THE VALUE OF PREVENTION

Cost of a Noncompliance Event Across Time

<table>
<thead>
<tr>
<th>Event Type</th>
<th>Cost Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Slow Detection</td>
<td>inability to identify an event before widespread knowledge</td>
</tr>
<tr>
<td>- Predictive Detection</td>
<td>period when increased susceptibility for noncompliance can first be measured</td>
</tr>
<tr>
<td>- Rapid Internal Detection</td>
<td>period after event occurred but before widespread knowledge</td>
</tr>
</tbody>
</table>

Cost of Monitoring:
- 0%–5% of Corporate Compliance Budget

Regulatory Fine:
- Approximately US$5.8 Million

Internal Remediation Costs:
- Legal Fees: US$200–US$500/Hour
- Decrease in Stock Value: Up to 14%
- Decline in Employee Perceptions of Integrity: 20%
- Decline in Employee Engagement: Up to 10% Decline
- Reputational Harm

Source: CEB 2014 State of the Compliance and Ethics Function Survey; CEB 2013 Q3 Integrity Capital Quarterly.

HEIGHTENED URGENCY

The Expanding Corporate Risk Ecosystem
Highlights of the Interconnected Risk Landscape

- Regulatory Fragmentation
- Interconnected Supply Chains
- Growth in Information
- Hyper Transparency
BARRIERS TO EFFECTIVE MONITORING

Barriers to Building an Effective Measurement and Monitoring System
(Percentage of Compliance Executives)

- Complexity of Business Operations
- Lack of Predictive Metrics/Leading Indicators
- Poor Information Sharing (Across Functional Silos)
- Technology Constraints
- Limited Understanding of the Organization’s Risk Landscape
- Resistance from the Business
- Staff Skills (Mismatch of Skills and Needs)
- Regulatory Requirements/Expectations
- Other

_But Limited Insight_

Measuring and Monitoring Effectiveness

- Satisfy Regulatory Demands: 43%
- Mitigates Current Risk: 33%
- Provides Meaningful Information About Program Effectiveness: 22%
- Predicts Future Compliance Risks: 17%
- Limited Foresight: 16%
- Limited Effectiveness: 4%

Clear Goal...

Primary Objective of Compliance and Ethics Monitoring

- Compel Action to Mitigate Unacceptable Compliance Risk: 60%
- Obtain an Accurate Read on Compliance: 38%
- Provide Information About the Effectiveness of the Compliance Program: 22%
- Report Compliance Program Activities to the Board: 17%
- Report Compliance Effectiveness to Regulators: 16%
- Identify and Mitigate Risk: 12%
- Demonstrate Program Effectiveness: 5%
- Other: 4%

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THE PATH TO PREDICTIVE MONITORING

**Key Barriers**

1. Understanding Meaningful Data
2. Creating Key Indicators
3. Identifying Variables and Risk Change
4. Embedding Monitoring into Business

**Predictive Capabilities**

- Conduct root cause analysis of noncompliance events to identify factors leading to violations
- Develop a comprehensive set of key indicators that capture meaningful risk
- Build risk information using existing partners
- Embed business insights into risk reduction and mitigation by providing tools to:
  - Issue alerts
  - Focus efforts on work already done

**Implementation Stages**

1. Understanding Meaningful Data
2. Creating Key Indicators
3. Identifying Variables and Risk Change
4. Embedding Monitoring into Business

Source: CEB analysis.
BUILDING PREDICTIVE MONITORING CAPABILITIES

What drives compliance risk?
How do I create trackable risk indicators?
How do I monitor how my risk indicators are changing?
How do I drive proactive risk mitigation?

IDENTIFY THE ROOT CAUSES OF RISK
TRANSLATE ROOT CAUSES INTO RISK INDICATORS
EMBED RISK INDICATORS INTO EXISTING WORKFLOWS
DRIVE BUSINESS ACCOUNTABILITY FOR RISK MITIGATION

MassMutual Cultural Root Causes of Risk
Root Cause-Based KRIs
Business Risk Sensors
Business-Led Risk Prevention

Principles for Conducting an Effective Root Cause Analysis

ROOT CAUSES ENABLE PREDICTIVE INSIGHT
Key Root Causes of Noncompliance

Description, Not Prediction
Basic information about noncompliance events explains the type of noncompliance that can occur, but fails to provide insight into why noncompliance occurred.

Predictive Insight
Root causes explain the conditions and moments that precede and drive noncompliance, setting the foundation for a predictive monitoring system.

ROOT CAUSES THAT MATTER MOST (AN INDEPENDENT ASSESSMENT)

Primary Causes of Noncompliance

Company Gain = 63%
Company Gain = 14%
Company Gain = 10%
Company Gain = 7%
Company Gain = 6%
Company Gain = 5%
Company Gain = 4%
Company Gain = 3%
Company Gain = 2%
Company Gain = 1%

Pressure From Superior = 12%
Permissive Culture = 8%
Operational Burden = 7%
Poor Process Design = 6%
Employee Made Mistakes = 5%
Employee Unaware of Policy = 4%
Other (External Actor) = 3%

Culture = 63%
Process = 12%
ROOT CAUSES THAT MATTER MOST (STAKEHOLDERS’ PERSPECTIVES)

Primary Causes of Misconduct
Percentage of Compliance Executive Responses by Reason for Business Misconduct (Select up to Three Causes)

- Employee(s) Self-interest: 1%
- Employee(s) Fell Pressure to Commit Misconduct: 4%
- Poor (Permissive) Company Culture: 89%
- Insufficient Controls: 65%
- Operational Burden: 86%
- Process Complexity (Unintentional or Negligent): 7%
- Employee Made Mistake: 23%
- Lack of Awareness: 48%

n = 136; 3,668 employees.
Source: CEB 2014 State of the Compliance and Ethics Function Survey.

IDENTIFY THE ROOT CAUSES OF RISK

What drives compliance risk?

Challenge 1: Understand the primary root causes of noncompliance
Challenge 2: Identify where to focus root cause analyses
Challenge 3: Conduct an effective root cause analysis

THE IMPORTANCE OF A CULTURE OF INTEGRITY

Employees with the most favorable perceptions of the organization’s culture are 90% less likely to observe misconduct and 63% more likely to report anything they see.

n = 255,498.
Source: CEB analysis.
A KEY CULTURAL ROOT CAUSE
Organizational Justice Drives a Culture of Integrity

Organizational Justice is employees’ degree of agreement that:
- Their company responds quickly and consistently to verified or proven unethical behavior and
- Unethical behavior is not tolerated in their department.

Clarity of Expectations
Leadership
Communication
Trust in Colleagues
Direct Manager
Tone at the Top

Organizational Justice
27%
All Other Integrity Components
73%

CULTURE SHIFTS AS THE ORGANIZATION CHANGES
Impact of Career Moments on Employee Perceptions of Integrity

By Number of Career Moments in the Past Year (Excluding Promotions)

A 4% decline is equivalent to moving from middle to bottom-quartile scores in perceptions of integrity.

IMPLICATIONS FOR COMPLIANCE MONITORING
Summary of CEB Cultural Research Implications on Compliance Monitoring

Compliance Monitoring Implications:
- Over-invest in Monitoring Culture
- Cultural metrics are the most predictive indicators of future misconduct, compared to process-related factors and employee existence.

Track Employee Perceptions of Organizational Justice
- Test perceptions (e.g., percentage of employee concerns that receive follow-up) to monitor organizational justice.
- Include questions about the clarity of expectations, leadership, communication, trust in colleagues, direct managers, and tone at the top.

Conduct Deeper Dives During Periods of Change
- Increase cultural monitoring and conduct focus groups during times of change when employee perceptions of culture (and thus the potential for increased risk) are most likely to shift.

- Track Employee Perceptions of Organizational Justice:
  - Use operational metrics (e.g., percentage of employee concerns that receive follow-up) to monitor organizational justice.
  - Include questions about the clarity of expectations, leadership, communication, trust in colleagues, direct managers, and tone at the top.

- Conduct Deeper Dives During Periods of Change:
  - Increase cultural monitoring and conduct focus groups during times of change when employee perceptions of culture (and thus the potential for increased risk) are most likely to shift.
CREATING THE MANAGER INTEGRITY DASHBOARD

<table>
<thead>
<tr>
<th>Performance</th>
<th>Human Resource Factors</th>
<th>Compliance Factors</th>
<th>Target Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Mgr.</td>
<td>98% Compliance Survey Results</td>
<td>7% Risk</td>
<td>Within Range</td>
</tr>
<tr>
<td>SVP 1</td>
<td>100% Target Goal</td>
<td>&gt; 10%</td>
<td>Within Range</td>
</tr>
<tr>
<td>SVP 2</td>
<td>100% Target Goal</td>
<td>&gt; 10%</td>
<td>Within Range</td>
</tr>
<tr>
<td>SVP 3</td>
<td>50% Target Goal</td>
<td>&gt; 15%</td>
<td>Outside Range</td>
</tr>
</tbody>
</table>

Manager Integrity Pre-Alert Dashboard

Proactive, CEB

Performance Human Resource Factors Compliance Factors Target Range

- Senior Mgr. Compliance Survey Results
- SVP 1 Target Goal
- SVP 2 Target Goal
- SVP 3 Target Goal

CEB RISKCLARITY SERVICE: ASSESSING CORPORATE CULTURE

<table>
<thead>
<tr>
<th>Employee Survey and Potential Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have observed misconduct at my company in the past year. Yes</td>
</tr>
<tr>
<td>Have you observed any of the following types of misconduct in the past year? (Select all that apply.)</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Accounting irregularities</td>
</tr>
<tr>
<td>Business information violation</td>
</tr>
<tr>
<td>Data privacy or information security violation</td>
</tr>
<tr>
<td>Misuse of time or resources</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Key Demographics of Survey Participants

- All industries
- All employee levels
- Global coverage
- All business functions
- Dozens of languages

Source: CEB analysis.

OVERVIEW

Vista aligns compliance risks to associated business activities, forming the basis for quarterly risk-based monitoring plans that reflect the risk profile of each business activity.

SOLUTION HIGHLIGHTS

- Align Business Activities with Compliance Risks
- Pinpoint Business Activities' Contribution to Risk
- Derive Monitoring Plans from Risk Assessment Results

COMPANY SNAPSHOT

Vista

Industry: Pharmaceuticals
2013 Sales: US$5–15 Billion
Employees: 4,000–8,000

PROCESS-BASED RISK DRIVERS

<table>
<thead>
<tr>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>THESE DASHBOARD AND PROCESS-BASED RISK DRIVERS PROVIDE A VISUAL REPRESENTATION OF THE RISKS ASSOCIATED WITH EACH BUSINESS ACTIVITY.</td>
</tr>
</tbody>
</table>

SOLUTION HIGHLIGHTS

- Align Business Activities with Compliance Risks
- Pinpoint Business Activities' Contribution to Risk
- Derive Monitoring Plans from Risk Assessment Results

COMPANY SNAPSHOT

Vista

Industry: Pharmaceuticals
2013 Sales: US$5–15 Billion
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A MORE HOLISTIC RISK ASSESSMENT

**Vista’s Two-Pronged Risk Assessment**

**“Top-Down” Environmental Risk Score**

- **Ownership**
  - Corporate compliance pull environmental conditions from functional and regional partners and other sources.
- **Examples**
  - Sales Growth Expectations (Finance)
  - Employee Turnover Rates (HR)
  - Controls Required by Regulators (from external publication)

**“Bottom-Up” Operational Root Causes**

- **Risk rating of specific business operations and processes in which misconduct can manifest.**
- **Ownership**
  - Each regional or functional compliance officer assesses the risk level of business activities within his or her region.
- **Examples**
  - Likelihood of HIPAA violation during promotional interactions with patients
  - Effectiveness of controls in preventing bribery during interactions with health authorities

Source: Vista; CEB analysis.

AN ACCURATE INSIGHT

Vista develops a comprehensive understanding of the conditions and processes that drive risk across the organization.

HOW THEY DO IT

**Overview of “Bottom-Up” Assessment and Monitoring Plans**

1. **Align Risks with Activities**
   - Define the risks in Compliance’s purview.
   - Identify the company’s core business activities and how they relate to compliance risks.
   - Create a catalog that aligns each business activity to the relevant compliance risks.

2. **Identify High-Risk Business Activities**
   - Use an activity-based risk assessment to identify the business activities that drive the most risk within each region.

3. **Deploy Right-Sized Monitoring Plans**
   - Create a customized monitoring plan for each business activity that reflects its contribution to compliance risk exposures.

ACTIVITY-BASED RISK ASSESSMENT

**Vista’s Risk and Control Assessment**

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Activity</th>
<th>Inherent Risk (Likelihood x Impact; 1–5 Scale)</th>
<th>Control Effectiveness (1–3 Scale)</th>
<th>Residual Risk</th>
<th>Risk-Specific Weight</th>
<th>Overall Compliance Risk Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Privacy</td>
<td>Promotional Interactions with Patients</td>
<td>15</td>
<td>1</td>
<td>15</td>
<td>60%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>Medical Research</td>
<td>12</td>
<td>2</td>
<td>6</td>
<td>24%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Consulting Meeting</td>
<td>12</td>
<td>3</td>
<td>4</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>Antitrust/Unfair Competition/Competitor Disparagement</td>
<td>Promotional Interactions with Patients</td>
<td>20</td>
<td>2</td>
<td>10</td>
<td>63%</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>Hospital Sponsorships</td>
<td>18</td>
<td>3</td>
<td>6</td>
<td>38%</td>
<td>11%</td>
</tr>
<tr>
<td>Corruption and Bribery</td>
<td>Education Grants</td>
<td>16</td>
<td>2</td>
<td>8</td>
<td>62%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Interactions with Health Authority</td>
<td>15</td>
<td>3</td>
<td>5</td>
<td>38%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Vista; CEB analysis.

Note: To determine the risk-specific weight, multiply the inherent risk by 60% for risk-specific weight and then at the bottom add: Risk-Specific Weight of 60% = Residual risk score of 15/total of all residual risk scores for data privacy of 25.

Note: Pseudonym.
IDENTIFYING HIGH-RISK ACTIVITIES

Risk Weight of Activities, Data Privacy Risk

<table>
<thead>
<tr>
<th>Activity</th>
<th>Risk Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotional Interactions</td>
<td>15%</td>
</tr>
<tr>
<td>Market Research</td>
<td>6%</td>
</tr>
<tr>
<td>Consulting</td>
<td>4%</td>
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<td>Meeting</td>
<td>2%</td>
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<td>Promotional Interactions</td>
<td>47%</td>
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<td>Market Research</td>
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<td>Consulting</td>
<td>7%</td>
</tr>
<tr>
<td>Meeting</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Vista; CEB analysis.

DEPLOY RIGHT-SIZED MONITORING

Vista's Data Privacy Monitoring Plan

<table>
<thead>
<tr>
<th>Sub-Activities</th>
<th>Promotional Interactions with Patients</th>
<th>Period Research</th>
<th>Consulting Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Research</td>
<td>15%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Consulting</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Meeting</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Monitoring Plan: United States Region — (2014 Q3)

<table>
<thead>
<tr>
<th>Self-Activities</th>
<th>Monitoring Format</th>
<th>Risk Score-Adjusted Sample Size</th>
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</thead>
<tbody>
<tr>
<td>Promotional</td>
<td>Post-Transaction</td>
<td>32</td>
</tr>
<tr>
<td>Interactions</td>
<td>Review</td>
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<tr>
<td>with Patients</td>
<td></td>
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<td>Post-Transaction</td>
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<td>Review</td>
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<tr>
<td>Total Occurrences</td>
<td>Post-Transaction</td>
<td>32</td>
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<tr>
<td>30</td>
<td>Review</td>
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</tr>
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<tr>
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DEPLOY RIGHT-SIZED MONITORING

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<td>4%</td>
<td>4%</td>
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<tr>
<td>5</td>
<td>Review</td>
<td></td>
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</table>

BUILDING PREDICTIVE MONITORING CAPABILITIES

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<tbody>
<tr>
<td>CEB</td>
<td>CEB</td>
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<td>MassMutual</td>
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<td>Cultural Causes of Risk</td>
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<td>Root-Cause-Based KRIs</td>
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<td>CEB</td>
<td>CEB</td>
<td>Business-Led Risk Prevention</td>
</tr>
<tr>
<td>CEB</td>
<td>CEB</td>
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<td>Functional KRIs</td>
</tr>
<tr>
<td>CEB</td>
<td>CEB</td>
<td>CEB</td>
<td>High-Impact Risk Mitigation</td>
</tr>
</tbody>
</table>

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Key Learnings in Developing a Liaison Program

1. Align the Business Case with Key Stakeholders’ Interests
2. Right-Size Your Liaison Program Structure
3. Look Beyond Functional Background and Seniority in Selection
4. Provide Support to Build Early Engagement
5. Measure Ongoing Effectiveness of the Program

Case-in-Point: Overview of CEVA Logistics’ Liaison Program

Situation:
CEVA Logistics launched its liaison program in 2008 to strengthen its corporate culture while minimizing additional resource investment.

Key Liaison Program Attributes:
- **Phased Rollout:** CEVA Logistics piloted its liaison program in South America. After a few years of success with its first Compliance Leaders, CEVA expanded the program into other regions.
- **Right-Sized Structure:** To maximize coverage, CEVA Logistics assigns one Compliance Leader to each country of operation. The company provides additional liaisons to certain countries based on complexity of operations and risk profile.
- **Competency-Based Selection:** Compliance leaders are nominated by regional managers and selected based on key competencies. Leaders come from a variety of functional backgrounds (Operations, HR, Legal).
- **Support Tools:** New leaders receive one-on-one onboarding with the Compliance office, and monthly calls for ongoing support.
- **Rewards/Recognition:** Performance reviews include a compliance and ethics component. ‘Compliance-in-Action’ is an initiative to recognize ethical behavior and reward leaders.

Source: CEVA Logistics; CEB analysis.
EMBED MONITORING IN FUNCTIONAL RISK CENTERS

<table>
<thead>
<tr>
<th>Functional Partner</th>
<th>Compliance Risk Indicator Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
<td>Third-Party Database</td>
</tr>
<tr>
<td></td>
<td>Sub-contractor due diligence</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Information Security Incident Database</td>
</tr>
<tr>
<td></td>
<td>Data privacy breaches</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Human Resources Information System (HRIS)</td>
</tr>
<tr>
<td></td>
<td>Employee “career moments” (e.g., layoffs, role changes, relocations)</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>CRM Database</td>
</tr>
<tr>
<td></td>
<td>Customer complaints</td>
</tr>
<tr>
<td>Finance</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td></td>
<td>Transfer Payments</td>
</tr>
<tr>
<td></td>
<td>Travel and Entertainment Expenses</td>
</tr>
</tbody>
</table>

Implementation Guidance for Functionally-Integrated Monitoring

- **Prove Business Value**
  - Build buy-in for consistent collaboration by outlining the benefits of closer integration (e.g., business efficiency, heightened corporate assurance, lower cost of compliance).
- **Extract Value from Existing Capabilities**
  - Use risk information already tracked in functional systems to streamline monitoring efforts and reduce the burden of Compliance-led monitoring.
- **Synthesize Risk Intelligence**
  - Leverage functional partners' knowledge and experience of how noncompliance manifests to enhance practical understanding of compliance risk and local control environment.

Source: CEB analysis.