



A SURVEY BY  
the Society of Corporate  
Compliance and Ethics  
and the Health Care  
Compliance  
Association

*JANUARY 2014*

# The Relationship between the Board of Directors and the Compliance and Ethics Officer



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## Introduction

For a compliance program to be deemed “effective” under the Sentencing Guidelines the organization’s governing authority must “...exercise reasonable oversight with respect to the implementation and effectiveness of the compliance and ethics program.” Yet, while many other aspects of the Guidelines have grown well established, the relationship with the board of directors is still far from mature. Many compliance officers report concerns about whether the relationship is as strong as it should be, or even if it is serving its intended role of enabling the board to exercise sufficient oversight.

It’s a concern of growing importance after several high-profile settlements called for compliance to report directly to the board of directors.

To help assess the situation, the Society of Corporate Compliance and Ethics and the Health Care Compliance Association fielded a study of the board relationship in April 2010. It revealed that boards and even CEOs have less contact with the Chief Ethics and Compliance Officers (CECOs) than would be expected.

In order to assess how the relationship has evolved SCCE fielded a second survey in late 2013. It covered many of the same questions as the 2010 survey. In addition, the survey examined the personality traits that compliance and ethics professionals felt were important, as well as differences, if any, by gender.

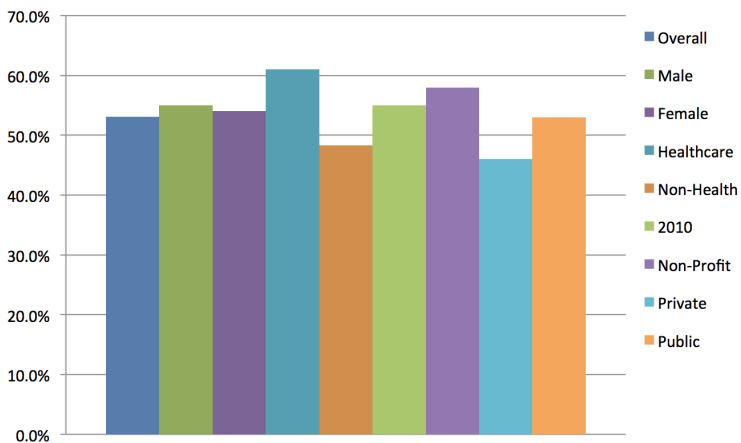
## Executive Summary

Compliance and Ethics has won its seat in the C-Suite. For most companies, the department reports to the board or the CEO, meets with the board regularly and has won the appreciation of the board of directors. Yet, the success is not uniform, with some companies still following the older model of having compliance teams that report to the General Counsel or other departments.

## Key Findings

- **The percentage of compliance departments reporting to the board has remained unchanged since 2010, despite the growing consensus that this is the preferred reporting relationship.** 53% of survey respondents stated that they report directly to the board, a number virtually unchanged from the 55% in 2010. There was some positive news, though, among publicly traded companies, where the percent reporting to the board increased from 41% to 53%.

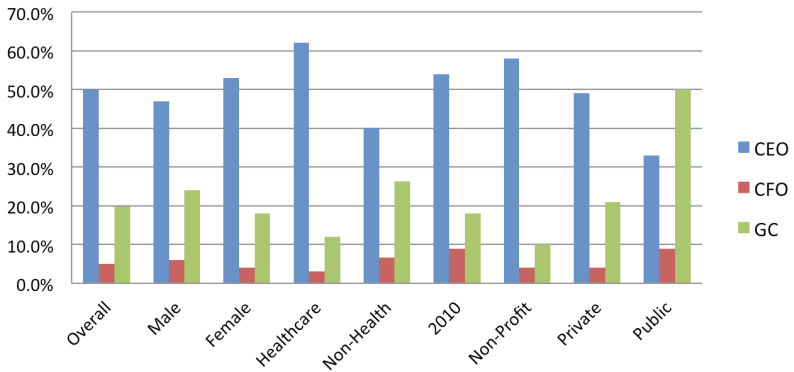
### Does the Chief Compliance and Ethics Officer of your organization report directly to the board?



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- **For those not reporting to the board, half reported directly to the CEO, and in the healthcare industry, that number rose to 62%.** Compliance was less likely to report to legal than many would imagine. Just 20% of those not reporting to the board reported that they reported to legal, and the number in healthcare was much lower at just 12%. The one exception to the trend was publicly traded companies, where half reported to the GC and just 33% reported to the CEO.

### If not to the board, to what position does the CEO report?



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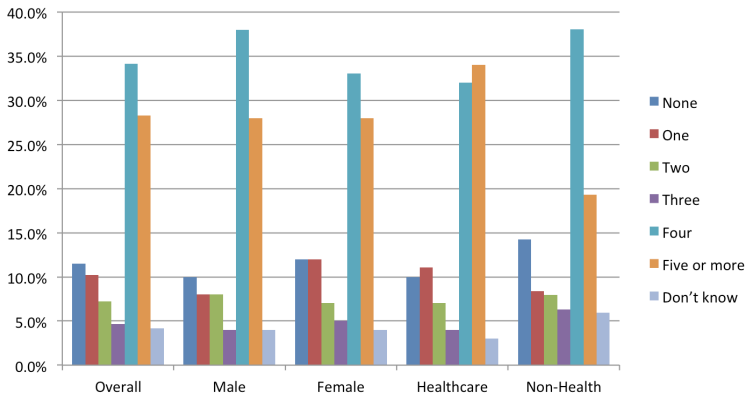
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- Four or more regularly scheduled meetings with the board is the norm.** Four meetings a year were reported by 34% of respondents, and 28% reported meeting five times or more per year. Of note, while 66% of men reported four or more meetings, just 51% of women did so. And companies outside of healthcare showed numbers lower (57%) than those in it (66%).

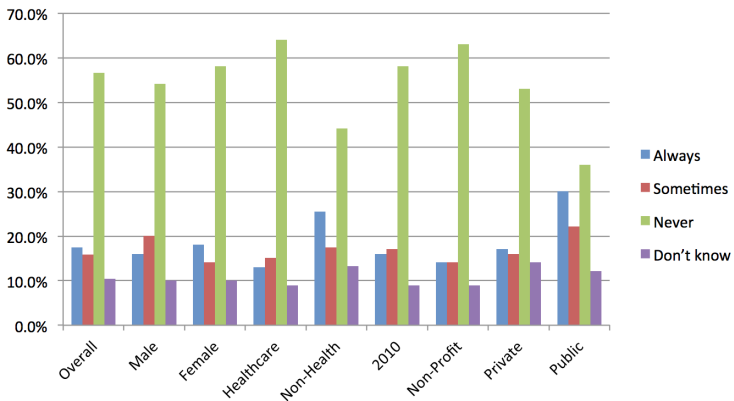
**How many regularly scheduled meetings per year does the Chief Compliance and Ethics Officer have with the board, including board committees?**



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- Generally speaking, compliance officers' reports to the boards are not pre-screened or edited by the GC or others.** Overall 56.5% report that their reports are never pre-screened or edited. However, there were some notable differences. Outside of healthcare the percentage was 44% vs. 64% in that industry. In publicly traded companies, just 36% reported that their reports are not edited or screened, while 30% responded that their reports are always edited or screened.

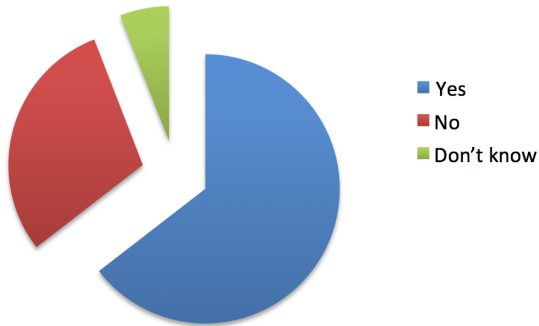
**How often are the Chief Compliance and Ethics Officer's reports to the board screened and substantively edited by the general counsel or any other person prior to being sent to the board?**



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- **Approximately two-thirds (64%) of compliance professionals are satisfied with the regularity of board contact.** The numbers were remarkably consistent across industries, genders and company types. What's notable, though, is that the level of satisfaction was so high for publicly traded companies despite having less frequent meetings.

**Do you believe that there are a sufficient number of contacts between the board and the Chief Compliance and Ethics Officer each year?**

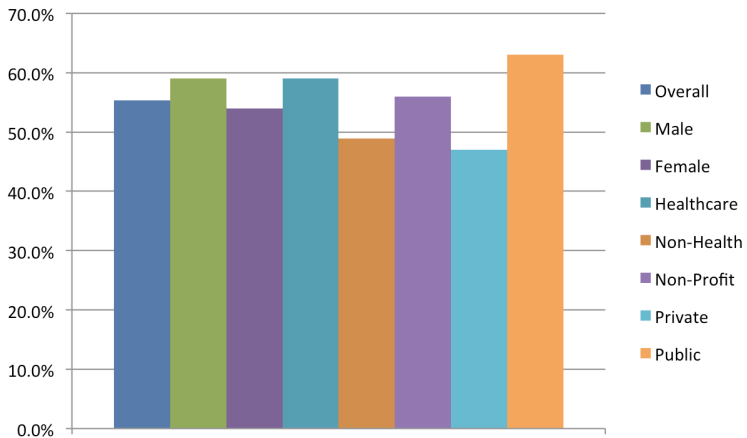


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- **Most compliance officers felt that the board values the compliance and ethics program a great deal (55%).** The numbers were highest (63%) among publicly traded companies, perhaps reflecting greater pressure for boards to support compliance. Healthcare scored above average (59%), with other industries scoring lower (49%) on this measure.

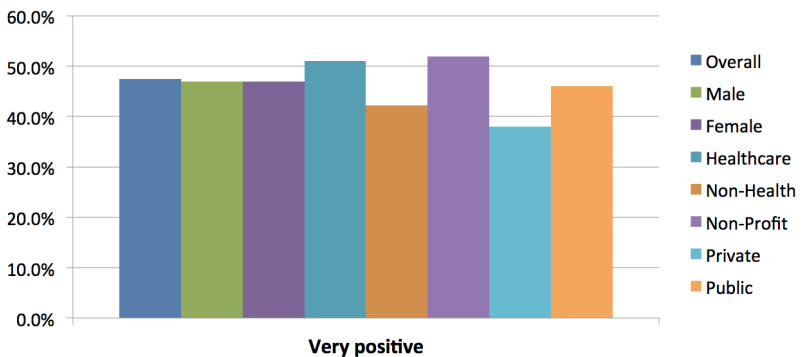
### Does the board value compliance a great deal?



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- **Not surprisingly given the previous data, compliance officers generally rated the quality of the interaction with the board positively.** Overall 48% rated the quality of the interaction as very positive, and another 27% gave a “somewhat positive” rating. The quality of relationship numbers were lower, though, for privately held companies. They were also lower outside of healthcare (42%) than within it (51%).

**How positively would you rate the quality of the interaction of the board with the Chief Compliance and Ethics Officer?**



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- **Survey respondents reported overwhelmingly (77%) that the chief compliance and ethics officer is responsible for escalating very serious allegations and/or investigations of non-compliance to the board.** This indicates that even in situations in which compliance reports to others, in serious cases the board is contacted directly.
- **Overall, men and women had very similar opinions as to which attributes are important to compliance professionals.** When asked to rate attributes such as consensus-building on a five point scale, with five being the highest, the numbers were remarkably similar, especially when looking at the combined 4 and 5 scores. For both men and women the three attributes most likely to be given a score of 5 were: independence, confidence and assertiveness/decisiveness. The only difference was the order in which they were placed.

## How important is it that a Chief Compliance and Ethics Officer possess the traits listed below?

(RATED ON A 1 TO 5 SCALE WITH 5 AS THE HIGHEST)

### Assertiveness/Decisiveness

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	33%	27%
5	58%	65%

### Consensus-Building

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	33%	33%
5	42%	49%

### Confidence

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	24%	21%
5	67%	73%

### Empathy/Ability to Assess a Situation

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	36%	33%
5	52%	58%

### Independence

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	16%	21%
5	74%	72%

### Relational/Interpersonal

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	37%	31%
5	49%	59%

### Ability to Influence

<i>RATED ON SCALE</i>	<b>MEN</b>	<b>WOMEN</b>
4	33%	25%
5	52%	63%

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## Conclusions/Implications

- **Despite the resistance of some to separating the compliance and ethics role from the general counsel, such is already the case for most companies.** A compliance department reporting to the board or the CEO is already the most common relationship, and it appears that the trend is growing, even for publicly traded companies.
- **Generally speaking, the relationship with the board seems to be a strong one.** Compliance and the board are meeting and without a buffer. As importantly, compliance and ethics professionals report satisfaction with the relationship and, generally speaking, feel that the board values compliance. Yet, for some companies there remains more filtering than is likely desirable.
- **Although board members tend to skew male and compliance skews female, gender differences do not seem to be affecting the relationship.** The data shows very few differences in attitudes and activities by men vs. women.
- **Public companies pose an interesting conundrum.** On the one hand, compliance professionals express satisfaction with their relationship with the board at the same levels as others, and they are most likely to report that the board values compliance a great deal. Yet, they are more likely to have their reports to the board filtered. In addition, when compliance does not report to the board, they are less likely to report to the CEO.

## Methodology

Survey responses were solicited and collected during the fourth quarter of 2013 from compliance and ethics professionals in the database of the Health Care Compliance Association and the Society of Corporate Compliance and Ethics. Responses were collected and analyzed using SurveyMonkey, a web-based third-party solution. A total of 626 responses were received, 69% from women.