has demonstrated that businesses that serve a broader purpose than the maximisation of short-term profits are ultimately more valuable and sustainable. Every decision made by leaders from strategy to the customer experience must pass the purpose test.

**Values based leadership and culture**

If integrity is defined by the way we live up to our values, then the responsibility of leaders to create a values based culture is absolutely critical to corporate integrity. As well as clarity of purpose and values, the organisation must focus on improving its decision-making processes. Having a strong decision making framework and the ability to lead open, challenging debates not only reduces the risk of failure it also enhances creative and entrepreneurial thinking.

**Measurement and reward**

It is easy to measure and remunerate employees purely by the results they achieve without considering or monitoring how they obtain them. Rewards and monitoring need to be structured to ensure they drive the right behaviours.

**Not maximising the use of data**

Lack of resources and the requirement to empower people mean that it is impractical to monitor every activity or transaction in detail. However, when used well data analytic techniques can allow organisations to significantly improve the effectiveness of a risk-based approach to compliance, using structured and unstructured data. In addition to being efficient, this can provide early warning signals and the ability to intervene before issues escalate.

**Ability to respond**

Events will happen, but the impact can be magnified if businesses do not respond quickly and consistently. There should be clear, trusted “hotlines” for reporting incidents, and named individuals in place to ensure that emergencies are not only dealt with in a timely and effective way but investigated so that root causes are identified and remediated. How you respond will be vital to regaining and maintaining the trust of stakeholders.

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Is your compliance framework right for you?

Organisations that act with integrity will likely have more engaged, motivated and inspired employees, which will require less oversight in delivering growth and value.

Corporate integrity is ultimately dependent on the application of the right values in day-to-day decision making in the business. Relevant and proportionate policies, procedures and controls operating within an appropriate compliance framework provide critical support in driving the right values through the business.

To be effective compliance needs to actively support and guide all business decisions so that they are made in full awareness of, and in agreement with your organisation’s purpose, culture and values. When combined, a culture of integrity and strong compliance framework will allow you to confidently state: “Our people understand the right thing to do, we do the right thing and we know we do the right thing”.

In our experience there is no “one-size-fits all” compliance model that can apply to any organisation. Compliance is not a stationary target: legislation and regulation is complex and constantly changing. As organisations evolve, grow and expand into new markets, new risks emerge. Values and behaviours change, so that what was implicit needs to be made explicit. Each organisation’s individual risk profile, business model, structure and culture will dictate the design and operation of the compliance framework and perfectly good compliance frameworks can become unfit for purpose over increasingly short timescales.

The table below shows the steps to a behaviour based culture of integrity

<table>
<thead>
<tr>
<th>Behaviour based culture of integrity</th>
<th>Integrated compliance culture</th>
<th>Silo compliance culture</th>
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<tbody>
<tr>
<td>▶ A values based culture that goes beyond the rules</td>
<td>▶ Risk based and pro-active</td>
<td>▶ Lack of clarity on accountabilities and responsibilities</td>
</tr>
<tr>
<td>▶ Personal responsibility</td>
<td>▶ Compliance framework integrated into business processes</td>
<td>▶ Driven by regulation and enforcement</td>
</tr>
<tr>
<td>▶ Integrated reporting</td>
<td>▶ Assists business and reputation</td>
<td>▶ Minimum standards</td>
</tr>
<tr>
<td>▶ Continual improvement and learning</td>
<td></td>
<td>▶ Risk of box ticking activities</td>
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Leadership commitment
The challenge is therefore to create a culture that is driven by values that are genuinely held throughout the business. This means going beyond a fixed set of rules to embed those values in both personal and business practice. A box ticking exercise will not suffice.

If your top level commitment inspires and motivates others to live up to the organisation's values, this in turn improves corporate integrity, which inspires further engagement from employees, customers, and shareholders. At each stage the acceptance and delivery of integrity deepens, so that integrity ceases to become an external requirement but part of your organisation's DNA.

“Getting it right” means identifying:

**Right people, right values, right decisions**
Do you employ people of character, of integrity? Do you have clarity of purpose? Are your values rooted in universal moral values? Are decisions made consistently, openly and allow constructive dissent?

**Right risks, right priorities:**
What behaviours and activities across your business – both internally and externally – are exposing you to real or perceived risks and how does the underlying culture and values of the organisation affect that exposure? What new risks are emerging and how will you react to them?

**Right structure, right resources**
Does your framework encourage “joined-up thinking” across key risk areas and have the right level of resources required to sustain interest? How do you assess the framework’s effectiveness and support its implementation?

**Right responses, right remedies**
Is your organisation prepared to make timely and proportionate responses to issues raised and investigate allegations? Do you analyse trends, identify root causes and work to put them right? Are reporting hotlines in place and tested? Are the lessons learned communicated across the business?

**Right roles, right responsibilities, right behaviours**
Do you and your managers understand how the business is exposed to risk, and actively participate in risk assessments? Do managers act consistently and consult with those above and below them?

Do you set the right tone at the top, support the business and identify emerging risks?

How do you know people’s behaviours are aligned with your purpose and values?

**Right Reporting, Right assurance**
Are you monitoring the right areas of the business and are you confident that the compliance frameworks and assurance providers are robust and effective? Are you using all the data available – both internal and external – to detect issues?
Inspire — Motivate — Improve

Creating a culture of corporate integrity sets in motion a virtuous circle which continually strengthens the ability of your organisation to achieve growth.

At EY we have a number of approaches to help you achieve your potential, including compliance and integrity programme assessment and improvement, where we review and assess compliance frameworks, either overall or aspects of them, against leading practice and regulatory requirements to identify what is working well and areas for improvement - both for existing and emerging risks e.g. market entry into new territories.

This can include behavioural assessments and also monitoring using our leading practice data analytics technology to highlight the risk of compliance breaches by looking at patterns of activity in transaction records and other corporate data.

Where required we also deliver behavioural change programmes that bring practice into line with your corporate values.
Integrity and compliance: the keys to value

Achieving a culture of integrity provides confidence that you will deliver your growth agenda. It protects you against the consequences of failing to practice what you preach.

But creating an integrated and effective compliance framework is only part of the answer: it also requires systems, education and having policies/processes in place that support this.

Achieving corporate integrity is therefore a challenge that will affect your entire organisation. This is about gaining confidence about ‘how you deliver’ as well as what you deliver.

When done well stakeholder trust whether from regulators, investors or customers provides tangible benefits; but it must be earned. Confidence, both internal and external is demonstrably justified. When behaviour is driven by a consistent set of values which permeate through the organisation employee engagement is almost a given and retention and loyalty will be high.

Not getting this right means not having the confidence that you can deliver on your growth agenda; an organisation with a culture of integrity is one that has built its future on a sound foundation as a place that investors will entrust their money to, where people want to work, and that customers want to do business with.

Finally all organisations need to recognise that achieving integrity is neither a chore nor a non-core activity but one that helps a business actually fulfils its purpose, delivers sustainable growth and lives up to the values that define its culture.

EY is a globally aligned professional services organisation. Our Vision 2020 plan sets out our ambition to help “Build a Better Working World” for our people, our clients and our communities. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over.

Corporate integrity is key to inspiring that trust and confidence.

EY’s ambition is to help our clients to have confidence that their organisation is trusted and complies with relevant laws and regulations and follows internal processes: avoiding the negative consequences arising from compliance failures, whilst getting the clear benefits of growth, value and stakeholder engagement.

As a globally aligned services organisation, our holistic and integrated approach allows us to bring our capabilities to bear across all geographies in a consistent manner. These include recognised standards for frameworks, methodologies, compliance risk assurance criteria and work programmes to deliver compliance and integrity.
### Extended Assurance Contacts

<table>
<thead>
<tr>
<th>Name</th>
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