In this transformative age, is trust the most valued currency?

Why implementing an integrity agenda has become critical to business success.

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#IntegrityAgenda

The better the question. The better the answer.
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Building a better
working world

Introduction

EY views the presence of integrity as the foundation for trust. Given this, integrity is by now a widely recognized attribute of a successful, sustainable company and the foundation for embedding trust, among employees, customers and other stakeholders. Exemplary governance and ethics, from whistle-blower support to transparent reporting on nonfinancial metrics (such as environmental and social impact), along with cultural diversity, a purpose-driven mission and pay equity can all lead to better commercial results.[1] With global economic losses from fraud estimated at US$4t, the potential investment gains that could be achieved by eradicating fraud and corruption are sizable.[2]

But companies often find a gap between the principles of integrity and their real-world performance, with respected brands finding themselves exposed to major scandals involving fraud, bribery and corruption, money laundering, sanction breaches and anti-trust issues. Regulators around the world are setting ever-higher standards of integrity management oversight, while compliance and ethics professionals pursue continuous program improvements. For example, in April 2019, the U.S. Department of Justice published an updated guidance on factors prosecutors should consider when deciding whether to bring charges or pursue settlements with companies that have violated criminal laws. They entail detailed information on whether the company's compliance program was well-designed and the effectiveness of its implementation.[3] This means companies are now being asked to go beyond a culture of compliance and toward a fundamental culture of integrity.

To reduce the frequency of breaches and help defend their policies when they do occur (as it is better to eliminate these breaches or prevent from them happening in the future), forward-looking companies want to be able to effectively spot gaps between their ideals and practices, and understand how problems emerge. This white paper, based on interviews with EY Forensic & Integrity Services professionals, examines how companies can embed integrity through a four-part approach known as the "Integrity Agenda" and explores how this approach can provide a valuable bridge from current realities to achieving leading practices.

1. "Integrity and the future of compliance: Key findings for the board from EY's 15th Global Fraud Survey," EY Center for Board Matters, ey.com/Publication/vwLUAssets/ey-cbm-integrity-and-the-future-of-compliance/$FILE/ey-cbm-integrity-and-the-future-of-compliance.pdf, 2018.
2. "Report to the Nations on Occupational Fraud and Abuse," Association of Certified Fraud Examiners, 2017.
3. "Evaluation of corporate compliance programs," U.S. Department of Justice, justice.gov/criminal-fraud/page/file/937501/download, April 2019.

Chapter 1

The case for integrity

Forward-looking companies operate with integrity, not just to avoid fines or penalties, but to maintain their good reputation and successful growth. The link between integrity and successful business performance is supported by research by The Ethisphere Institute, which found that *the World's Most Ethical Companies* outperformed the US large cap sector by 14.4% over a five-year period[4]. *The EY 15th Global Fraud Survey*[5] found that customer and public perception, business performance and talent – both recruitment and retention – were all higher-ranked benefits of integrity, and not merely means for avoiding regulators' scrutiny. Companies today are increasingly viewed as social actors impacted by, and potentially influencing, social norms and wider issues – from immigration policy and climate change to lesbian, gay, bisexual and transgender (LGBT) rights. We are, the business media proclaims, in the era of "CEO activism," with chief executives taking public stances on wider social and political issues. Moreover, companies' innovative ventures into domains, such as artificial intelligence (AI) and big data, are setting off debates about digital ethics and technological social responsibility.

The importance of integrity will only grow as a corporate priority in the future. Investors want companies to articulate their longer-term vision and purpose, such as reporting on how the business aligns with climate goals. Studies[6] show that younger workers put more priority on social purpose and positive impact in their career decisions than their elders did. Purpose- and value-driven organizations will fare better in the war for talent.

Social media and digital platforms add a new level of information that can affect perceptions—and reputational risk. Customers also have greater insight into the conduct and management of brands in today's media-saturated age. Ted Acosta, EY Regional Managing Partner, Latam South (formerly Americas Vice Chair, Risk Management) says "Employees can blog or post about what their company does or does not do. A lot of this material is read by other people (including prosecutors, investigators and journalists). You should be mindful there is an additional level of information about you out there now."

4. "2019 world's most ethical companies", Ethisphere website, "http://www.worldsmost" www.worldsmostethicalcompanies.com
5. "15th Global Fraud Survey: Emerging Markets Perspective," Integrity in the spotlight: The future of compliance, fraudsurveys.ey.com/ey-global-fraud-survey-2018.
6. For example, Amy Glass, "Understanding generational differences for competitive success," Industrial and Commercial Training, 39:2 (2007), 98103, emeraldinsight.com/doi/abs/10.1108/00197850710732424; Teresa McGlone, Judith Winters Spain and Vernon McGlone, "Corporate social responsibility and the millennials," Journal of Education for Business, 86:4 (2011), 195200, tandfonline.com/doi/abs/10.1080/08832323.2010.502912.

But while the business case for integrity is well established, there is an inherent challenge in moving hundreds, thousands (or even hundreds of thousands) of employees, agents, and suppliers from principles and ideals to practice. The media is continually covering new scandals, ethical lapses and compliance failures – from trader misconduct to money laundering, and large-scale bribery and corruption. Long and complex supply chains, from fashion and food to smartphones, can increase the risk of a firm's entanglement with modern slavery, child labor, environmentally harmful production methods or worker exploitation.

Bad practices are not confined to marginal firms in unregulated environments. Infamously, some of the biggest brands in the world have involved in these practices. Worse still, unethical practices can exist for weeks, months or years before being discovered, and leave a "breadcrumb trail", suggesting wider awareness and acceptance of their existence in the company.

Acosta continues, "Your company's performance on culture, ethics and compliance matters not just for external constituents, such as journalists, prosecutors or politicians, but it also affects how your own people think of the company". Companies may explain away instances of misconduct as the result of a rogue staff member acting in a consciously unethical way. But if companies take integrity seriously, they might also find broader patterns of unethical or illegal behavior, and gaps in governance, controls and information. These gaps include business units with corrupt business cultures into which senior management has an inadequate line of sight; compensation systems that coerce employees into making unethical decisions; fear of speaking up; controls that do not extend to agents, representatives and suppliers that create legal and ethical risks. "Risk can never be entirely eliminated, but it can be reduced if a company measures its progress and tracks how risk dynamics change over time," says Jon Feig, Partner, Ernst & Young LLP United States, Forensic & Integrity Services. "This entails asking far-reaching questions: are investments that companies are making – such as those for "tone at the top" training, controls, reporting systems and cultural reforms – protecting the organization and its employees from legal and ethical risks? Are those investments strengthening the organization's ability to build stakeholder trust, innovate and expand into new markets?"

"Risk can never be entirely eliminated, but it can be reduced if a company measures its progress and tracks how risk dynamics change over time.

Jon Feig
Partner
Ernst & Young LLP United States
Forensic & Integrity Services

Chapter 2

The Integrity Agenda

To support companies trying to narrow the gap between ideals and practices, EY has developed the Integrity Agenda, a four-part framework that can help companies operationalize and embed integrity across the organization, when put into action together. The four elements are: governance, culture, controls and procedures, and data-based insights. The goal is to help companies find ways to support employees in demonstrating the values of integrity in their daily life - strengthening the organization's resilience against a wide variety of risks from fraud and corruption to money laundering, trade sanction violations and cartel activities. Chapter 2 examines each of these in turn, elaborated through case studies and examples. Each theme concludes with a set of questions a company needs to ask itself to help ensure its integrity system is sound today and is subjected to ongoing, measurable evaluation tomorrow.

Governance

Governance refers to the structure of integrity, ethics and compliance management encompassing board, line management and corporate functions, and the policies that guide organizational behavior. Its importance can scarcely be exaggerated. The actions and words of management shape the company and direct the actions of its staff. Weak governance may allow situations where certain employees enjoy immunity from stringent policies which are normally enforced because they are high-performers in the business, well connected or part of the senior management team. Organizations demonstrating a culture of integrity apply the same rules equally to all employees irrespective of their position or success, and this is known as organizational justice.

Management can also be an indirect culprit; by issuing excessive incentives for sales targets or unrealistically high margins, the management serve to promote fraud or increase risk through encouraging the manipulation of figures or the engagement of lower-quality contractors or suppliers.

The Integrity Agenda entails multiple actions across the "three lines of defense" model — management, risk owner or compliance officer and internal audit. This model helps define roles and responsibilities. First, front-line operating management, for instance, should own and manage risk and control. For example, is a business unit that is responsible for sales adhering to policies and procedures? How can a company know that sales executives are not engaging in informal, unethical practices, such as excessive entertainment? Secondly, the management tier can be assigned responsibility for risk, control and compliance functions. And thirdly, internal audit can provide independent assurance to board and senior management on the effectiveness of risk management and control protocols.[7]

In today's business landscape, in which corporate structures and global influence are broad in reach and complex in structure, good governance also requires having a line of sight into small, outlier business units and newly acquired companies that can create disproportionate risk. One example of risk might be buying a company and leaving management or commercial personnel in positions that could compromise the new owner's ethical policies.

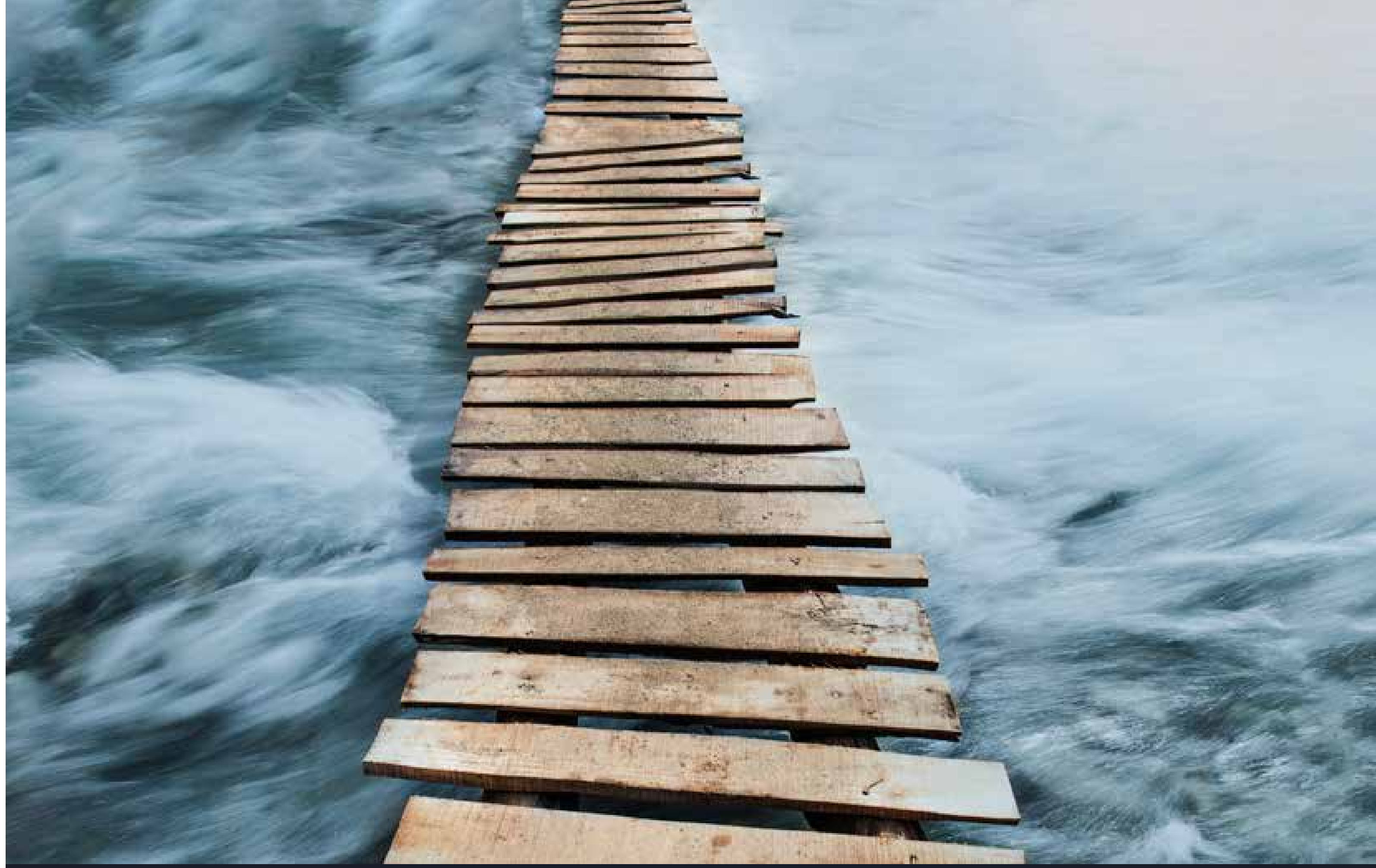
When the new owners announce their protocols, from not giving gifts to bookkeeping norms, they must ensure these are adhered to and not merely advised. More subtle challenges can also occur as companies move across cultural and political borders. Acquiring a firm in China, for instance, means governance norms over issues, such as state relationships and competition law cannot be assumed to be the same.

Good governance also stretches out into the extended enterprise, including contractors, suppliers and representatives; compliance and ethics professionals, and regulators know that these "third parties" create significant risks.

To ensure governance systems support rather than undermine integrity, companies need to integrate integrity management into the executive tier, for example, the board, and the overall risk management and financial governance processes. This means achieving a high level of board effectiveness, with checks and balances on the executive — covering everything from conflicts of interest to personal professional conduct. This also means to achieve the ability to spot ethical or legal risks inherent to the business model, for example, compensation systems that drive bad behavior or encourage unethical practices.

To understand how current governance norms or structures might be influencing the organization's ethical performance, Maryam Hussain, Partner, Ernst & Young, United Kingdom, Forensic & Integrity Services encourages corporate management to step back and ask certain questions. "First, ask yourselves what action(s) would be counter to how you see yourself as an organization? Second, where are people's incentives aligned such that they encourage behavior as a counter to this principle? And if that happens, what would the signs look like in the data internal or external to the organization?" Companies also need to ask whether integrity risk exposure is changing in light of new products, markets or acquisitions, and whether managers are accountable for ensuring effective operational controls.

7. The Institute of Internal Auditors, "Leveraging COSO Across the Three Lines of Defense," 2005, coso.org/Documents/COSO-2015-3LOD.pdf



Key organizational questions

- Is our integrity risk exposure changing with new products, markets, acquisitions and ventures?
- What are the latest enforcement trends in the countries and industries where we operate?
- Have we identified and prioritized our integrity risks?
- What is our risk tolerance?
- What are our emerging risks? What can disrupt our control environment?
- Does our integrity governance model match our risk exposure, including decentralized operations, joint ventures, acquisitions and third parties? Have we allocated sufficient resources in the right places for our diversified, decentralized and digitizing company? Are there adequate checks and balances, including skilled and independent compliance, audit and legal resources?
- How can we differentiate ethics, integrity and compliance? And if so, how is this operationalized and represented through functions?
- Are managers at all levels accountable for ensuring effective operation of compliance controls?
- How would prosecutors and regulators view our integrity program?

Metrics

- Integrity risk assessment — inherent risks and controls maturity, risks within tolerance, risk increases and reductions, and risks within and outside tolerance
- Inherent and residual risk increases and reductions; program improvement plans implemented; new ones launched
- Annual program assessment versus strategic plan and government guidelines; adequacy of budget
- Adequacy of leadership's "line of sight" into all operations, ventures, third-party and customer relationships all over the world
- Governance maturity — personnel and committees in place for the entity, business units and functions; levels of activity (meetings and improvement plans)
- Performance evaluations for integrity personnel
- Benchmark data — comparison to peer companies' programs and leading practices

Culture

A corporation's culture is the second pillar of the Integrity Agenda approach. While it is hard to pin down to a specific trait or attribute, there is no doubt that ethical breaches result from the way a company's internally "lived values" have shaped decisions and how people's actions are influenced by what they see around them. The culture of a successful enterprise fosters behaviors that spur growth and innovation, as well as behaviors to manage strategic, operational and financial risk. But it is a cultural commitment to integrity that will more likely secure an enterprise's long-term success.

White-collar crime research by Professor Eugene Soltes of Harvard Business School shows how fraud can start with small acts that then escalate.[8] One example is the backdating of contracts to the date of initial agreement, rather than signature, to meet quarterly financial objectives. Professor Soltes finds that people responsible for massive corporate frauds often do not recognize the harm that they do to investors or the public.[9]

An effective integrity program should, therefore, foster a culture of transparency and consultation where diverse teams consider whether their actions are in line with the organizational principles.

These findings should inspire an organization to approach culture from a fundamentally different way. It needs to understand the more widely accepted concept that our behavior is far less elaborate and rational than we have traditionally assumed, and place more focus on humanistic approaches, such as open dialogue, consultation and critical reflection. Our investigation experience has shown that flawed mental biases, fast and automatic thinking, and rationalization strategies make people engage in small acts of moral misconduct without recognizing them as such. The human brain can perpetuate a positive self-image in a person of being good and honest while actual behavior deviates from this, and this is the so-called self-concept maintenance.[10]

A group of psychologists articulates a "slippery slope" effect, in which small ethical infractions increase in increments, meaning unethical behavior unfolds over time rather than emerging suddenly or consciously.[11] We, at EY Forensic & Integrity Services practice, observe that such small unethical acts lead to bigger ones – "from small acorns do big oak trees grow."

Maryam Hussain says a range of environmental cues also influence actions. She explains that at one firm hit by a major fraud scandal, a share price ticker was displayed throughout the office premises, even in the restrooms. The intended effect of this act was to normalize and encourage all actions in support of its financial objectives, which over time led to fraudulent business practices.

"From social science, we know that behavior is a function of a person's interaction with their environment. It's not about you and me in isolation, but about you and me in a particular context," adds Katharina Weghmann, Partner, Ernst & Young - Germany, Forensic & Integrity Services.

In contrast, culture can also promote ethics and integrity. Katharina Weghmann believes that how a company responds to whistle-blowers, and whether it creates a "speak-up" and "active listening" culture, are vital indicators of how deeply embedded integrity truly is. Does the company perceive individuals who raise concerns as troublemakers or do organizations normalize the process of critical and upward feedback? Do employees know the organization encourages them to speak up and that it will protect them when they do so?

Whistle-blower support mechanisms are powerful in a world where not everything can be scripted and managed centrally. "We can train people in fraud and corruption, and inject the expectation of ethics, but ultimately, you want people to raise their hands if they see something that is not right," says Ted Acosta. "This could be to their supervisor or, if that is sensitive, through other mechanisms, such as apps or toll-free numbers. As Andrew Gordon, Global Leader, Ernst & Young LLP, Forensic & Integrity Services notes, "We want to create a culture where people do the right thing because it's the right thing to do, not because the code of conduct says you should."

Ted Acosta also emphasizes the importance of management's role in building a culture of integrity through consistent and personal communication. He says, "Starting with the CEO and their direct reports, communication should be cascaded and incorporated into dialogue that each manager has with their team. Let's say you have a subsidiary in Nigeria. Then, it's key that the Nigerian head, when he or she talks to people about the integrity policy, makes sure that they hear this message: whatever they do, should be done observing values, a code of conduct and a commitment to ethics. This ensures it sticks, because it is coming from the people who matter most – immediate supervisors. "The challenge with fostering a pro-ethics culture is that the culture itself is not a homogenous factor – there can be different cultures in each business unit and region. This shows the importance of implementing mechanisms through which a company can understand how culture dynamics are playing out throughout the network.

Andrew Reisman, Senior Manager, Ernst & Young LLP United States, Forensic & Integrity Services, describes a firm where managers from one business unit conducted anonymous and voluntary discussions with staff from another business unit to discuss the results of a recent employee ethics survey. This enabled a more open conversation, which revealed practices that caused some people to question the honesty of management. "This gives managers insights about how their team is feeling and where they need to help," says Reisman.

A company must also examine how it incentivizes and rewards employees, rather than assuming that technological improvements will simply catch more fraudulent activity. To build integrity from the top, companies also need hiring practices that attract the most ethical personalities to the C-suite. In reality, few have such controls in place beyond rudimentary due diligence. "They may exist in random ways, but they are not methodologically weaved into the organization through systems and processes," says Katharina Weghmann.

Key organizational questions

- Do we measure culture? And if so, how?
- Do our products or services pose inherent ethics risks, for example, safety, sustainability and privacy? Do we understand the impact of our integrity risks on our brand?
- Do our leaders "understand" and live integrity authentically? What are the management team's capabilities to identify and resolve ethical dilemmas?
- What are the issues rumbling beneath the surface? Do we have "unethical professionals" among our formal or informal leaders? Are there any unethical "blowbacks" from agents, customers or industry peers?
- Is there a culture of integrity? What do our people really think of management's integrity, and its ability to play by the rules and win?
- Are our education and communication programs effective in creating knowledge and influencing behavior?
- Are people confident they can speak up, that it will make a difference, and that there will be no retaliation?
- What has been the root cause of integrity failures in our company and in other companies?
- Do we have a "culture of compliance" of the type that regulators want to see, understanding why regulations exist, and the importance of embedding compliance within operational procedures?
- Are we creating trust and "safe environments" to address and discuss ethical dilemmas?
- Are our incentives, goal-setting and appraisal systems in line with our organization's core values and principles?

Metrics

- External stakeholder perceptions of ethics risks; regulatory, litigation and media trends relating to safety and sustainability
- Perceptions of tone at the top and the middle, performance evaluations against leadership criteria, and assessment of compensation plans on behaviors
- Tracking of ethics issues raised, resolved or ignored at various levels of the organization, monitoring of outcomes, consideration of circumstances and decisional methods (people involved, criteria used, time urgency and stakeholder communications)
- Actions taken regarding unethical professionals, third parties and customers that wrongly influence our culture
- Communications and training effectiveness – delivery, comprehension and impact; correlations with metrics of attitudes and incidents of noncompliance
- Ethics attitude data from surveys and other sources
- Root cause analysis and trends from cases, audits and helpline calls

8. Eugene Soltes, Why They Do It: Inside the Mind of the White-Collar Criminal (Public Affairs, 2016)
9. Eugene Soltes, Why They Do It: Inside the Mind of the White-Collar Criminal (Public Affairs, 2016)
10. Mazar, Nina, On Amir and Dan Ariely. "The dishonesty of honest people: A theory of self-concept maintenance." (Journal of marketing research 45.6 2008): 633-644.
11. Francesca Gino Lisa D. Ordóñez and David Welsh, "How unethical business becomes habit," (Harvard Business Review, September 2014)

Controls and procedures

Companies cannot rely only on culture and executive-level good governance. They also need, and can benefit from, controls and procedures which embed integrity into the daily operations of the company. Control systems can prevent or mitigate legal and ethical violations, and the criminal prosecutions, loss of market value and reputational harm they bring. Adopting the Integrity Agenda requires multiple linked interventions in this domain. One is the development of systems for tracking and implementing new industry regulations and embedding them in operating controls. Third-party due diligence and oversight systems are also key to ensure that a company can trust its supplier and partner ecosystem.

When appropriately designed, controls can provide more than just functional support for the business. They can help to integrate compliance into operations and discreetly guide users toward more effective risk management outcomes. "For instance, as procurement personnel consider the experience and pricing of suppliers or third-party intermediaries, the systems can also guide them to assess integrity risks, such as prior legal violations, lack of compliance policies, or inadequate documentation of company ownership," advises Andrew Reisman.

Technology can also help facilitate compliance alongside controls and procedures. It is possible to provide real-time guidance for staff. For example, robots can identify where an individual is entering a noncompliant expense into the system, and then provide a warning notification and a reference to the clause in the policy that the individual may be about to violate. This type of intervention can significantly impact the types of claims that get entered into the system.

Similarly, chatbots can now offer guidance to employees with the aim of making compliance as easy as possible for them. Todd Marlin, EY Global Forensic Technology & Innovation Leader recalls an example "We used a chatbot to make all of the organization's policies more accessible. So you could ask a question: 'I want to run an event, what are the limits for entertainment?' which the chatbot understands and can make sense of. It then searches hundreds of reference points to provide the answer, helping the staff member immediately understand their obligations without wasting time searching the policy portal for an answer."

Besides guiding behaviors and making them easier for people to understand, systems of control can also enforce compliance. For example, a control can deny permission to business users to proceed to a subsequent step in a process unless certain compliance reviews have been completed with appropriate evidence provided.

However, there is a fine balance between implementing checkpoints which ensure people follow procedures, and creating operational friction which can trigger significant frustration. A poorly designed control can often lead business users to bypass the system and rationalize themselves to think that this is acceptable.

It is also important to be cautious on how much reliance is placed on control frameworks. The objective of using controls alone to completely prevent unethical behavior is flawed because humans by their nature are are creative, and these controls can be tricked. Maryam Hussain recalls a control system that successfully reduced the use of expenses to pay bribes, but the funds were simply funnelled into bonus payments instead. Management had effectively created a system that continued to allow the bribes to be paid, but through a different channel. Today, significant emphasis is placed on control frameworks designed to prevent wrongdoing or breaches.

> "For instance, as procurement personnel consider the experience and pricing of suppliers or third-party intermediaries, the systems can also guide them to assess integrity risks, such as prior legal violations, lack of compliance policies, or inadequate documentation of company ownership.

Andrew Reisman
Senior Manager
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Key organizational questions

- Are our integrity policies supported by effective implementation procedures?
- Do our operational procedures, both manual and automated, incorporate compliance controls?
- Are we delivering compliance services to customers who depend on us – to know their customers, protect personal data or move goods across borders?
- Have we designed compliance controls so that they are user-friendly? Do employees understand the reason for their existence?
- Do we implement compliance processes with the same rigor as revenue-earning processes?
- Should we centralize compliance processes, for example, third-party diligence and monitoring?
- Do we detect potential problems before they fester? Do we escalate, investigate and remediate quickly and efficiently?
- Do we innovate and use technology effectively?

Metrics

- Presence and implementation of compliance controls in business processes
- Testing of controls, operation and effectiveness
- Ease of use within the business context – user perceptions, time and cost of usage
- Monitoring and auditing results, remediating schedules and effectiveness
- Incident response data – cases, causation, investigation and remediation schedules and effectiveness
- Technology investment and results

Data-based insights

The fourth pillar covers data, and how it can provide insights on emerging individual, cultural and organizational risks. The recent popular interest in data is justifiable. The advancements in computing power, and the significant expansion of information available to businesses today offer the opportunity to scrutinize corporate behaviors and actions in far greater detail than ever before.

Leading practices are currently characterized by a shift away from checklist-oriented compliance programs toward a deeper understanding of corporate risk and how it evolves over time. This can only be achieved where there is a strong visibility over transactional and operational activities. According to Emmanuel Vignal, Asia Pacific Leader, Ernst & Young (China), Forensic & Integrity Services, "Some of the stronger examples that we see include analysis around interactions and transactions with Government Officials, relationships with commercial partners, anomalies in behaviors amongst the workforce or commercial advantages provided to third party intermediaries other organisations where the business rationale is not immediately clear."

However, there are still only a minority of businesses taking full advantage of these opportunities. In one article for *Harvard Business Review*, for instance, the authors highlight that tracking and measurement often lag policies and protocols, undermining the latter's effectiveness[12]. They emphasize that despite spending millions of dollars a year on compliance and even more in highly regulated sectors, the "ubiquity of corporate misconduct" continues to surface in the media, almost continuously. They argue that this growing expense and the frustration it can create for many executives are not only tragic, but also avoidable. The answer lies in better measurement.

Companies often produce documents and paperwork about their compliance controls, but far fewer can identify how many policy violations they have experienced. Many organizations have installed whistle-blower programs; however, the leadership rarely reviews their use by employees, the quality of complaints and the evolving patterns. Significant investment is made into the development and execution of training programs, and high completion rates are used to evidence success. But very few organizations look at whether the training is tangibly influencing corporate behaviors, reducing policy breaches or strengthening integrity within the organization. Measuring and analyzing available information can offer robust evidence as to whether a compliance program is protecting the organization and therefore whether it is providing a suitable return on investment.

Many of our clients wish to understand how they can build a successful analytics program. Todd advises "In our experience, The strongest AI and analytics-driven compliance programs are built on a thorough understanding of three critical elements: the business context, the risks that arise out of the business activities and how these appear in the data."

It is equally important to ensure that hypotheses have been rigorously validated against real data, especially if they are based on anecdotal evidence. Maryam Hussain recalls one company that sought to explore the relationship between length of staff tenure and fraud. This was to test a hypothesis that staff who had worked at the firm for longer posed lower risk because they were embedded in, committed to and identified with the organization. Conversely, new hires were theorized to be of higher risk, warranting more intense scrutiny. After testing this hypothesis, the data showed length of tenure increased risk in a subset of people who had not progressed in their positions, says Hussain. That information is invaluable in building risk profiles and creating a defensible approach toward this type of analysis.

In terms of the techniques that can be adopted to explore the data and test hypotheses, there is a significant variety ranging from simple and rapidly deployable algorithms to highly complex and rigorously refined models. Some of the basic techniques include straightforward business analysis to cut the data in different ways or ordering data into sequential timelines, which highlight where, for example, a payment has been made to a third party prior to the completion of mandatory due diligence checks. More advanced practices might involve graph analysis to understand the connections between different individuals or undertaking pattern analysis to profile behaviors enabling outlier identification.

12. Hui Chen and Eugene Soltes, "Why Compliance Programs Fail – and How to Fix Them," Harvard Business Review, accessed 16 May 2019.

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The strongest AI and analytics-driven compliance programs are built on a thorough understanding of three critical elements: the business context, the risks that arise out of the business activities and how these appear in the data.

Todd Marlin
Global Forensic Technology & Innovation Leader
Ernst & Young LLP United States, Forensic & Integrity Services

Key organizational questions

- Does the program work to our satisfaction? What are the key performance indicators (KPIs) and key risk indicators (KRIs) we should use to define and measure effectiveness?
- What Integrity Agenda outcomes should we measure? Should it be the number of violations, discipline actions, audit deficiencies, business ventures enabled or ethics attitudes?
- How do we measure return on investment (ROI) and make wise resource allocations?
- Do we have adequate data from automated controls and compliance officers' observations to provide insights about risks, controls performance and program outcomes?
- Do we have adequate data analytics resources and toolsets? Do we know root causes for unethical behavior?

Metrics

- KPIs – risk-specific controls (for example, third-party diligence and audit – implementation, timeliness, quality of decision support) and compliance office processes (policy deployment, training, code certification, incident response and management reporting)
- KRIs – predictive analytics from risk-specific controls (for example, third-party diligence and audit findings), and changes in business operations and enforcement trends
- Governance operations – number and quality of business unit compliance and ethics committee meetings, and compliance staffing levels
- Compliance office operations metrics – policy deployment, calls and advice, communications, training and incident response
- Technology deployment quantity and quality of data it yields
- Use and quality of data analysis for decision support

To conclude: know your data and be prepared

The business case for ethics is beyond question and companies know the standards to which they are held are rising daily, as are the risks to which they are exposed. Yet, despite the millions of dollars spent on compliance programs, executives still report difficulty in bridging the gap between intentions and reality. This continues to be the case even as every new geography, product or industry creates yet new risks.

Integrity cannot be left to policy documents and checklist trainings. It must be embedded in the mindsets, and daily choices and decisions of all staff, including the network of partners and suppliers. The EY Integrity Agenda seeks to operationalize integrity with the help of four mutually supportive pillars (i.e., governance, culture, controls and data-based insights).

This provides a structure for integrity management, encompassing board, line management and corporate functions, and informs policies that guide organizational behavior. It fosters a shared culture in which integrity is supported and promoted. It manifests in smartly designed controls and procedures which embed integrity into operations, and deter and detect violations. And finally, it provides data-driven insights which can reveal risk flash points and monitor performance over time. Taken together, this multi-part approach can help companies close the gap between intentions and reality.

Let's talk

The EY Forensic & Integrity Services practice has a global reach. For help and more information, please contact one of our area leaders or visit:

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About EY Forensic & Integrity Services
Embedding integrity into an organization's strategic vision and day-to-day operations is critical when managing complex issues of fraud, regulatory compliance, investigations and business disputes. Our international team of more than 4,000 forensic and technology professionals helps leaders balance business objectives and risks, build data-centric ethics and compliance programs, and ultimately develop a culture of integrity. We consider your distinct circumstances and needs to assemble the right multidisciplinary and culturally aligned team for you and your legal advisors. We strive to bring you the benefits of our leading technology, deep subject-matter knowledge and broad global sector experience.

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