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‘Inside the Mind of the CCO’

on the 2022-23 compliance landscape

An e-Book publication sponsored by Avetta

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INSIDE THE MIND of the CCO

Twenty years removed from the passage of the Sarbanes-Oxley Act, compliance has established itself as a key component of the global business landscape. And yet, 2022 brought new priorities to the fore for many in the profession. CCO certification requirements from the U.S. Department of Justice, preparation efforts in anticipation of a potential recession, reckoning with enhanced attention toward climate-related data reporting—practitioners responding to our fourth annual "Inside the Mind of the CCO" survey were asked their thoughts on each of these controversial topics. The online poll garnered responses from 254 individuals, including 62 chief compliance officers, 21 chief ethics and compliance officers, 36 compliance directors/VPs, and more than 50 junior-level practitioners. According to the results, compliance officers are torn regarding concerns of increased liability in the profession, and though many are seeing their budgets take a hit amid poor economic forecasts, few believe their jobs are in jeopardy—a testament to how far the department has come over the last two decades. In the following section, you'll find useful charts and graphics; perspectives shared by prominent CCOs regarding priorities, problems, and areas of concern; year-over-year benchmarking figures, including compensation profiles; and more.

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According to our survey, today's CCO/CECO is:

Female 51%

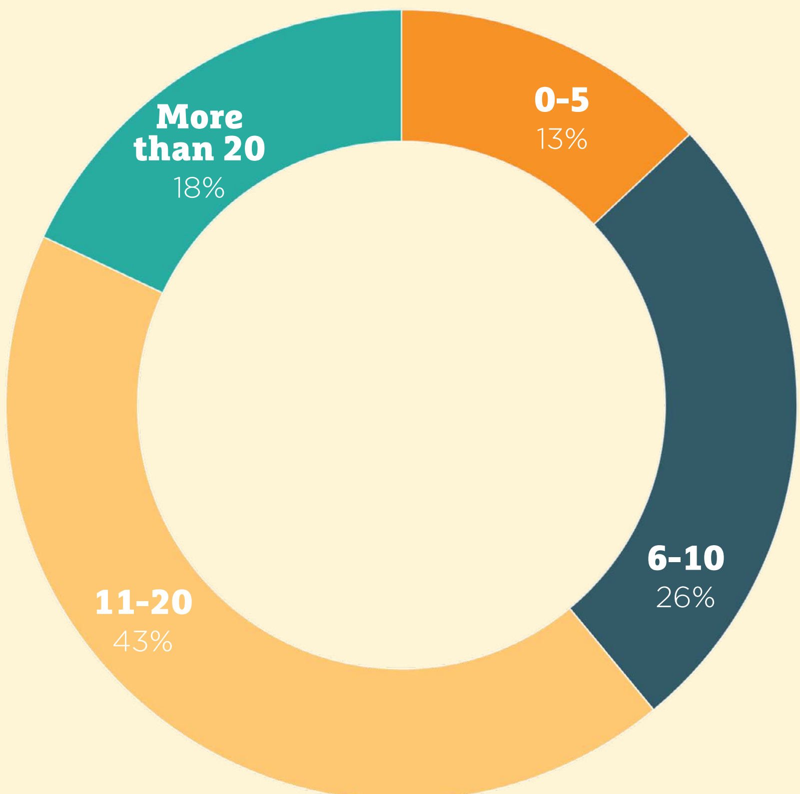
45-49 years old

$335K average salary

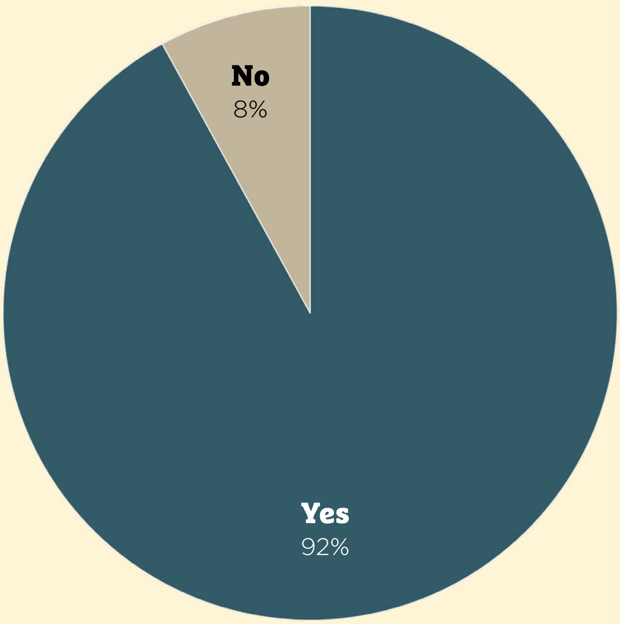
Background on today's compliance practitioner:

Top 7 Industries	
Healthcare	17%
Financial services – Banking	13%
Financial services – Securities	11%
Technology	9%
Manufacturing	8%
Consultancy	3%
Financial services – Insurance	3%

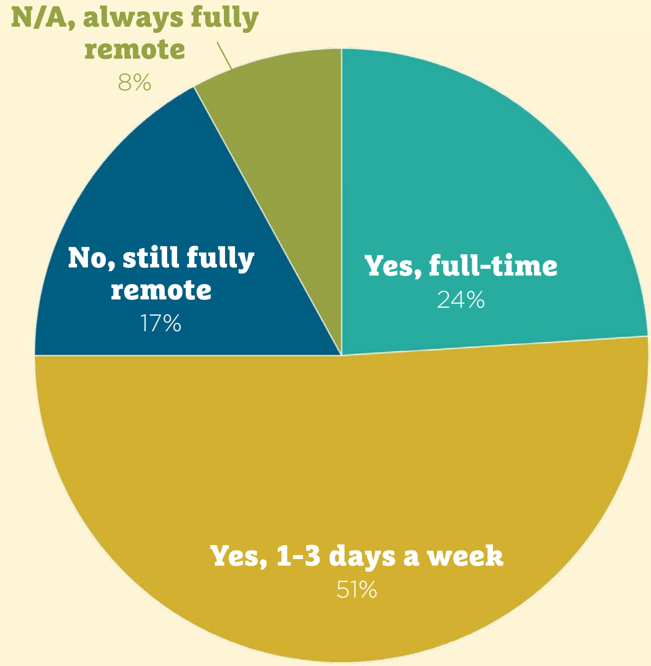
How many years have you worked in compliance?



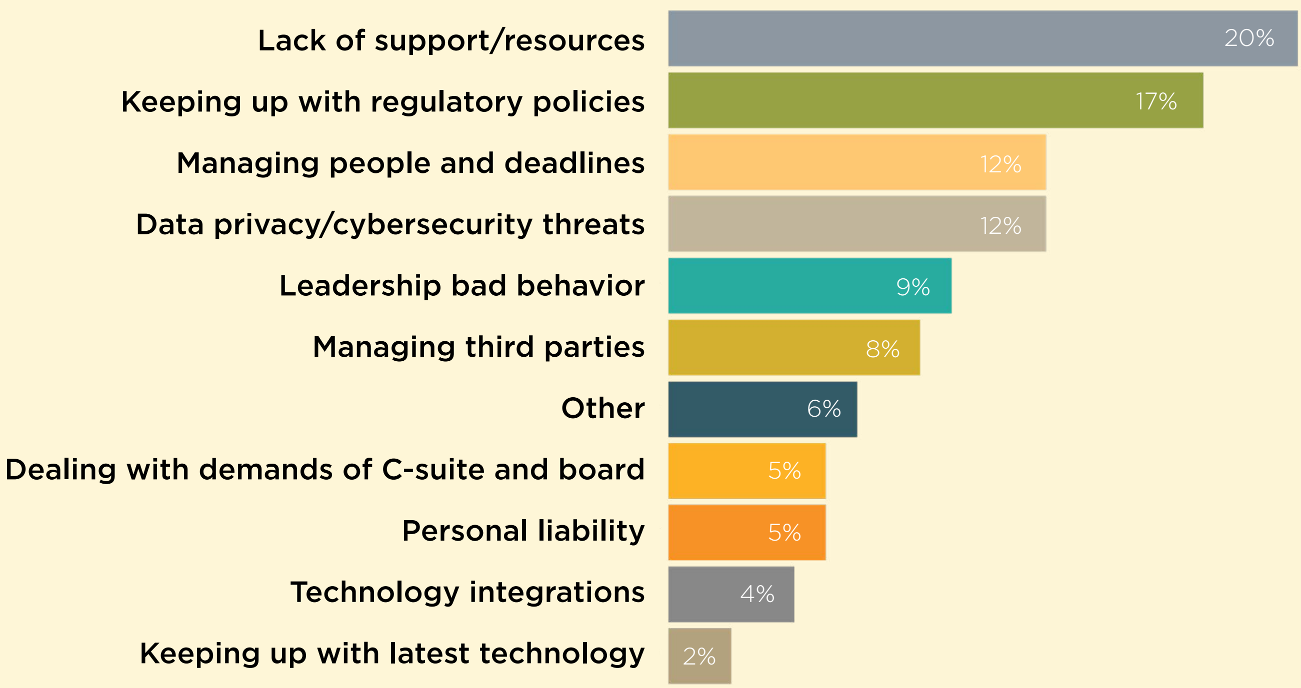
All things considered, do you like your job?



Are you back in your company's physical office space?



Which part of your job keeps you up at night?



Pressure on business or individual? CCOs torn on DOJ certifications

The Department of Justice's new CCO certification requirement drew mixed reviews from survey respondents, with many questioning whether the policy might backfire on the compliance profession.

BY AARON NICODEMUS, COMPLIANCE WEEK

The liability of chief compliance officers is top of mind with U.S. compliance professionals, thanks in part to the action (and inaction) of the Department of Justice (DOJ) and Securities and Exchange Commission (SEC).

Compliance professionals responding to our "Inside the Mind of the CCO" survey were asked their opinion regarding the DOJ's new requirement CCOs certify, along with the chief executive officer, a company's compliance program is reasonably designed and implemented to help detect and prevent violations of the law at the end of the term of an agreement with the agency. Respondents were also asked to weigh in on the SEC's unwillingness to implement a CCO liability framework.

Of the compliance professionals who answered the survey question, 59 percent said the DOJ's new CCO certification requirement is a positive development for the profession. The remainder said it was not.

"I'm a little surprised at how many people said no," said Justin Ross, CCO at FedEx, when asked for his reaction. "I think the DOJ's new certification requirements are a positive development. The CEO must sign the document as well, which forges a partnership between the CEO and CCO."

In early 2022, DOJ officials including Kenneth Polite Jr., head of the agency's Criminal Division and a former CCO himself, first announced the CCO certification requirement. The certification would be signed at the conclusion of any regulatory agreement, in many cases a deferred prosecution agreement (DPA).

In May, a CEO/CCO certification was part of Glencore International's plea agreement with the DOJ settling violations of the Foreign Corrupt Practices Act (FCPA). In September, after Brazilian airline Gol agreed to settle FCPA violations, Polite said the DOJ would require Gol's CCO to sign a certification at the end of the company's DPA.

Ross noted by the time a CEO and CCO certify at the end of a corporate resolution a penalized company's programs are reasonably designed, the document is mostly a formality.

"The process is designed to identify and work through the issues so the CEO and CCO have confidence in signing off for a corporate resolution," he said.

Survey respondents who thought the certification was a positive development said it might elevate the profile of compliance within an organization, in terms of funding and respect.

"At smaller companies, [the certification] will help to raise the criticality and resourcing of compliance programs, the emphasis on the core functions being resourced, and reinforce the 'seat at the table' at larger companies where the compliance voice needs to be heard at scale with others," said a director of compliance from the insurance industry.

The certification "puts increasing pressure on senior leadership and the board to recognize the importance of the CCO position and place it at the right level of management," said a CCO from the healthcare industry.

Another respondent, a chief ethics and compliance officer (CECO) in the agriculture space, said, "[T]he positive development here is that compliance is being elevated in importance on par with financial statement accuracy/certification."

"I think the DOJ's new certification requirements are a positive development. The CEO must sign the document as well, which forges a partnership between the CEO and CCO."

Justin Ross, Chief Compliance Officer, FedEx

Other respondents in favor of the certification had suggestions for improving the policy.

"It raises the profile and importance of compliance—we can't just be ignored—(but) it would be better if it was mandated as part of annual reporting rather than just in response to an investigation," said a senior compliance officer from the communications industry.

"[T]he DOJ should determine whether the CCO truly has the power to develop the appropriate compliance program to mitigate risks before punishing the CCO if there are failures," said a government compliance officer.

Respondents who said the certification was a negative for compliance believe it is another example of "government overreach"; something that might set "unreasonable costs, standards, and liabilities"; and "a waste of time."

"Just puts more pressure on a job with too much pressure already," said a CCO from the healthcare space.

"As a CCO currently managing under a DPA, I already submit reports and present to the DOJ on the state of our compliance program and any disclosures that we are obligated to inform of," one respondent from pharmaceuticals said. "Those statements are already required to be complete, accurate, and truthful. … Therefore, in my opinion, the certification requirement is meant to simply act as a scare tactic."

Funding and compliance's status within a company were listed as problems not solved by the policy.

"I think they should have made it a CEO certification," said a banking CCO. "By creating it a CCO certification, in organizations where there are issues, you will find that good compliance people will not want to be CCOs."

"The rules get more and more stringent, yet there is no additional funding for technology or staffing provided to organizations like mine," said a CCO from a nonprofit.

"Extra requirements and extra personal responsibilities make for a frightening situation in unpredictable times," said a compliance manager from the manufacturing industry.

"We do not have control but all risk will be on us," feared an electronics senior compliance officer.

Multiple compliance officers representing healthcare organizations said they are already required to certify their programs as part of their contracts. Other respondents said they would have preferred a third answer option, something like yes and no.

"I'm of two minds. In one sense, more scrutiny and regulation will provide CCOs with the support they require from boards and CEOs," said a general counsel from the banking space. "On the other side of the coin, it puts even more pressure and personal liability on CCOs when they personally have little power/control in their organizations over resource allocation and policy drivers."

Asked whether the SEC should publish a CCO liability framework, 74 percent of respondents said yes.

"Compliance officers like certainty," said Ross, who agreed the SEC should provide a liability framework. "We like guidelines; we like regulators telling us what they'd like us to do. Give us a standard, and we will act accordingly."

The New York City Bar Association in 2021 proposed a CCO liability framework for the SEC, which homed in on charging decisions made for actions that do not result from fraud or obstruction on the part of the CCO. Another proposed framework from the National Society of Compliance Professionals urged regulators to consider CCO liability more holistically, in the context of the compliance culture within a CCO's firm.

Despite support for a CCO liability framework from individual commissioners, the SEC has not accepted either proposed framework or issued its own, frustrating the compliance community.

Survey respondents said a liability framework would help CCOs understand where the red lines are.

"CCO(s) should know to what extent they would be personally liable in case breach is discovered post-certification," said a CECO from the construction space. "Personal liability should define the extent of both civil and criminal liability."

"The SEC should establish its requirements so individuals know what is expected of them, instead of the SEC ruling through enforcement actions after the fact," said a CCO working in securities.

Guidelines are always helpful, others said.

"Frameworks for various industries provide blueprints for what 'minimum compliance' looks like that helps to set the bar for organizational investment and program requirement validation," said a director of compliance in insurance. ■

Do you view the DOJ's new CCO certification requirements as a positive development for compliance?

Yes 59% | 41% **No**

Reasoning from survey respondents to answer **Yes**:

"As Ken Polite said, if you want a seat at the table, you have to pay the price of admission. This is a way of forcing that conversation—to get said seat."— CECO, Retail industry

"Certification requirements create a standard, which will lead to improved compliance." — Director of Compliance, Manufacturing

"[T]his could further emphasize the importance of good compliance for the organization and elevate the CCO's role." — CECO, Consulting

Reasoning from survey respondents to answer **No**:

"While I appreciate the DOJ's attempt to force compliance to have a seat at the table … [the C-suite] won't see it this way until the organization gets into trouble." — VP of Compliance, Insurance

"Of particular concern is the statement that the 'compliance program is reasonably designed to detect and prevent violations.' While that is always our intent, humans are creative creatures. I fear that the expectation is a program, rather than being 'reasonably designed,' is 'perfectly designed' to thwart all violations, which isn't possible." — CCO, Healthcare

"CCOs and chief risk officers are many times not independent, and while our roles are focused on meeting business initiatives within risk appetite, too often leaders fold to revenue pressures." — GRC Practitioner, Banking

Reasoning from **conflicted** respondents:

"[T]he absence of a clear definition of 'reasonably designed' is worrisome. Just because the DOJ says they don't 'intend' to play 'gotcha' doesn't mean that they won't go after CCOs and CEOs after the certification has been filed." — CCO, Healthcare

"The spirit of the new requirements is a positive development—companies should be responsible for policies that reasonably prevent corruption—but my concern would be the potential individual liability for CCOs, especially those at large, multinational corporations." — CCO, Securities

Compliance budgets, staffing brace for impact of recession prep efforts

Survey respondents whose businesses are anticipating an economic recession note smaller budgets and the delay of new initiatives among efforts already undertaken to cut costs.

BY ADRIANNE APPEL, COMPLIANCE WEEK

Nearly two-thirds of compliance professionals said their businesses are bracing for an economic recession and the financial turmoil it could bring, according to our "Inside the Mind of the CCO" survey.

About 64 percent of respondents said their companies were anticipating a recession and already implementing cost-cutting measures. One chief compliance officer from the healthcare industry said their organization was "actively looking for cost reductions," while a compliance manager in technology said their business was undertaking a "review of all current processes."

"(We) must show a 'Wall Street' ability to sustain profitability during a recession," commented an information security officer from a consultancy.

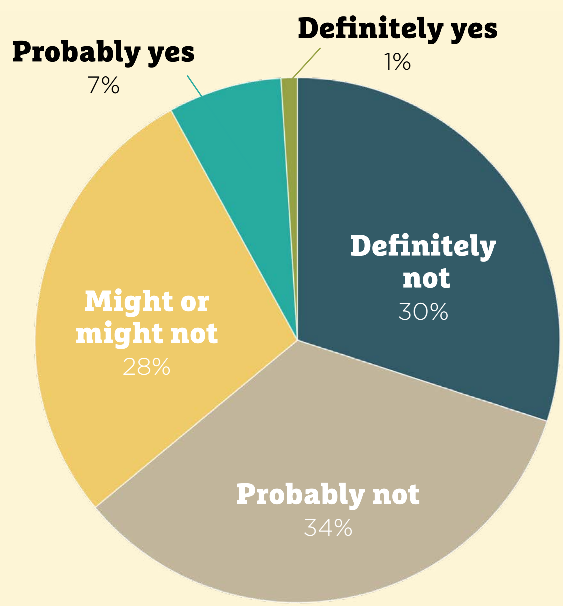
About 64 percent of survey respondents said they felt their jobs were safe from being in jeopardy, should there be a recession. Multiple comments cited regulatory requirements for businesses to employ compliance personnel.

"For now, compliance is insulated from broader recession-related cuts," said a chief ethics and compliance officer from the pharmaceuticals space.

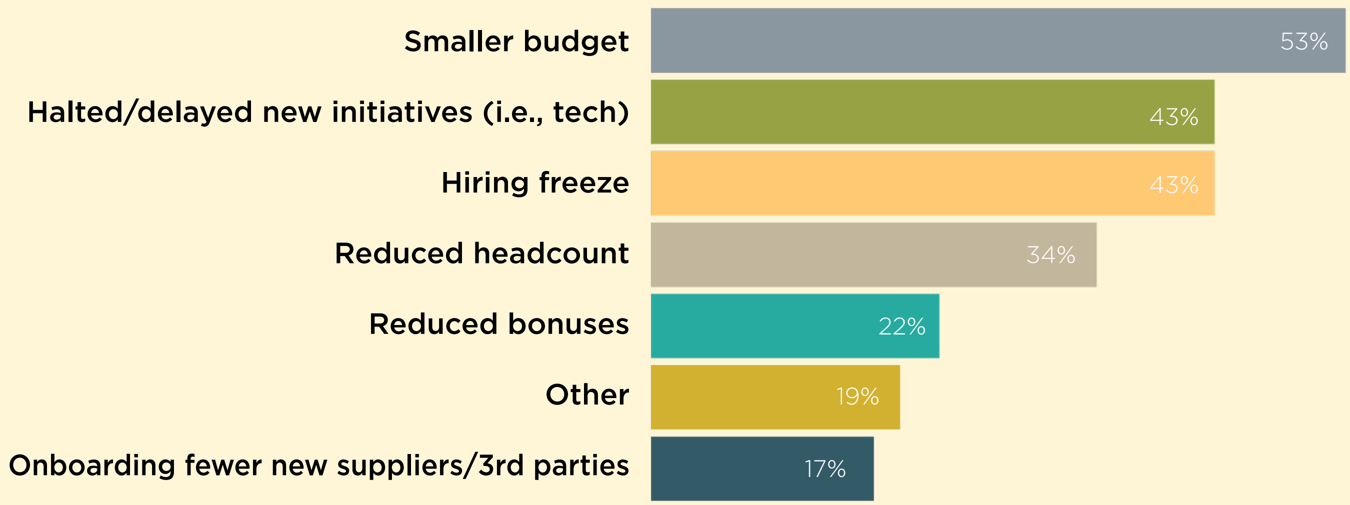
"No one else in the company has the knowledge and the skill set I do, and nobody likes doing what I do," remarked a director of compliance from manufacturing.

Asked what efforts are underway in their compliance departments to prepare for a potential recession, 34 percent of respondents said their organizations have already or plan to reduce headcount.

Do you believe your job could be in jeopardy, should your country enter a recession?



What have recession preparation efforts included for your compliance program? Choose all that apply.



"(The) likelihood that I will be (laid off) is minimal, but one of my peers will be impacted," noted a vice president of compliance from insurance.

Eric Young, senior managing director at Guidepost Solutions and adjunct professor of ethics and compliance at Fordham University School of Law, said in his more than 40 years of experience, compliance departments are vulnerable to job cuts during a recession.

"When there is intense pressure by analysts and shareholders for firms to produce and maximize profits and share price in recessionary times, expenses, including headcount, and other costs are aggressively cut to the bone," Young said. "Firms, including banks, continue to view second-line-of-defense compliance functions as 'overhead expenses,' rather than proactive, long-term, and necessary 'investments.'"

Regarding cuts to compliance, 43 percent of survey respondents said their businesses have implemented hiring freezes and/or that new initiatives, like implementing technology, have been halted.

One healthcare director of compliance remarked their organization is engaging in cost reductions, "starting with technology. We are striving to avoid layoffs."

About 22 percent of respondents were expecting reduced bonuses.

More than half (53 percent) of respondents said they are already working with smaller compliance budgets, which might affect travel and training.

One chief risk officer said their technology firm was "reducing low-margin customers (and) business components," meaning "we stop doing certain things."

About 17 percent of respondents said their organizations have cut back on onboarding third parties and suppliers.

"My core role and function would be secure. Some of my vendor support would be where the cuts would occur," shared a director of compliance from the insurance industry.

Compliance professionals anticipated disruptions at their organizations should a recession emerge, most notably among supply chains and third parties (41 percent) when asked to select up to two from a provided list of answers. Other popular options included setbacks regarding corporate culture (30 percent), operations (28 percent), and combating fraud (27 percent).

Cutting compliance staff and budgets "means placing blinders on the corporate and board oversight of conduct and compliance," Young said, adding there's correlation between recession cutbacks and an increase in "unethical behavior, misconduct, accounting improprieties and fraud, and legal and regulatory violations."

Other anticipated disruptions included to global business (26 percent), sustainability efforts (20 percent), and cybersecurity controls (14 percent). ■

CCO/CECO salary data: Five noteworthy trends

Chief compliance officers are earning more than before compared to previous years of our annual salary benchmarking survey, though trends like differences in gender pay persist.

BY KYLE BRASSEUR, COMPLIANCE WEEK

Chief compliance officers and chief ethics and compliance officers have come out the other end of the Covid-19 pandemic being more compensated for their work than before, according to the latest edition of our "Inside the Mind of the CCO" survey.

The online poll received 254 total responses from compliance practitioners across the spectrum of their careers. For the purposes of analyzing salary data, only CCOs and CECOs were filtered in, a group representing 33 percent of the survey's total respondents.

This year, chief compliance practitioners averaged a $335,000 yearly salary—the highest total in our survey's history. The average last year was $321,000. This year's responses saw our "Seasoned CCOs" contingent more educated and experienced than last year, a potential contributing factor to the pay increase.

Variations in data aside, it is also fair to say the landscape for high-quality compliance chiefs in 2022 was more competitive than before. The pandemic has further proved the value of the position, and the so-called "Great Resignation" of the last two years has caused businesses to reconsider how they compensate and retain their top employees. This trend likely proved a boon for CCOs and CECOs whose stock might have never been higher than after their work navigating Covid-19.

Despite economic uncertainty on the way in the form of a potential recession, no CCOs or CECOs that took our survey felt their jobs would "definitely" be in jeopardy.

"[I]t's unlikely anyone would want the optics of letting go of their CCO," said one CECO from the technology industry whose answer summed up the general attitude among respondents.

Here are five other data trends to emerge from our survey:

1 Gender pay gap closes—yet persists

For the third straight year, female CCOs/CECOs were paid less than their male counterparts, according to our survey. Women in the position earned $304,000 on average, compared to $368,000 for men. The difference was more stark last year: $272,000 for women compared to $382,000 for men.

While one might think the closing gap represents progress, our historical survey data says otherwise. In our 2020 poll, female CCOs/CECOs earned $303,000 on average, compared to $365,000 for men. This year's numbers are strikingly similar, indicating the profession has actually made little way in equitably recognizing the work of each gender.

Research from compensation software and data firm PayScale released in early 2022 mirrors this notion, as year-over-year improvement in closing the gender pay gap each year since 2015 largely stagnated from 2019-21. The firm's report cited the economic turmoil of the pandemic and its disproportionate impact on women of color as contributing to the lack of further progress.

2 Securities leads the way

More than 41 percent of the overall respondents to our survey represented the healthcare (17 percent), banking (13 percent), and securities (11 percent) industries. Among CCOs/CECOs, securities was the most popular sector (18 percent), followed by healthcare (14 percent) and banking (11 percent).

The seniority of our respondents in the securities space was reflected in average salary totals, as compliance chiefs in the industry earned $381,000 on average. By comparison, banking CCOs/CECOs earned $308,000 on average, while healthcare came in at $283,000 on average.

3 Experience sweet spot?

It stands to reason the more experience in compliance one has, the more they are worth. Not according to our survey, though.

CCOs/CECOs to indicate more than 20 years in a compliance role earned $344,000 on average, compared to a $370,000 average for those with 11-20 years of experience.

The average age of CCOs/CECOs to respond to our survey dropped from last year, more closely aligning with the 45-49 age range than any of the ranges 50-plus. A continuing trend in this direction could suggest a change in the makeup typically associated with the compliance chief role.

CCOs/CECOs: Female vs. Male

	Females	Males
	51%*	46%*
Average compensation	$304,000	$368,000
Years of experience	~20	~20
Average age	~ 55	~ 50
Highest education level	**JD** 33% **Master's** 21% **Bachelor's** 19% **MBA** 7% **High school** 12% **PhD** 7%	**JD** 37% **Master's** 26% **Bachelor's** 24% **MBA** 11% **High school** 0% **PhD** 3%

*3% of CCO/CECO respondents chose not to provide their gender

> The pandemic has further proved the value of the [compliance] position, and the so-called "Great Resignation" of the last two years has caused businesses to reconsider how they compensate and retain their top employees. This trend likely proved a boon for CCOs and CECOs whose stock might have never been higher than after their work navigating Covid-19.

4 Impact of education

Consistent with previous years, the more educated the CCO/CECO, the greater their compensation.

Those with JDs earned $464,000 on average, compared to $278,000 for respondents with their Master's degree and $243,000 for those with Bachelor's degrees.

Respondents with JDs were more likely to work for large companies with more than 10,000 employees and average between 11-20 years of compliance experience.

An interesting statistic occurred among our "Compliance Newbies" profile, which featured all respondents to the survey with less than five years of compliance experience. Of this cohort, the amount with JDs (24 percent) was nearly equal to the amount whose highest education level stopped at high school or getting their GED (21 percent). The data suggests a lower barrier of entry for the compliance profession than in previous years.

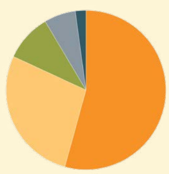
5 Large company vs. small

Among CCO/CECO respondents, an equal total—40 percent—worked for companies with less than 1,000 employees vs. companies with more than 10,000 workers, creating a perfect opportunity to compare compensation differences based on business size.

Unsurprisingly, CCOs/CECOs at businesses with more than 10,000 employees earned significantly more—$420,000—than the $280,000 average for those at companies with less than 1,000 workers. It pays to oversee more people. ■

Practitioner Profiles

Seasoned CCOs	Aspiring CCOs	Compliance newbies
✓ Job title: CCO/CECO ✓ Work at companies with more than 1,000 employees ✓ 10+ years compliance experience	✓ Job titles: VP, deputy CCO, Sr. Compliance Officer, Dir. of Compliance ✓ Work at companies with more than 1,000 employees ✓ 10+ years compliance experience	✓ Five years or less experience in compliance
57% female **43% male**	**70 % female** **25% male** **5% no answer**	**45% female** **52% male** **3% no answer**
Average compensation		
$389,000	**$208,000**	**$190,000**
Average age		
~ 55	**~ 50**	**~ 40**
Highest education level		
JD 51% **Master's** 26% **Bachelor's** 9% **MBA** 6% **High school** 6%	**JD** 35% **Master's** 10% **Bachelor's** 30% **MBA** 15% **High school** 10%	**JD** 24% **Master's** 18% **Bachelor's** 27% **MBA** 6% **High School** 21%



Salary: Age, Title & Industry

Age	% of respondents	Average comp	Most common job titles	Most common industry
<34	8%	$148K	Compliance Manager, Compliance Officer	Healthcare, Banking
35-39	8%	$179K	CECO, Director of Compliance	Healthcare, Manufacturing
40-44	12%	$159K	CCO, Compliance Manager	Healthcare, Banking
45-49	22%	$291K	CCO, Director of Compliance	Healthcare, Securities
50-54	19%	$268K	CCO, CECO	Technology, Banking
55-59	19%	$312K	CCO, Compliance Officer	Healthcare, Securities
>60	12%	$233K	CCO, Compliance Officer	Healthcare, Securities

Avetta

Compliance Risk

A Significant Impediment to Modern Supply Chains

In October 2021, Seagate, the American data storage giant, faced accusations of violating government sanctions by shipping hard drives to Chinese telecom corporation, Huawei.[1] In August 2020, the US Department of Commerce imposed restrictions on Huawei for privacy concerns associated with its devices combined with links to the Chinese government. While the accusations against Seagate are subject to investigation findings, this incident sheds light on a more far-reaching aspect of supply chains—compliance risk.

Supply chains are a hotbed for compliance risks, especially considering the complex nature of modern supplier networks. In the last decade alone, supply chains have been at the center of numerous disruptions across industries such as pharmaceutical, consumer packaged goods (CPG), electronics, agriculture, and automotive, among others.

The Nuances of Supply Chain Compliance Risks

When it comes to identifying the different forms of compliance risks, organizations often share a common set of threats, each with its own subset of risks.

These include:

Corruption and fraud

On June 3rd, 2021, US President Joe Biden issued a memorandum that made the fight against corruption a core issue of national security.[2] In July, Germany enacted a similar law titled the German Supply Chain Due Diligence Law (also called the Supply Chain Act). This law emphasizes the protection of human rights. It goes into effect on January 1st, 2023.[3]

Over the last decade, there has been a steady increase in global and regional regulatory activity supporting the fight against corruption.

However, supply chains continue to be a major area of concern for illicit activities like bribery, money laundering, and the violation of human rights. According to the Global Fraud and Risk Report by Kroll, 57% of organizations with a turnover of more than USD $15 billion consider corruption and illicit activities to have a very significant impact on business.[4]

Environmental, social, and governance (ESG) compliance

As a growing consideration in corporate, political, and economic agendas, ESG's role in the modern-day supply chain cannot be overstated. And it's still growing in importance. Collective pressure from investors and regulatory bodies to implement sustainable supply chain practices has made it necessary for organizations to demonstrate compliance with a wide range of regulatory requirements (such as the Modern Slavery Act).

However, integrating supply chain management practices with ESG goals continues to be an obstacle for a significant percentage of organizations. A recent survey by Avetta revealed that while 77% of organizations have an ESG policy in place, only 39% have been able to extend the ESG scope to their supply chain and contractors.

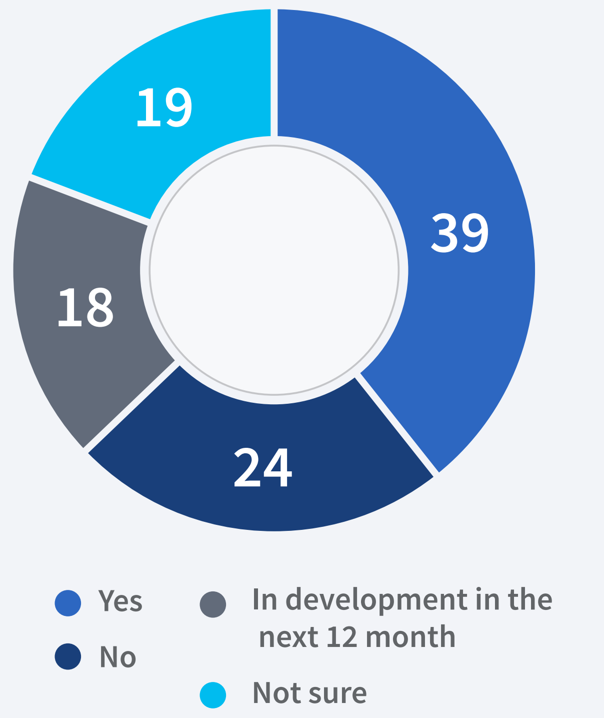


Figure 1: ESG scope extended to supply chain and contractors[5]

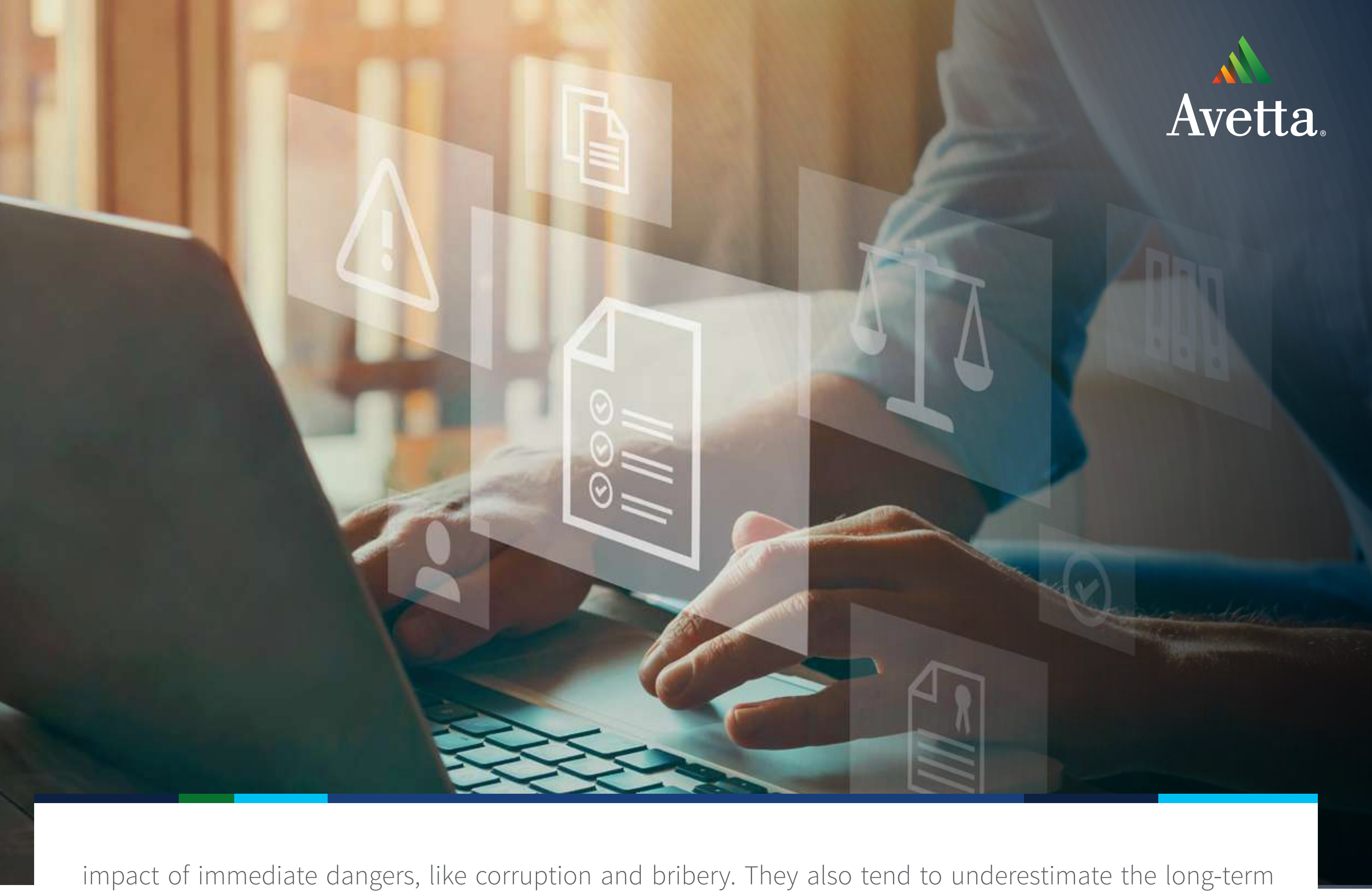
Most organizations are not prepared to realize the role of ESG in their supply chains.

Supplier compliance

The globalization of supply chains, while allowing organizations to build resilience, has added several layers of complexity to supplier relationships and risks. Modern-day supply chains are subject to frequent regulatory shifts and rising penalties for non-compliance. Amidst such a volatile landscape, managing supplier compliance has become a necessity.

But with more than 50% of organizations lacking complete visibility into their supply chains, managing supplier compliance often proves to be a difficult task.[6] Also, the sheer size of most modern supplier networks makes monitoring them a challenge.

The restricted visibility into supply chains is often a key obstacle in ensuring optimal supply chain risk management (SCRM). One of the reasons for this is because organizations must deal with a siloed structure while managing compliance risks at a high frequency. As a result, compliance teams tend to overestimate the



impact of immediate dangers, like corruption and bribery. They also tend to underestimate the long-term impacts, like the reputational damage caused by a supplier's non-compliance.

Finally, with the pandemic disrupting supply chains across the world and intensifying international trade tensions, organizations often find it difficult to navigate the dynamic regulatory landscape. A recent example is the introduction of rules that prevent US vendors from exporting goods and technologies to military end users in certain markets (China, Russia, and Venezuela).[7]

Source of non-compliance costs:

- Business Disruption
- Fines, Penalties, and Other Fees
- Revenue Loss
- Productivity Loss
- Reputation Damage

Compliance Challenges in Modern Supply Chains

In today's global, macroeconomic market, supply chain compliance is a broad term that could represent organizational obedience to any number of guidelines pertaining to each risk type. Navigating such a diverse landscape of regulations and guidelines requires organizations to develop and nurture a collaborative environment that involves suppliers, distributors, brokers, and other third parties and intermediaries.

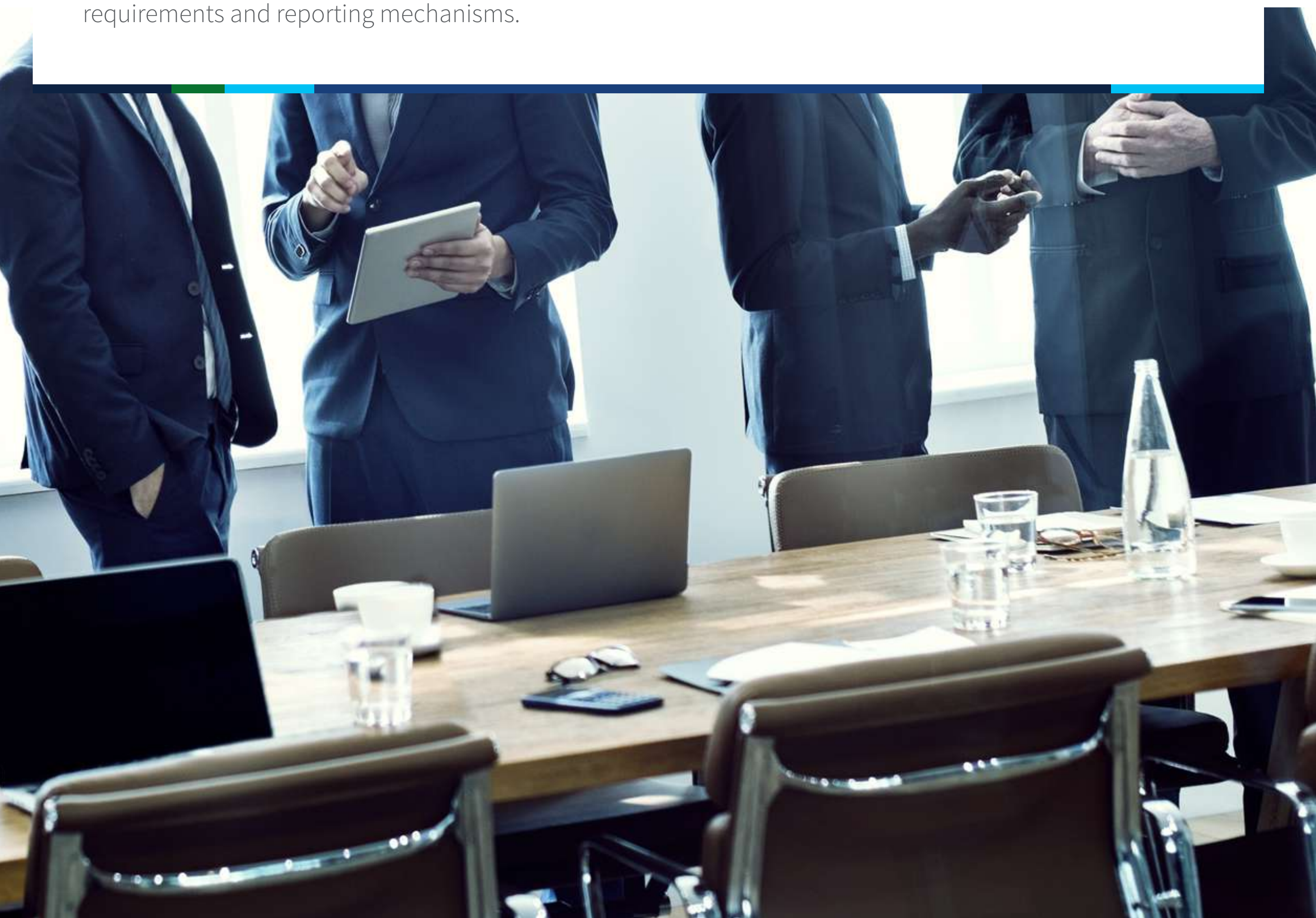
However, the current complexities of modern supplier networks threaten to disrupt the supply chain continuum. The lack of visibility into tier-2+ suppliers, internal and external data dependencies, complex interpretation of requirements, and emerging unforeseen supply chain risks are some of the factors that further contribute to this challenging environment.

Organizations face financial repercussions of non-compliance, amounting to an average of USD $14.8 million.[8]

Complex regulatory requirements

Even as organizations continue their struggle to see off some of the lasting effects of the pandemic and the changing market conditions, regulatory bodies have been actively implementing a variety of guidelines. Take the instance of the International Maritime Organization's (IMO) regulation or IMO 2020. The guideline, which came into effect on January 1st, 2020, focuses on reducing sulfur oxide emissions for ocean-going vessels.[9] Anticipating non-compliance, the IMO has offered additional authority to Port States to tighten the enforcement of the regulation.

Another major reason behind most organizations' less-than-ideal efforts to keep up with regulatory requirements is the lack of regulatory expertise. This is especially true for more tightly regulated industries such as pharmaceuticals, chemicals, and oil and gas. Throughout the supply chain landscape, organizations must adhere to commercial (e.g.: anti-bribery and corruption) and industry-specific guidelines (e.g.: good manufacturing practices). This often makes it difficult for businesses to track and manage the different requirements and reporting mechanisms.



Lack of visibility

Lack of supply chain visibility is one of the greatest obstacles to supply chain compliance. A recent study on UK businesses' risk exposure revealed that 84% of responding businesses cited the expanding supplier network as their key challenge in managing supply chain risks.[10] This is especially true when we consider the nature of today's supply chains where a single disruption could potentially lead to a domino effect.

Trade uncertainties

Over the past five years, global supply chains have felt the effects of several geopolitical shifts. The China-US trade war, Brexit, and the US-Mexico-Canada Agreement[11] have all led to varying degrees of trade uncertainties and supply chain disruptions. In light of these events, comprehensive trade compliance data has been increasingly important for organizations to manage their complex global supply chains.

Some trade compliance factors to keep in mind:

- Commodity Classifications
- Country-of-origin Laws and Regulations
- Free Trade Agreements (Ftas)
- Duty Schedules
- Inspection Regimes

Supplier actions

A culmination of all the above factors, supplier compliance sits at the top of the priority list for organizations looking to eliminate long-term supply chain risks. As the governance, risk, and compliance situation continues to evolve, the challenges with tracking and managing supplier compliance and codes of conduct seem to be on an upward course. According to a recent compliance survey report, 48% of organizations consider tracking third-party compliance to be the primary area of concern.[12] Interestingly, the same report also revealed manual compliance assessment processes to be the next most cited challenge at 44%.[13]

Outdated vendor compliance risk assessment processes are a common contributor to the lack of supply chain visibility aggravated through tools that are no longer effective to create and manage vendor relationships. While offering some degree of user-friendliness, spreadsheet tools fail to offer real-time compliance threat checking— a necessity to manage risks in supply chains today.

The technology and processes gap also leads to inconsistencies in operations that hurt businesses.

Likewise, disorganized, or fragmented vendor monitoring processes are another source of supplier compliance risk management challenges. This has been especially true in the wake of the pandemic where the scarcity of resources led many organizations to resort to decentralized vendor monitoring systems. These systems are not only harmful to managing compliance but can also prove to be time- and cost-intensive and difficult to scale.

Mitigating Supply Chain Compliance Risk

For a supply chain compliance risk management framework to be successful, it must possess a few key characteristics. Irrespective of the size of the organization or the nature of the market it caters to, a well-designed supply chain compliance framework should enable a thorough method to discover, prepare, analyze, and respond to present and emerging risks and needs.

Key aspects of compliance management include improved visibility, collaboration, and control of supply chain compliance efforts.

While each supply chain has needs that are unique to itself, there are some common factors that bespoke compliance frameworks need to consider. Working from the ground up, organizations can begin by using technology to establish a centralized framework.

A system employing industry best practices would include the following:

Supplier risk assessment

A Supplier Risk Assessment (SRA) is the foundation for a successful compliance management system. A properly designed compliance risk assessment system must integrate organizations' own risk mitigation policies that are based on operational and business models, procurement models, and the global extent of their supply chain networks. The SRA system must also tie back to industry-specific standards as well as relevant local and international regulations and guidelines.

Supplier (pre) qualification process

To reduce compliance risks at the procurement stage, a reliable vendor prequalification process can help organizations ensure they work with qualified and socially responsible suppliers. Through new-age automation technology, organizations can seamlessly collect and verify supplier documentation. This could range all the way from certifications to insurance documentation, ensuring a 360-degree view of the supply chain's overall compliance status. A proper prequalification process should also allow for modifying the compliance parameters to cater to an organization or project's requirements.

Supplier compliance audits

When it comes to conducting supplier compliance audits, organizations that rely on extended global supply chains can benefit from a centralized compliance tracking system. With modern digital tools at their disposal, organizations can audit supplier compliance statuses alongside monitoring and managing their quality, cost, security, and performance parameters. Furthermore, the audit system can be tailored to accommodate relevant regulatory aspects and enhance the compliance management system.

Other areas that can help mitigate supply chain compliance risks:

- Governance and Leadership
- Training and Communications
- Testing and Continuous Monitoring

Continue reading to learn how Avetta is the most comprehensive, compliance tracking system that helps organizations around the world manage compliance risk with ease.

Avetta mitigates compliance risk

Avetta One, a multi-risk platform, helps organizations use a wide network of 1.5 million active, qualified suppliers and manage compliance risks with ease. The digital, centralized platform allows organizations to gather safety, sustainability, financial, insurance, and other business-critical information in real-time. This all integrates with the organization's internal performance parameters and is reported over a detailed dashboard. Avetta provides organizations with greater visibility by displaying your supplier's compliance levels.

Learn more by visiting:
www.avetta.com/supplier-compliance

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About Avetta

The Avetta SaaS platform helps clients manage supply chain risk, and their suppliers, to become more qualified for jobs. For the hiring clients in our network, we offer the world's largest supply chain risk management network to manage supplier safety, sustainability, worker competency and performance. We perform contractor prequalification and worker competency management across major industries, all over the globe, including construction, energy, facilities, high tech, manufacturing, mining, and telecom.

For suppliers in our network, our audit and verification services help lower their safety incidents rate by 29%. As a result, about 50% of members find additional job opportunities within the first year of joining. In addition, our suppliers receive privileged access to the Avetta Marketplace, where dozens of partners offer special discounts for business services like insurance and work gear. Avetta serves more than 375 enterprise companies and over 130,000 suppliers across 130+ countries.

Data gathering, management buy-in among SEC climate rule pain points

Survey respondents that have begun complying with the Securities and Exchange Commission's climate-related disclosure rule share the biggest hurdles they've faced.

BY AARON NICODEMUS, COMPLIANCE WEEK

The Securities and Exchange Commission (SEC) has not yet approved its climate-related disclosure rule, despite indications the vote would occur fall 2022. Implementation of the rule, parts of which are expected to apply fiscal year 2023 for large accelerated filers, might be delayed by litigation.

The proposed rule is a sweeping potential mandate that would force all public companies to quantify, measure, and disclose their effect on the environment. It would order public companies to include disclosures about how climate-related risks affect their strategy, business model, and outlook; how the company's board and management oversee climate-related issues; and any plans for transition to a lower carbon footprint.

Respondents to our "Inside the Mind of the CCO" survey said they were experiencing numerous "pain points" to complying with the rule, ranging from a lack of resources, difficulties with finding and collecting required data, and obstacles created by senior managers or other departments.

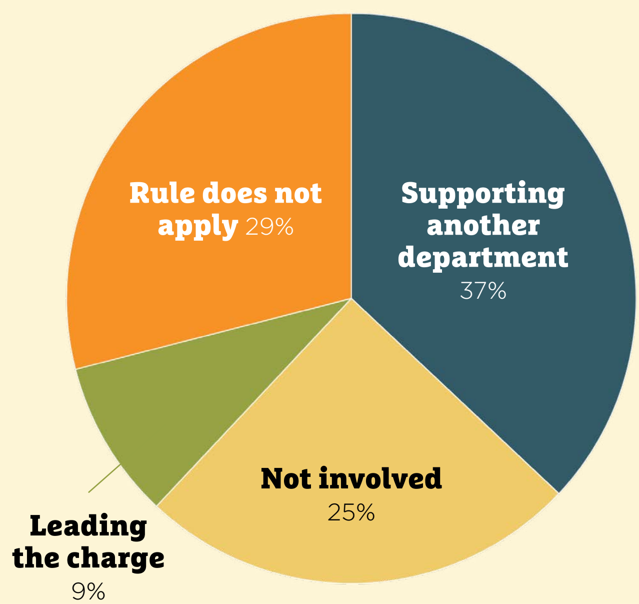
Some respondents even indicated issues understanding the rule as proposed.

"They (the SEC) were clueless before the proposed rule, they will continue to be clueless," said a respondent from the banking industry.

Gathering the data necessary to comply with the rule was a frequently mentioned pain point. A chief ethics and compliance officer in manufacturing reported their employer was "reviewing/revising existing sustainability data-gathering efforts to be aligned with the new disclosure requirements."

Heather Childress, senior vice president, deputy general counsel at contract manufacturer Flex, told Compliance Week

What is your compliance department's role in preparing for the proposed rule?



she was not surprised to hear about many of the pain points described by respondents to the survey.

"Certainly, compliance with the SEC's rules will require significant resources, including personnel time and costs associated with meeting the SEC's external auditing requirements," she said. "This is a very dynamic area with added complexity because other global climate-related requirements will vary from the SEC's final rules."

In comments to the SEC, companies and industry advocates criticized the rule's standard of materiality as too broad. Those criticisms were mirrored in responses to the survey as well.

Difficulty getting buy-in from other departments was a common complaint.

"[Senior management] doesn't support the effort and views it, along with compliance in general, as optional," said a director of compliance from the securities space.

"Compliance has not been involved or consulted," another director of compliance, from manufacturing, said.

"(It's a) time suck," said a securities chief compliance officer, reflecting the common struggles companies face regarding staffing, expertise, and funding.

Measuring Scope 3 emissions—emissions of a firm's supply chain and vendors—was mentioned multiple times as a stumbling block to compliance with the rule.

For Flex, the availability of Scope 3 data will be a "major hurdle," Childress said.

"As a result, we believe disclosure of Scope 3 data should be voluntary or, alternatively, there should be stronger safe harbors and longer implementation dates for companies to furnish Scope 3 data," she said.

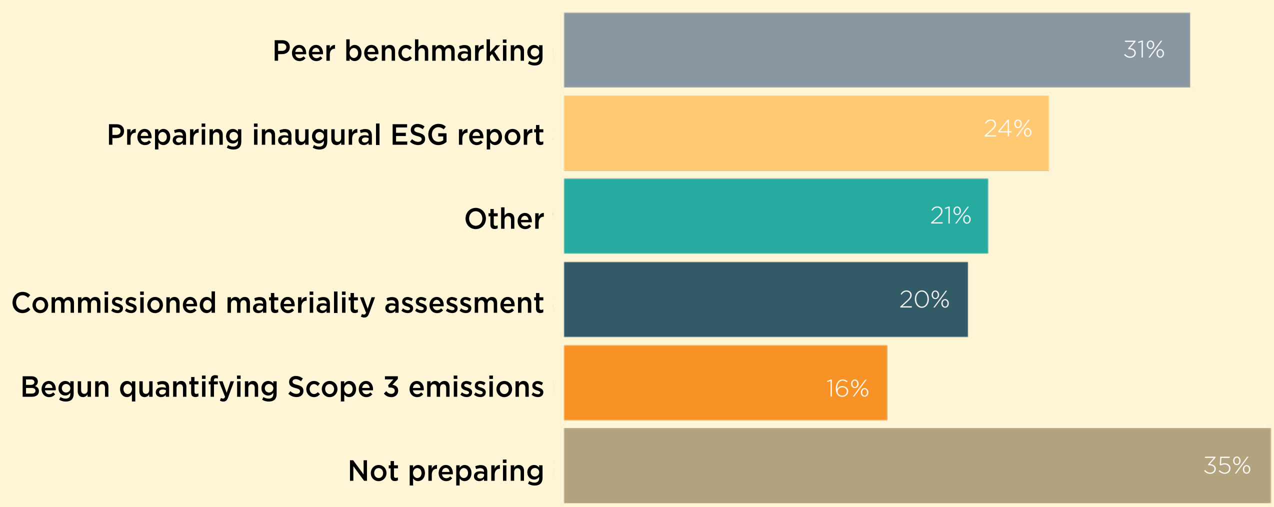
Asked to indicate all the ways their firm has begun preparing to comply with the proposed rule, respondents most stated they were benchmarking against industry peers (31 percent). Second was preparing an inaugural environmental, social, and governance (ESG) report (24 percent), followed by commissioning a materiality assessment (20 percent) and quantifying Scope 3 emissions (16 percent)

The survey asked how involved compliance was in the process of meeting the requirements of the rule. Over a third (37 percent) of respondents said compliance was supporting another department. One in four (25 percent) said compliance was not involved, while only 9 percent said it was leading the charge. The remainder (29 percent) said the rule did not apply to their firm.

Of survey respondents not preparing to comply with the rule (at least 35 percent), reasons were varied. Many answers came from individuals at nonprofit organizations, private companies, or businesses based outside the United States. Other respondents said their firm outsourced compliance with the rule, or that preparations were being handled elsewhere within the company. ■

How has your firm begun preparing to comply with the SEC's proposed climate-related disclosure rule?

Choose all that apply.



Does ESG offer opportunity? Or is it just another area for compliance friction?

Compliance practitioners share their experiences navigating responsibilities related to environmental, social, and governance without stepping on the toes of other colleagues.

BY AMII BARNARD-BAHN, COMPLIANCE WEEK COLUMNIST

Most of us would agree compliance and ethics has such an overwhelmingly large scope—to prevent, detect, and deter all illegal and unethical organizational conduct—that expansion of the role is, well, risky. However, there are many proponents of adding environmental, social, and governance (ESG) to compliance's duties.

ESG is a hot topic. It has rapidly expanded from solely a concern of publicly traded companies to a key global consideration.

Compliance Week's "Inside the Mind of the CCO" survey asked participants whether their organizations would fund and resource a new function or expect ESG to be picked up by existing roles in the company. A slight majority of respondents (52 percent) said their organizations did not already have or intend to hire a separate sustainability lead.

These results track with data from KPMG's 2022 Survey of Sustainability Reporting, which found 45 percent of the world's largest companies have ESG representation "at leadership level."

Of those hiring a dedicated sustainability function, CW survey respondents were overwhelmingly optimistic (90 percent) there would not be friction between the new hire and compliance. Some take a different view.

"Given the newness and speed with which ESG as its own subject has taken off, and the lack of clarity on what the future will bring, this leads to uncertainty, friction, and even outright disagreement about what to do and how to do it," said Jay Cohen, senior advisor at Compliance Systems Legal Group.

What issues could arise? Survey respondents that felt there could be friction expressed the following concerns:

- ESG is like compliance and ethics in nature and role clarity will be important to avoid inefficiencies.
- ESG is used by many companies as a marketing tool, which can create friction as marketing or investor relations departments are often inclined to emphasize the positive and minimize or omit the negative.
- Resource allocation may become an issue, likely putting the compliance function in competition for limited headcount/budget.
- A new ESG function would add work to other group functions.

Many companies are in the early stages of establishing their ESG program. About 24 percent of respondents said their organizations were preparing their inaugural ESG report when asked steps they were taking to comply with the Securities and Exchange Commission's proposed climate-related disclosure rule. Compliance is leading those efforts in a minority of cases (8 percent), instead more frequently supporting another department (37 percent).

Gwen Hassan, interim compliance officer and former managing counsel of global compliance and ethics at CNH Industrial, said at CNH sustainability was a separate department that reported to a cross-functional committee including all corporate functions (finance, human resources, risk, legal, compliance, manufacturing, etc.). She found this "a good place to start for a relatively immature program."

Advantages included the understanding sustainability was everyone's job. Challenges included not having an ultimate, accountable leader for escalation of issues and getting necessary funding.

ESG is also in the developmental stages at Calumet Specialty Products Partners. Dave Bolton, director of internal audit (CAE) and corporate compliance officer at the firm, shared the marketing department currently issues the company's annual sustainability report.

One key issue: The report is used as a company marketing tool, so it's initially biased toward putting on a positive slant. Bolton partners with marketing to ensure the report is accurate and supportable. For others in similar situations, he recommended compliance professionals "ensure marketing understands that any statements made need to be supported by underlying data and need controls in place to ensure that data is accurate, complete, controlled, and documented."

"Given the newness and speed with which ESG as its own subject has taken off, and the lack of clarity on what the future will bring, this leads to uncertainty, friction, and even outright disagreement about what to do and how to do it."

Jay Cohen, Senior Advisor, Compliance Systems Legal Group

Long term, Hassan suggested designating an executive with clearly defined responsibility for the program. She agreed with Mallory Thomas, a partner with Baker Tilly's risk advisory practice, who recommended a structure with a cross-functional team that has responsibility for the ESG activities/strategy execution, risk remediation, systems and associated data, and reporting. Thomas stressed the importance of using a collaborative approach and identifying areas of overlap to avoid duplication of effort.

Such an approach has been taken by Tenneco. Kim Yapchai, senior vice president, chief ESG officer at the automotive components manufacturer, reports directly to the CEO. Tenneco also has a cross-functional ESG council and subcommittees.

"The program management and system is centralized so that we drive to a common goal and use a standard management system to measure and track progress," she said.

Each business group defines and budgets for its own projects. "Since ESG is so embedded in operations, we found it difficult to take a completely centralized approach," Yapchai added.

"The corporate ESG team partners with the business groups on everything from prioritizing projects to customer conversations," she said. There is no role friction since both compliance and ESG report to Yapchai, and other stakeholders (e.g., HR; environment, health, and safety; and the corporate secretary) contribute collaboratively to the report as well.

When considering organizational design, Thomas emphasized a key consideration regarding ESG structure is the enterprise strategy. What is its purpose? Regulatory and reporting requirements? Organizational size and impact?

"The importance of these will drive the structure and ownership within the organization," she said. As organizations build more robust ESG strategies, "A separate function will likely evolve but will still require working across the organization to be successful in executing ESG activities," she continued. While ESG leaders might drive the strategy and activities, compliance will be needed to assist with the identification of information, data, and reporting.

Bolton anticipates ESG becoming its own function because of a need for people trained in ESG and reporting/frameworks/standards. Citing multiple frameworks, including from the Sustainability Accounting Standards Board, Task Force on Climate-Related Financial Disclosures, and Global Reporting Initiative, he emphasized, "This is specialized and needs to be handled by experts."

Hassan envisions a possible future with a corporate integrity department, "under which we would find ethics, compliance, and ESG functions all housed."

For Yapchai, ESG at Tenneco is its own function and separate cost center and will always have a connection to compliance.

"Companies can vary significantly in their structures and how they operate," she said. "Each company should examine this and find what works best for them."

Nakis Urfi, product compliance officer and ESG lead at Babylon Health, agreed.

"I just came from a healthcare conference where a large hospital system mentioned they have 19 different departments on their ESG committee," he said. With that many potential stakeholders, one thing is apparent: ESG might or might not grow to be a separate function but accountability for leading the program must be clear. ■

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