LRN Inspiring Principled Performance

Strong foundations: The importance of risk mitigation

10 Years of Benchmarking

2024

Ethics & Compliance Program Effectiveness Report

Inspiring Principled Performance is core to what we do at LRN. It embodies our commitment to helping people around the world do the right thing, and our understanding of what makes ethics and compliance (E&C) programs truly effective in that mission.

Welcome to our 2024 Ethics & Compliance Program Effectiveness Report. This report provides insight into the foundations of ethical culture in organizations worldwide.

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Introduction

LRN publishes its *Ethics & Compliance Program Effectiveness Report* annually. The report reflects the input of ethics and compliance professionals from around the world, filtered through insights we have gained from our research, as well as our work with thousands of companies and organizations worldwide.

The 2024 report is based on a survey of more than 1,400 ethics and compliance professionals at companies and organizations worldwide. Nearly all respondents came from organizations with at least 1,000 employees across the North America, Europe, and Asia-Pacific regions (see p. 71). Using methodology and insights we have developed over 30 years working in this space, we analyzed the data and information these practitioners provided to determine the critical differentiators that make some E&C programs more effective than others.

This year includes a significant milestone in LRN's research: 2024 marks the 10th annual publication of our *Ethics & Compliance Program Effectiveness Report*. Since 2014, our goal in publishing these reports is to identify what makes an ethics and compliance (E&C) program effective and share those best practices with the wider E&C community. Over

the last 10 years, our research has expanded to incorporate insights from more regions of the world, emerging trends and technologies, new regulatory guidance, and the evolving risk landscape. We are honored to be able to continue providing industry-leading analysis to E&C professionals and their organizations. In recognition of 10 years benchmarking crucial data on E&C program evolution, you will notice special features throughout the 2024 report that highlight key areas of comparison from years past—helping us all understand how programs, particularly those that are highly effective, have evolved to meet the needs of rapidly changing business environments.

LRN's ongoing research and experience with thousands of organizations over the decades demonstrates that a values-based approach to governance builds and sustains ethical culture that correlates strongly with more effective E&C programs. Values transform culture and impact behavior; rules merely set minimum standards. Both are necessary, but rules are not self-executing, and culture determines which ones are observed in practice. Moreover, ethical culture underpins successful performance across the organization, not just in the ethics and compliance area. Our research has consistently shown that an organization dedicated to sustainable human values will exhibit superior performance across operations and be significantly more successful at integrating ethics and compliance into its day-to-day operations.

As new risks increase in severity and frequency, E&C programs are focused on risk mitigation efforts

The 2024 report results demonstrated that E&C programs, wherever located in the world, have strongly focused on risk mitigation. Why is risk so important? As the US Department of Justice's March 2023 guidance on *Evaluation of Corporate Compliance Programs* (ECCP) states, the starting point for any evaluation of a company's compliance program is whether it "has been tailored based on [the] risk assessment" and "periodically updated." In other words, the primary purpose of an effective E&C program is risk mitigation—a good reminder at a time when geopolitical events, new technology, and changes in prosecutorial priorities are increasing the severity and frequency of risks. Reflecting this reality, 69% of our respondents indicated that they had faced new or unexpected compliance risks in the past 12 months.

A dramatic illustration of the compliance challenges facing global companies occurred over the past year, not long after Deputy Attorney General Lisa Monaco deemed the area of trade sanctions "the new FCPA." In November 2023, her department extracted guilty pleas from Binance Holdings Limited, the world's largest cryptocurrency exchange, and Changpeng Zhao, its CEO and founder. In addition, the company will pay $4.3 billion in fines for sanctions and money laundering. Binance began as a Chinese company and was incorporated in Malta at the time of its guilty plea.

According to prosecutors, Binance encouraged its US users to obscure their location so the firm could avoid complying with US anti-money laundering and sanctions laws. Zhao ignored warnings from

Risk is the foundation of an effective E&C program

The US Department of Justice has articulated that updated, comprehensive risk analyses are the basis for an effective ethics and compliance program in the Criminal Fraud Division's *Evaluation of Corporate Compliance Programs* (ECCP). The ECCP is a set of guidelines for DOJ prosecutors to use in evaluating the strength and effectiveness of corporate E&C programs. The DOJ's evaluation of corporate E&C programs is a major factor in determining whether to bring charges, as well as the severity of any fines or penalties imposed because of corporate misconduct. There are three fundamental topics in the ECCP:

1. **Is the corporation's compliance program well designed?**
2. **Is the program being applied earnestly and in good faith? In other words, is the program adequately resourced and empowered to function effectively?**
3. **Does the corporation's compliance program work in practice?**

As part of these determinations, the ECCP emphasizes the importance of risk in E&C programs (emphasis added): "The starting point for a prosecutor's evaluation of whether a company has a well-designed compliance program is to **understand the company's business from a commercial perspective; how the company has identified, assessed, and defined its risk profile; and the degree to which the program devotes appropriate scrutiny and resources to the spectrum of risks."**

his compliance team about the risk of US prosecution—a risk he clearly underestimated. The Binance prosecution came on the heels of Sam Bankman-Fried's conviction for fraud, money laundering, and conspiracy after the implosion of FTX, his Bahamas-based company, and the loss of billions of dollars by investors. Both Zhao and Bankman-Fried attempted, unsuccessfully, to avoid US jurisdiction by locating their companies abroad.

These cases highlight a key insight from our research, which is how broadly US regulations apply to organizations worldwide and drive the evolution of best practices in E&C. As the Binance and FTX prosecutions illustrate, any organization doing business in the US, using the US financial system, listing on US stock exchanges, or with other touchpoints to the US may face prosecution in the US as well as its home country. Increasingly, corporate malefactors face prosecution in multiple jurisdictions, but particularly the US. As a result, resources such as the ECCP are broadly relevant—not just in the US—and have come to represent the cutting edge in regulators' expectations for compliance programs worldwide. They are also a helpful framework for this years' results.

As the risk landscape becomes increasingly interconnected, our 2024 report underscores a convergence in E&C programs globally in the fundamental areas of program design, resources, and impact. Organizations all over the world have continually relied upon their E&C programs to weather geopolitical, technological, and other risk-based challenges. They have used values as the basis for their efforts and emerged with stronger ethical cultures, as well as a track record of innovation in meeting the needs of their organizations. In the face of these positive developments, however, global flashpoints and crises have continued to arise, testing the ability of E&C programs to mitigate today's risks while anticipating tomorrow's crises. As organizations look to the coming year, they must remember that risk mitigation is the bedrock of an effective E&C program.

Highlights

One of the most valuable benefits of surveying global E&C programs each year is the ability to spot trends and emerging best practices that enhance impact and effectiveness. This year's results are no exception. Much of our data confirms our findings from previous years, showing that E&C programs rose to the challenges of the pandemic and global unrest, disrupting work environments and uncertainty by relying on values at a time when business as usual was anything but "usual." This emphasis confirms a long-standing trend away from reliance principally on rules in favor of values as the glue that holds together ethical culture and motivates everyone to do the right thing.

The renewed interest and focus on risk identification, management, and mitigation discussed earlier illustrates another key characteristic of effective E&C programs. To paraphrase the ECCP, good programs are not snapshots in time. They evolve, adapt, and pivot. E&C programs are increasingly adapting to meet employees where they are and where they will be in the areas of training, policies, and reporting. Returning to a focus on risk—the bedrock of any E&C program—at a time when the global environment is replete with new, fast-evolving challenges and changes is a powerful example of the dynamism that characterizes high-performing programs.

Similarly, the high rate of adoption of performance metrics incorporating ethical behavior into organizations' rewards and sanctions processes is consistent with and responsive to the DOJ's emphasis on personal accountability. But it also reflects the commitment of high-performing programs, and programs in general, to making E&C considerations part and parcel of how their organizations operate.

According to our 2024 report:

Values as the principal means of motivating ethical behavior has become a fundamental principle of E&C programs. **77%** of E&C professionals indicated their organization emphasizes values rather than rules to motivate ethical behavior—a **27 percentage-point increase** from when we first asked this type of question in 2016.

Global programs ranked **risk mitigation and risk analysis as their top priorities** for improvement and usefulness for evaluating program impact.

More and more organizations—**over 60%** of those we surveyed—have incorporated ethical behavior into performance systems, major hiring decisions, promotion, and bonuses. Companies with high-performing programs were nearly **twice as likely** to evaluate ethical behavior against these areas.

And **61%** of all respondents reported that their organization's policies provided for clawback of bonuses, incentives, and compensation in the event of misconduct—an area emphasized by regulators and a "must have" best practice.

High-performing programs were more likely to take a **hybrid approach to training**, combining live custom training with online content to efficiently and effectively train employees.

74% of all respondents have made significant changes to their E&C programs to meet the needs of employees working remotely and on a hybrid basis.

Moreover, **more than half** of our respondents (56%) are scaling and investing in their E&C operations globally, stating they have (or plan to have) compliance officers located in countries where they have major production, sales, or sourcing activities.

But areas of weakness emerged as well:

37%

The gap between leadership and middle management when it comes to operationalizing E&C continues to grow. There is a **37 percentage-point** difference between leaders and managers who lean on company values to make tough decisions—the highest gap since we started collecting data on this point.

33%

Even with an increased focus on the global risk landscape, only **33%** of respondents have strengthened risk controls in the areas of sanctions and trade controls—down from 45% in our 2022 results—despite the ongoing wars in Ukraine and the Middle East as well as enhanced sanctions on China, Russia, Iran, and other countries.

39%

Only **39%** indicated their organization prioritized making their E&C program more employee-focused and user-friendly.

Top-ranked programs go beyond the basics, are accessible to employees, and prioritize enhancements to meet new and emerging global risks.

For the purpose of analysis, LRN categorizes E&C programs as high-impact, medium-impact, or low-impact based on their impact on ethical culture (see Methodology section on program evaluation, p. 69). Our overall findings show that high-performing programs significantly outperformed less-effective ones, specifically:

1.4*x*

more indicated that their board had responsibility for E&C oversight, possessed E&C expertise, and received E&C training (83% compared to just over half of low-impact programs).

1.5*x*

more incentivize ethical conduct by formally including it as a significant factor in key stages of the employee lifecycle, such as performance management, bonus awards, promotion decisions, and hiring for managerial, executive, or control functions (on average, 83% compared to 54% of low-impact programs).

1.5*x*

more develop their hotlines with employees in mind—including features such as anonymous reporting, explanatory background on how complaints are handled, links to non-retaliation policies, and translations and helplines (on average, 52% compared to 35% of low-impact programs).

1.7*x*

more made significant program changes to meet the needs of employees working remotely and on a hybrid basis (92% compared to 54% of low-impact programs).

1.7*x*

more use a dedicated E&C training library for their program (69% compared to 41% of low-impact programs).

1.9*x*

more improved their training systems to make them more user-friendly and increase overall effectiveness (56% compared to 29% of low-impact programs).

2.1*x*

more leverage data from a variety of sources to guide E&C program focus and development as part of ongoing evaluation—including risk analysis, misconduct trends and patterns, root cause analysis data, ethical culture surveys, training content retention, benchmarking, and much more (on average, 56% compared to 26% of low-impact programs).

Detailed findings

E&C programs: What is working well and what isn't

1

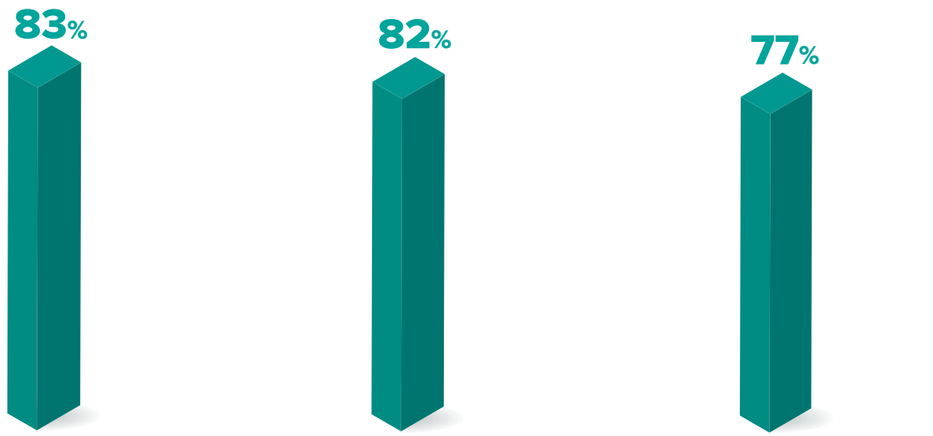
Values fuel ethical culture and decision-making

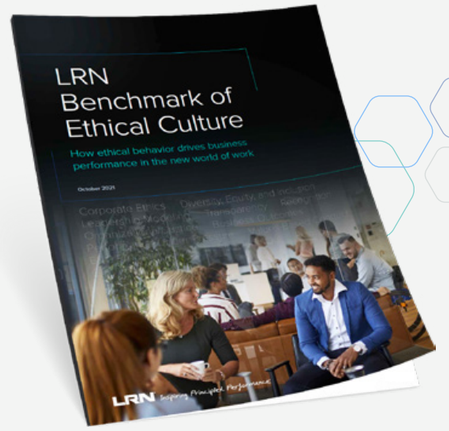
The 2024 survey confirmed many of the findings in our previous years' results. More than three quarters of the E&C programs we surveyed rely on values as the principal means of motivating leaders and employees towards ethical behavior. Using values as well as rules is a hallmark of a well-designed E&C program, a finding consistent with LRN research over the years and the most effective design for E&C programs. This year's data showed the power of values, with 83% stating that their ethical culture has gotten stronger.

Similarly, 82% of programs surveyed this year report that E&C considerations played an important role in how the organization responded to the challenges of the past 12 months. More than 80% reported they effectively helped employees avoid misconduct and were successful both in risk mitigation efforts and identifying new or evolving compliance risks. Overall, our findings indicate that E&C programs worldwide are able to help their organizations navigate change.

To what extent do you agree or disagree with each of the following statements about your organization's response in meeting the challenges of the past 12 months?

(% Agree)





Ethical culture underpins successful performance across the organization—not just in E&C

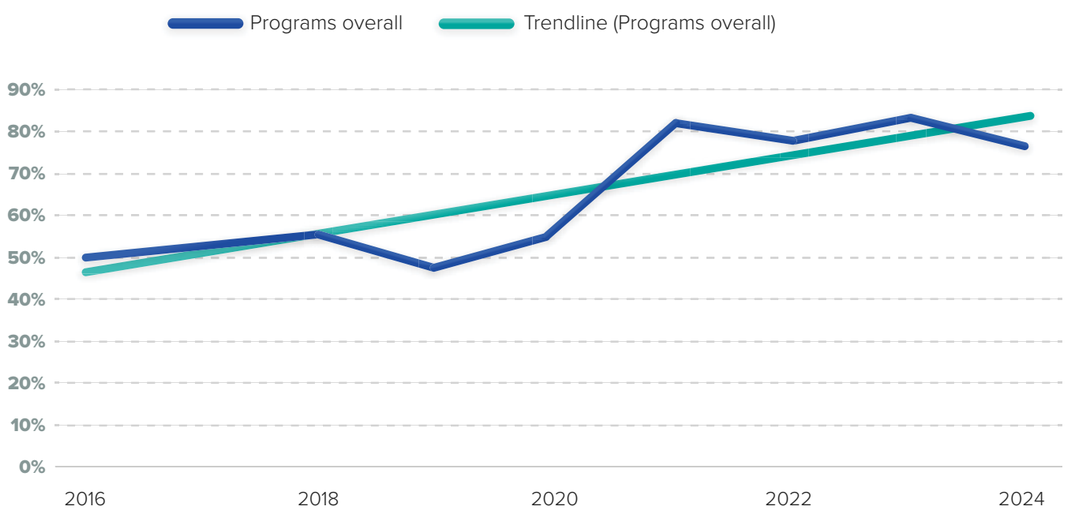
Regulators, employees, boards, consumers, and other stakeholders agree: company culture matters. One need only to read a few business headlines to appreciate the role culture played in any number of recent corporate scandals. As such, understanding and shaping culture has become critical for business leaders concerned about walking the walk and not just talking the talk of responsible business.

Because you can't manage what you don't measure, LRN sought to answer the question of how to measure ethical culture. The results of this research, including a proposed framework of ethical culture, can be found in the LRN Benchmark of Ethical Culture report. Notably, we found that two dimensions of ethical culture—organizational justice and trust—have an outsized impact on whether people behave ethically. This insight and more provide guidance to E&C professionals seeking to protect their company's reputation and mitigate E&C risk.

As mentioned earlier, emphasizing values as the principal means of motivating ethical behavior is a best practice that has gained traction over time.

The growing role of values

Over time, programs and organizations increasingly focus on values, rather than rules.



For the last eight years, LRN has asked E&C professionals whether their program and company efforts have increasingly focused on values, not just rules. Although the wording of this question has varied slightly over time, the responses clearly indicate that values-based E&C programs are now the norm. In 2024, 77% of E&C professionals indicated their organization emphasizes values rather than rules to motivate ethical behavior—a 27 percentage-point increase from when this topic was surveyed in 2016.

2

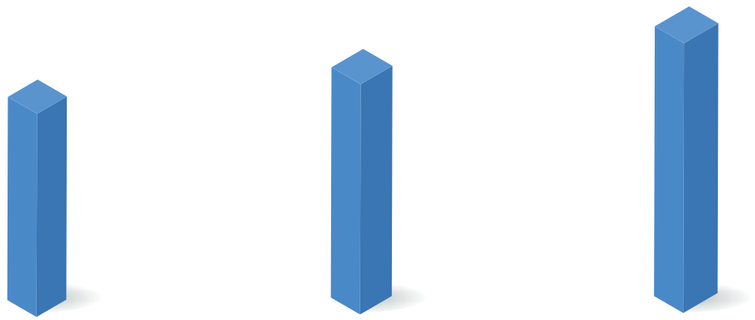
E&C programs are scaling their efforts globally

A perennial challenge for any program in a global organization is ensuring that operations in other locations and cultures share the same values and standards. Ensuring that programs are well designed to address this challenge is essential to mitigate risk.

Our data shows that E&C programs scaled their operations globally, using regional committees and ethics ambassadors or appointing compliance officers to countries in which they had major operations.

How does your program scale its scope and operations?

(Select all that apply)



42%

We have regional E&C commitees in some or all of the countries in which we operate.

49%

We have an Ethics Ambassador program.

56%

We have, or plan to have, compliance officers located in countries where we have production or major sales/sourcing activities.

The rise of a global E&C standard

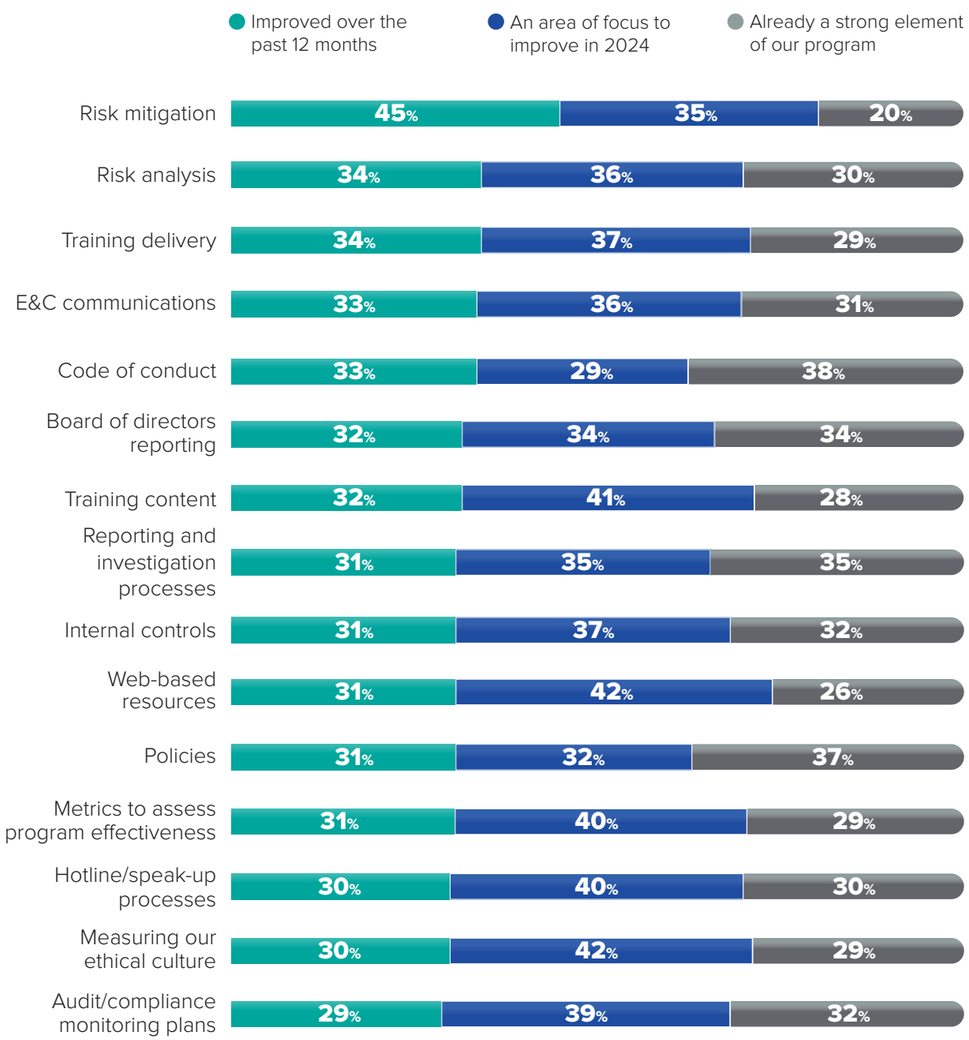
As regulatory enforcement becomes increasingly global, LRN's research shows a clear convergence of E&C best practices across countries and regions, resulting in a global standard for the basic elements of E&C programs. In September 2023, we published a special Global Standards Edition of our *Ethics & Compliance Program Effectiveness Report* that looked at how programs have performed from 2020 to 2023, the period "before" and "after" the COVID-19 pandemic and the beginning of worldwide political upheaval. Four years of data from E&C leaders across the globe revealed that there is general agreement on the necessary components of an E&C program—including policies, code of conduct, training, audit, tone at the top, and board of directors' support. Although there are some regional differences in how these foundational elements are implemented, there are no alternate models of what an ethics and compliance program generally looks like and what it is designed to do.

3

Risk management and mitigation are priorities

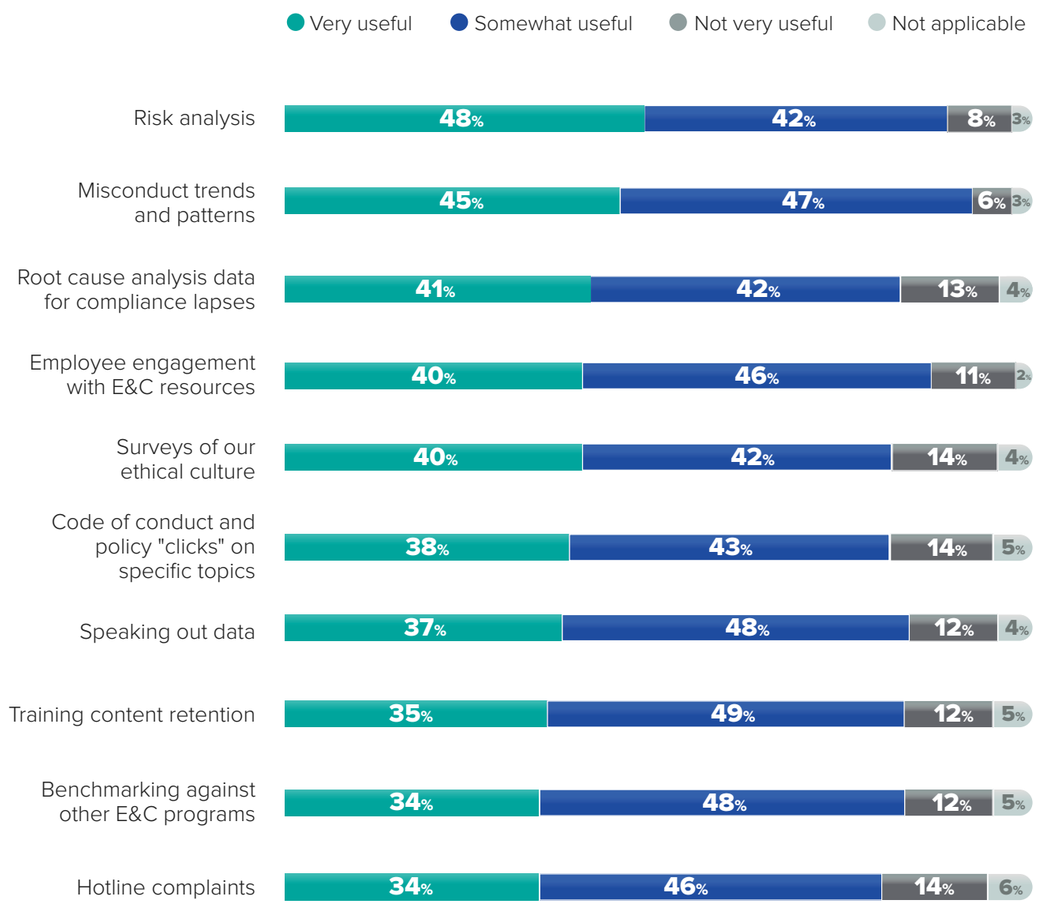
As noted in the introduction, risk mitigation is the foundation of E&C programs. This year's data clearly demonstrates that risk has taken on new importance and priority for global programs' design. Risk mitigation and risk analysis were the main areas that E&C programs prioritized to improve over the past 12 months.

Rate the status of the following E&C program elements



Global programs also ranked risk analysis first in terms of usefulness for evaluating program impact and identifying areas for improvement.

How useful are the following in evaluating your program's impact and identifying areas for improvement?



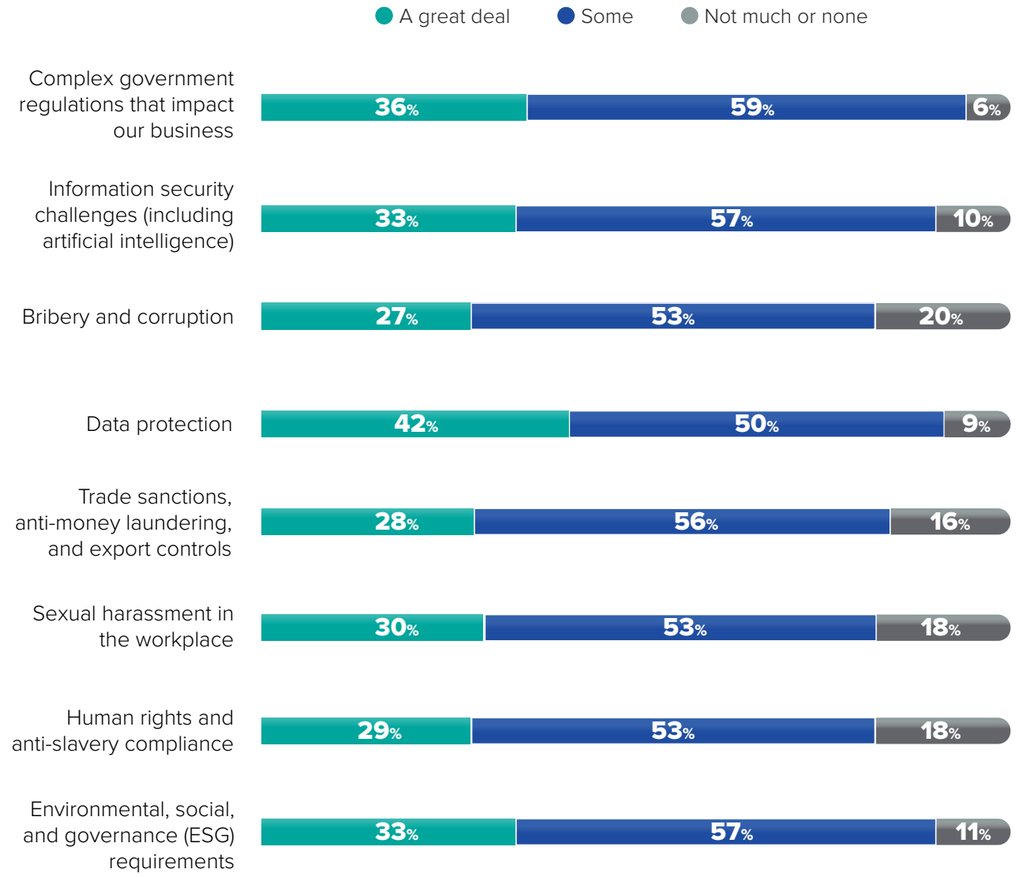
Interestingly, benchmarking ranked near the bottom in terms of usefulness, as risk-based compliance means that an organization's particular risks are the key factor in designing and maintaining an effective program rather than "one size fits all."

Europe dominates tech regulation

Although US regulators have been vocal on the subject of regulating AI and Big Tech, the UK and European Union are leading the way when it comes to regulatory action. UK authorities dictated the terms of Microsoft's acquisition of Activision. One of the world's first comprehensive attempts at regulating AI, the EU AI Act, is on track to come from Europe this year. And both EU and UK antitrust regulators blocked Adobe's $20 billion attempt to merge with the designer software startup Figma. While organizations should continue to monitor developments from US regulators like the Federal Trade Commission, all eyes are on the EU and UK when it comes to bringing new cases and enforcing new laws in the tech space.

Well-designed programs are not static and must evolve to meet new risks and situations. Our data shows that areas of focus by E&C programs have shifted, reflecting the changes in the global risk landscape. In the last year, E&C programs focused comparatively less of their activities on bribery and corruption and more on complex government regulations, information security (including artificial intelligence or "AI"), and data protection. This year, respondents noted they focus most of their program efforts on complex government regulations that impact their business.

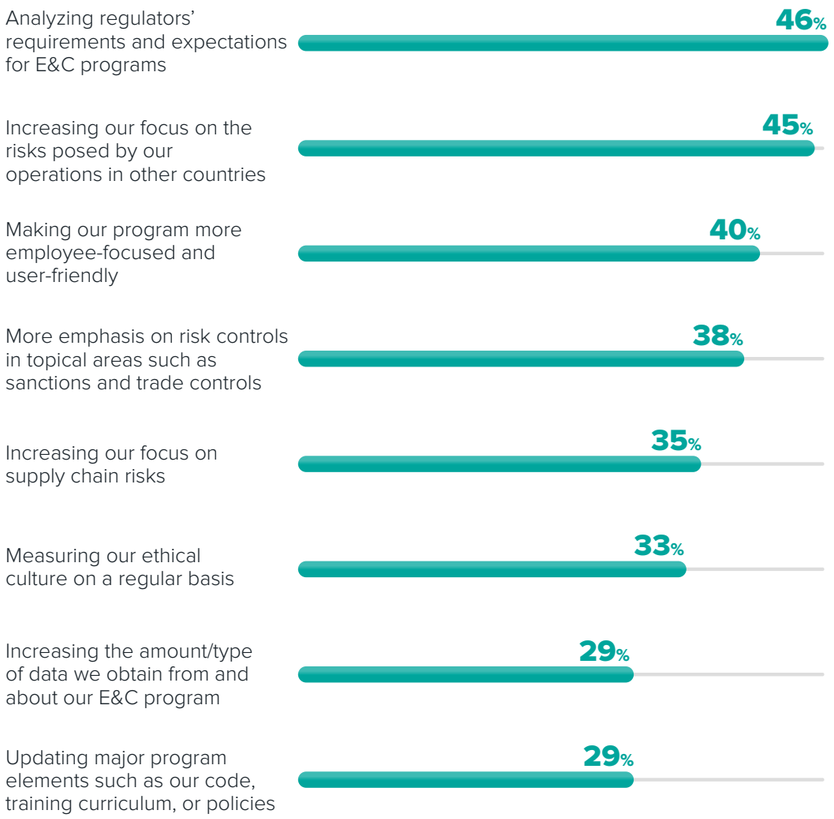
How much effort does your program expend on the following areas?



Similarly, well-designed programs change their priorities to better navigate new and evolving risks. E&C program priorities were fairly evenly split, with some greater emphasis on regulatory requirements and the risks posed by operations in other countries.

What changes has your E&C team made in the past 12 months?

(% Yes)



Asia focuses on ESG

Businesses are increasingly subject to compliance requirements relating to environmental, social, and governance (ESG) matters and disclosure requirements in a number of jurisdictions in the APAC region. In Hong Kong, public and private companies are generally required to disclose their environmental policies and performance in an annual directors' report, unless they fall within one of the exemptions. In Malaysia, listed securities issuers are required to include a narrative statement to comply with Bursa Malaysia's Sustainability Reporting Guide in their annual reports. In Japan, various environmental protection laws require businesses in certain industries to disclose environmental and climate impact information, such as energy consumption and greenhouse gas emission levels.

4

Operationalizing E&C into decision-making presents challenges

Tone at the top is always a crucial factor in the success of any E&C program, but managers are the “first responders” when it comes to incorporating ethics into the workplace. Our data shows that 52% of respondents said their executive leaders are generally walking the talk when it comes to dealing with compliance risks by operationalizing company values when making difficult decisions.

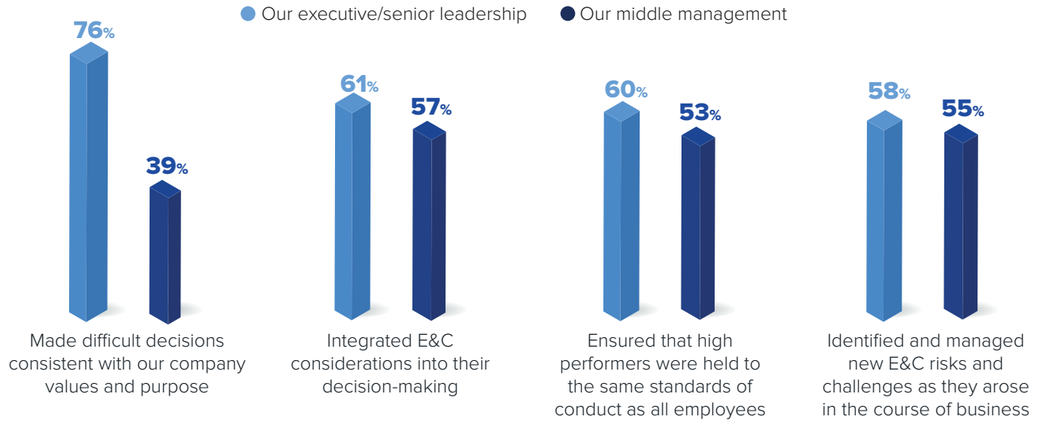
In the past year, has your organization's consideration of E&C risks or factors led to substantially modifying or abandoning a business initiative?

(% Yes)

But the data also illustrates that middle managers, in particular, struggle to make difficult decisions consistent with company values and purpose.

What steps have your organization’s leaders taken to respond to compliance risks and challenges in the past 12 months?

(% Yes)



These results are consistent with our data over the past several years and point towards the need to develop greater incentives and disincentives for ethical behavior in this area.

In the past 12 months, our organization's leaders have made difficult decisions consistent with our company values and purpose

(% Yes)

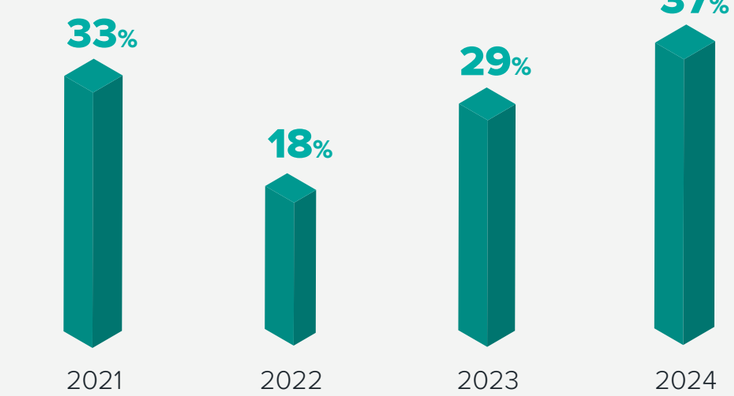
The differences also suggest that focusing on helping middle managers make hard choices, consistent with the organization's values, is an area for greater attention. This is especially important considering the enhanced focus globally on personal accountability and mitigating risk. The 2023 version of the ECCP asks, "Have managers tolerated greater compliance risks in pursuit of new business or greater revenues? Have managers encouraged employees to act unethically to achieve a business objective, or impeded compliance personnel from effectively implementing their duties?"

A growing gap between leaders and middle managers

As LRN's survey participant base becomes more and more global, the gap between middle management and leadership continues to widen when looking at ethical decision-making involving trade-offs. This year's data has the largest gap since LRN began tracking this topic.

In the past 12 months our organization's leaders have made difficult decisions consistent with our company values and purpose

(% gap between executive/senior leadership and middle management)



Middle managers, as those with whom most employees directly interact, are visible role models. And, as the ECCP notes, they play a key role in balancing business goals and ethics. This gap is both an opportunity and a concern for E&C programs to assist managers in operationalizing organizational values more effectively.

5

E&C programs are impactful when it matters

The US Department of Justice's *Evaluation of Corporate Compliance Programs* guidance states "...even a well-designed compliance program may be unsuccessful in practice if implementation is lax, under-resourced, or otherwise ineffective." The guidance makes a sharp distinction between simply "paper programs" and those that are "implemented, reviewed, and revised, as appropriate, in an effective manner." In short, it's not enough to have a compliance program; it must be up to the job of preventing misconduct. Making the case for sufficient resources and support for E&C programs is critical to success.

Our findings suggest that E&C has a seat at the table when it comes to resources, standing, access, and authority in their organization. The majority of programs report that the answer to the ECCP's second fundamental question—Is the program adequately resourced and empowered to function effectively?—is affirmative.

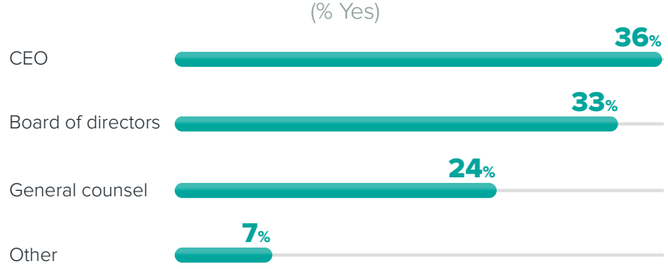
Do E&C programs have sufficient resources, rank, information, and access to carry out their mission?

(% Agree)

Although not all respondents report to the board of directors or the CEO of their organization, the data as noted on p. 36 shows that 89% of respondents have the ability to raise issues or concerns directly to the board of directors.

To whom does the person assigned administrative responsibility for the E&C program report?

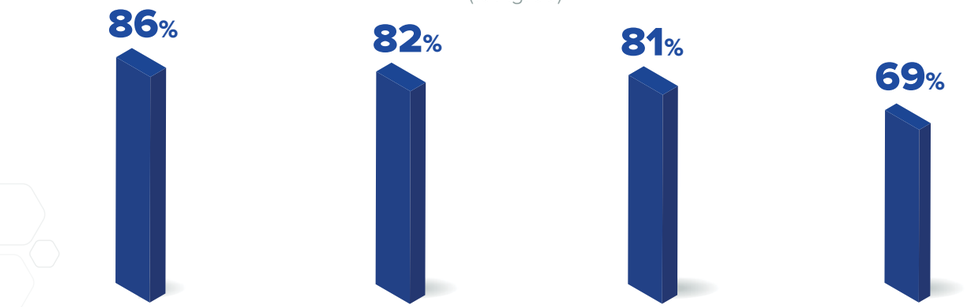
(% Yes)



When ethics and compliance programs started developing in the wake of the establishment of the US Sentencing Commission in 1984, many started as an obscure part of company legal departments that were mainly responsible for annual ethics training. As the risk landscape becomes increasingly global, E&C programs have matured to navigate the growing complexities of interconnected risks. Regulators' expectations have grown as well, emphasizing impact on behavior as evidence of program impact. Encouragingly, our 2024 data indicates that the majority of programs are confident they are effectively mitigating compliance risks.

To what extent do you agree or disagree with each of the following statements about your organization's compliance risk response and mitigation efforts?

(% Agree)



Another program feature that has become a "must have" indicator of effectiveness is implementation of incentives and disincentives for ethical behavior. In response to continued misconduct, this past year regulators went another step forward and emphasized personal accountability as "the Department of Justice's number one priority." In a major speech, Deputy Attorney General Lisa Monaco stated:

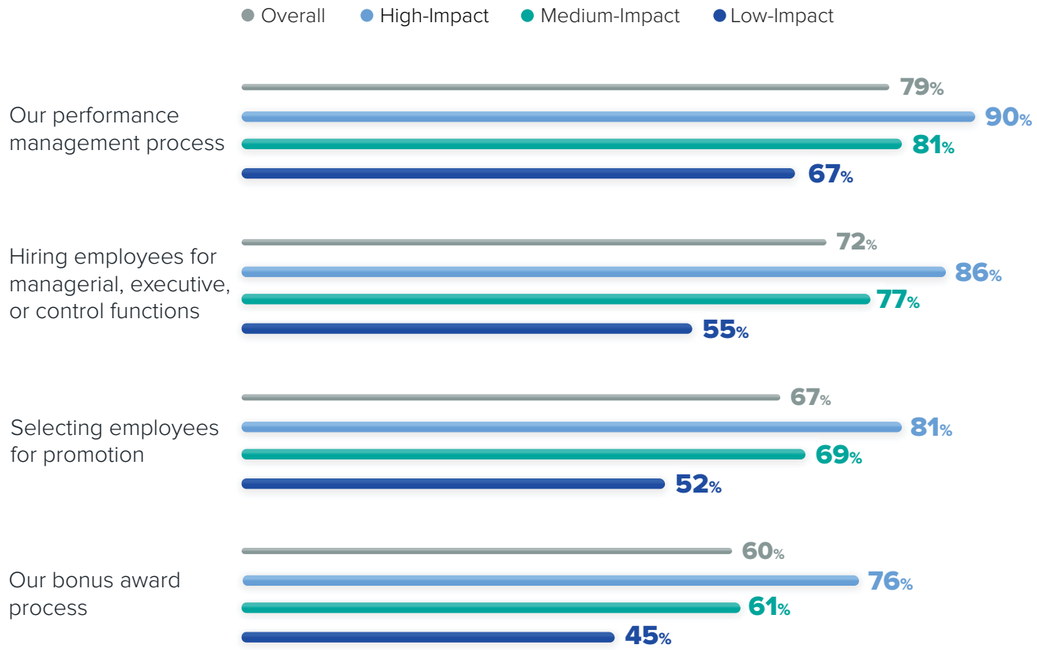
> *"Going forward, when prosecutors evaluate the strength of a company's compliance program, they will consider whether its compensation systems reward compliance and impose financial sanctions on employees, executives, or directors whose direct or supervisory actions or omissions contributed to criminal conduct."*
>
> —Lisa Monaco, Deputy Attorney General, US Department of Justice

The revised March 2023 ECCP clearly states: "The hallmark of effective implementation of a compliance program is the establishment of incentives for compliance and disincentives for non-compliance." Looked at another way, incorporating rewards and penalties as part of the company's compensation structure is a major step towards an impactful ethics and compliance program.

Significantly more than half of the programs surveyed have incorporated ethical behavior into performance systems, major hiring decisions, promotion, and bonuses. It is also worth noting that high-performing programs are nearly 2x more likely to evaluate ethical behavior against these areas.

My organization has formal requirements that executives' and employees' ethical behavior is evaluated as a significant factor in...

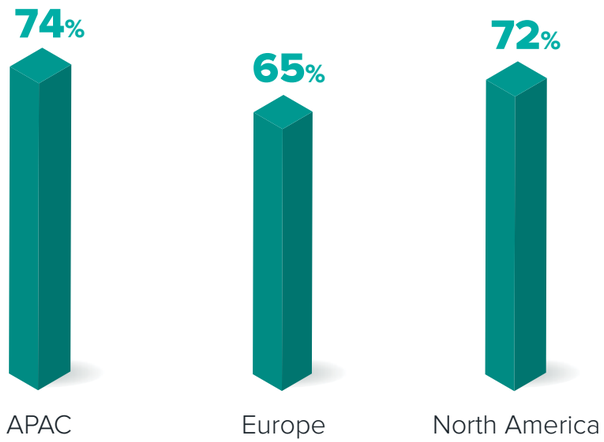
(% Yes)



Taking a closer look at our regional data in this area, the Asia-Pacific region scores highest in incorporating ethical behavior into evaluations across these four areas, followed by North America and Europe respectively.

My organization has formal requirements that executives' and employees' ethical behavior is evaluated as a significant factor in performance management, hiring for key roles, promotion decisions, and bonus awards

(% Yes, average of 4 items)

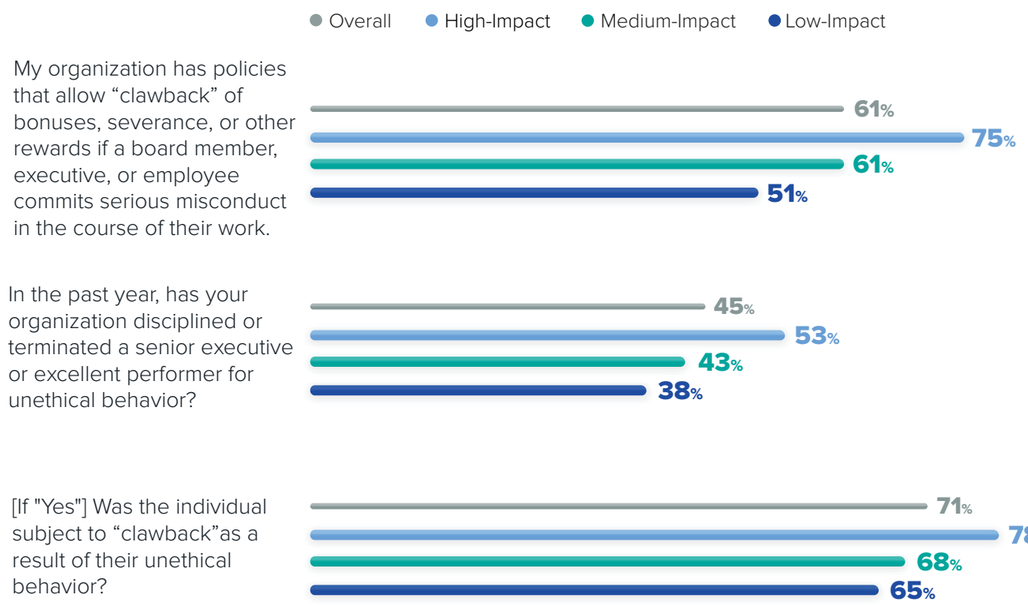


Regulators have taken additional steps. The DOJ has implemented a pilot program involving clawbacks of financial compensation in the event of corporate misconduct, similar to the US Securities and Exchange Commission's program. Every corporate settlement of a DOJ misconduct investigation will include a requirement that the company develop and deploy compliance-promoting criteria within its compensation and bonus systems—including clawback provisions to recoup bonuses and compensation in the event the recipient participated in misconduct. Additionally, if and when a company uses its clawback procedures to penalize wrongdoers, the pilot program will provide fine reductions to those companies.

Our data shows growing global use of clawbacks in the event of misconduct, taking into account that not all respondent programs had the need to discipline a senior executive in the past 12 months.

Describe the financial penalties or consequences your organization enforces for misconduct

(% Yes)



What do high-performing programs do better?

As E&C programs look to increase their value and impact in their organizations, identifying and implementing best practices plays a significant role. LRN research shows that E&C programs are dynamic and evolve to meet new risks and the needs of their organizations. Although global programs generally report the same status, priorities, and activities across the world, our data showed significant differences between high-performing and less-effective programs across best practices.

1

Using data for ongoing evaluation

Effective E&C programs must develop and mature over time, adapting as their organizations change—for example, through mergers and acquisitions—or as the risks they face evolve, such as international sanctions and trade controls.

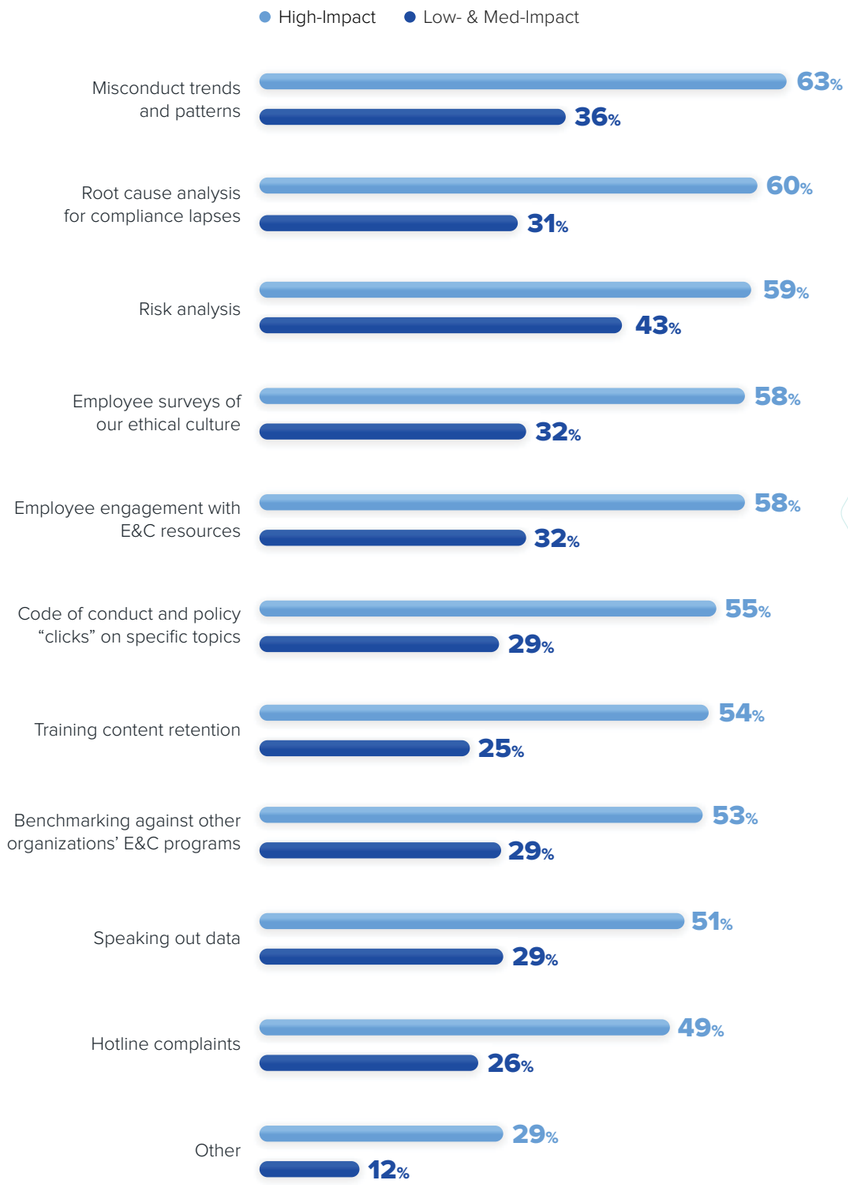
Ongoing evaluation, particularly in light of changing risks, is a key component of this process. The ECCP stresses the importance of regular risk assessments, asking "Is the risk assessment limited to a 'snapshot' in time or based upon continuous access to operational data and information across functions? Has the periodic review led to updates in policies, procedures, and controls?" High-performing programs excel in this area, leveraging data from a variety of sources—on average, 2.1x more likely than less-effective programs—to guide program focus and development.

Notably, high-performing programs are nearly 3x as likely to benchmark against other E&C programs. This practice can provide global and industry-specific context on program design, one of the three fundamental ECCP criteria, provided organizations are effectively mitigating their unique risks—not just meeting the norm.

Tailoring to risk is crucial to avoiding a "one size fits all" approach. The ECCP notes, "We recognize that each company's risk profile and solutions to reduce its risks warrant particularized evaluation. Accordingly, we make a reasonable, individualized determination in each case that considers various factors including, but not limited to, the company's size, industry, geographic footprint, regulatory landscape, and other factors, both internal and external to the company's operations, that might impact its compliance program."

How useful are the following in evaluating your program's impact and identifying areas for improvement?

(% Very useful)



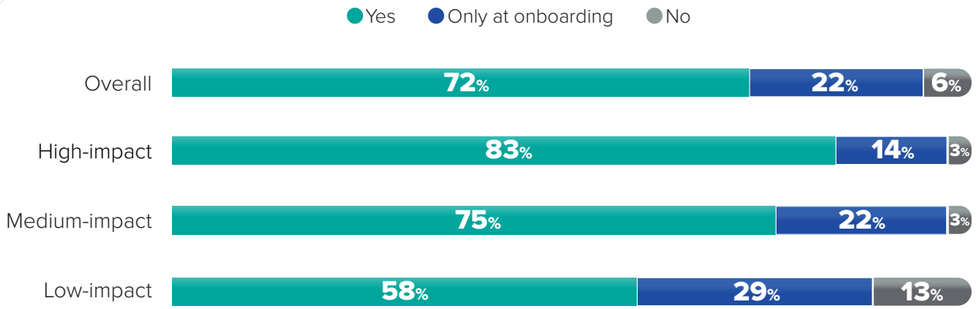
2

Having an active and educated board of directors

The ECCP strongly emphasizes the role of the board of directors in supporting and sustaining effective ethics and compliance programs. The ECCP asks, "What compliance expertise has been available on the board of directors? Have the board of directors and/or external auditors held executive or private sessions with the compliance and control functions? What types of information have the board of directors and senior management examined in their exercise of oversight in the area in which the misconduct occurred?"

LRN's research tells a powerful story that highlights the importance of an engaged and informed board of directors, an area in which high-performing programs excel. This year's data demonstrates the critical role of the board in supporting an organization's E&C program. More than four out of five high-performing programs indicated that their board engaged in E&C oversight, possessed E&C expertise, and received E&C training—1.4x more than less-effective programs.

Does your board of directors receive periodic, ongoing training in E&C matters?



Consistent with the emphasis on risk mitigation that our data shows, compliance risk is at the top of the list of topics for board review.

What materials and topics does the board receive and review?

(% Yes)*

*Excludes those that answered "Neither our full board nor a board committee review our program" when asked about board oversight

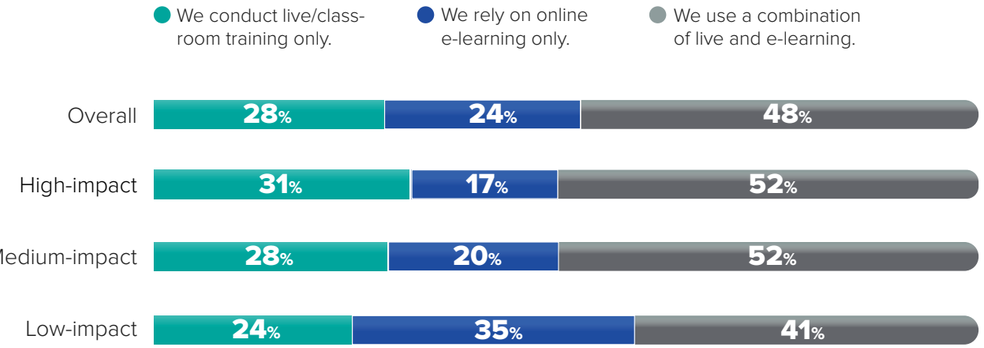
Perhaps most importantly, nearly two-thirds of respondents (63%) indicated that their boards took an active role in ensuring that misconduct by senior executives or excellent performers was addressed within the last year.

3

Making training more effective and risk based

Training is an essential component of all E&C programs. Over time, training has evolved away from long, complex "lectures" towards a focus on content tailored to how employees learn best, driven in part by the ECCP. Increasingly, E&C programs are adopting a hybrid approach, combining live custom training with online content to efficiently and effectively train their employees.

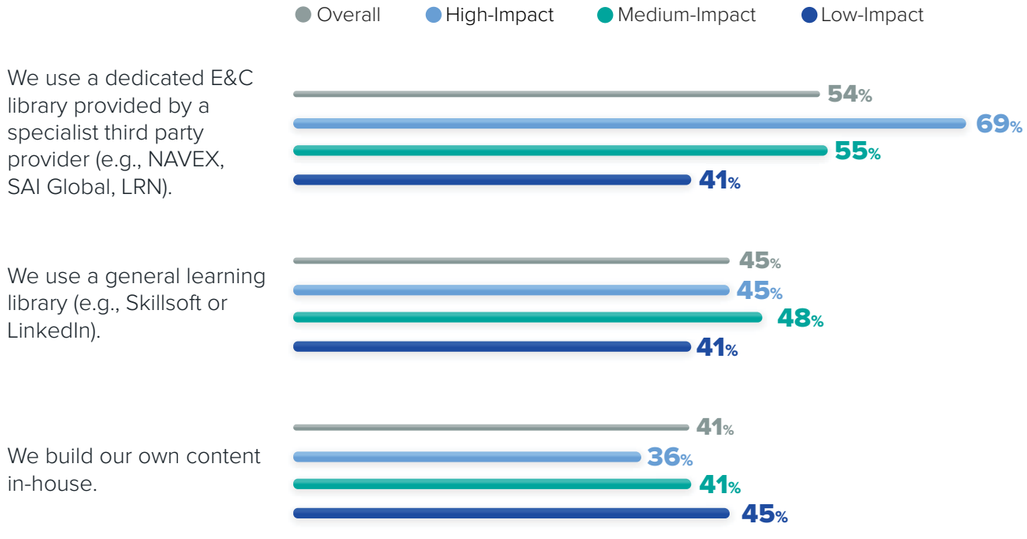
How do you train your workforce on ethics and compliance topics?



Given the challenges with maintaining a comprehensive, up-to-date training library in-house, the majority of programs use online providers for their programs. This is especially true of high-performing programs.

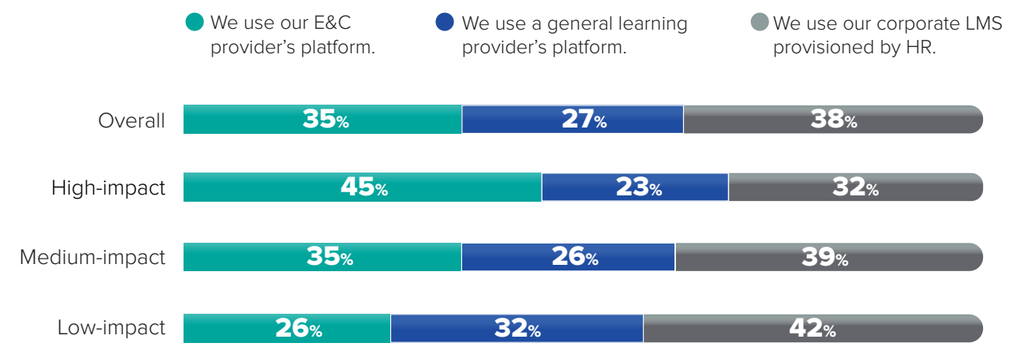
How do you source your online E&C training?

(Select all that apply)



Additionally, high-performing programs are more likely to use their training providers' platform to distribute E&C training, as outside providers typically offer more advanced data analytics and better platform performance.

How do you distribute your online E&C training?*

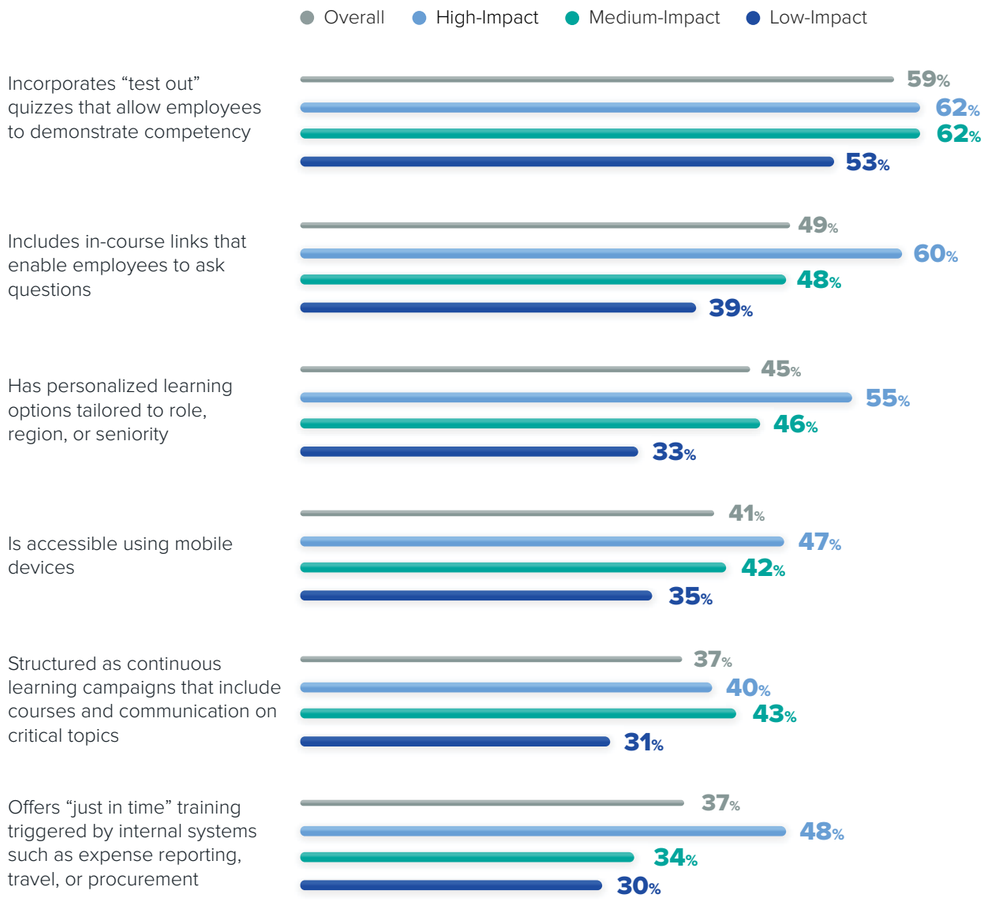


*Question only shown to respondents that answered "online e-learning" or "a combination of live and e-learning" to the previous question.

The ECCP focuses on employee-focused, tailored training, asking "[w]hat training have employees in relevant control functions received? Has the company provided tailored training for high-risk and control employees, including training that addresses risks in the area where the misconduct occurred? Have supervisory employees received different or supplementary training? What analysis has the company undertaken to determine who should be trained and on what subjects?"

Features such as test out, tailoring learning to employees' role, region, or seniority, and offering shorter, more relevant training have emerged as best practices over the past few years as E&C programs have responded to the challenges of remote or hybrid work. High-performing programs continue to adopt these practices more widely than other programs to better navigate these new risks.

Please select the following features that apply to your organization's E&C training program

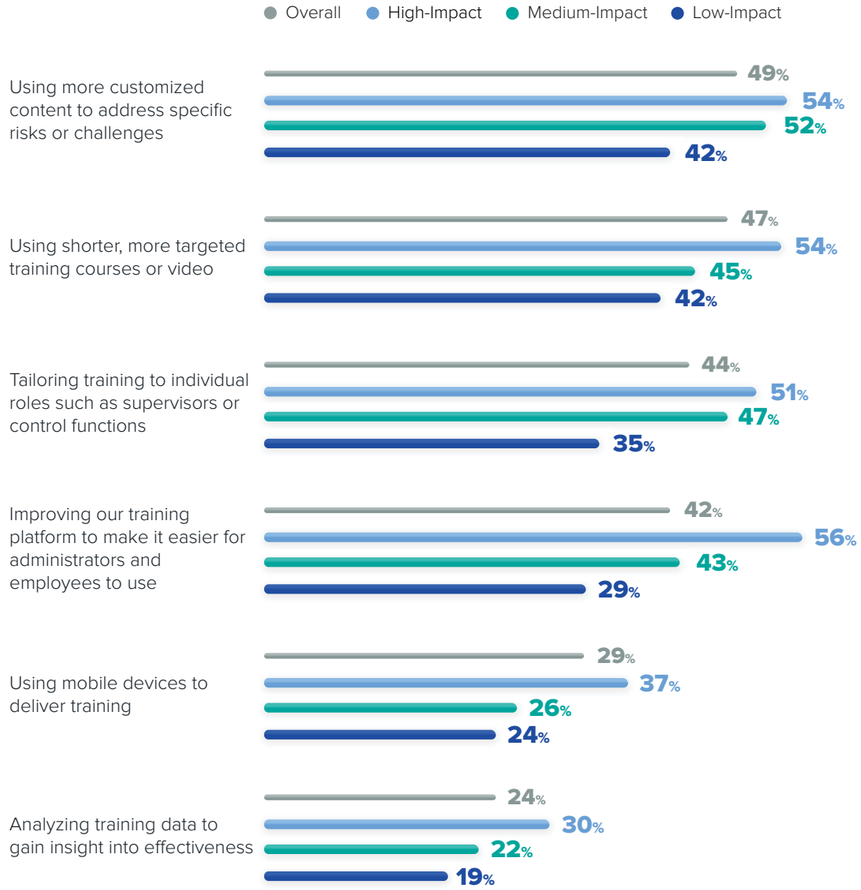


The pace of change in the training area lags behind in less-effective programs and among all programs when it comes to delivering communications to reinforce key messages, using mobile devices, and deploying “just in time” training.

The same trends can be seen in changes actually made by programs to their training. More than half of high-performing programs have implemented custom content as well as shorter, targeted, and tailored training. They are also nearly 2x more likely to improve their training systems to make them more user-friendly. At the same time, the data indicates that integrating E&C program elements into a mobile app and analyzing training data for insights are not as common among high-performing programs as other best practices.

What changes have you made to increase the impact and effectiveness of your training?

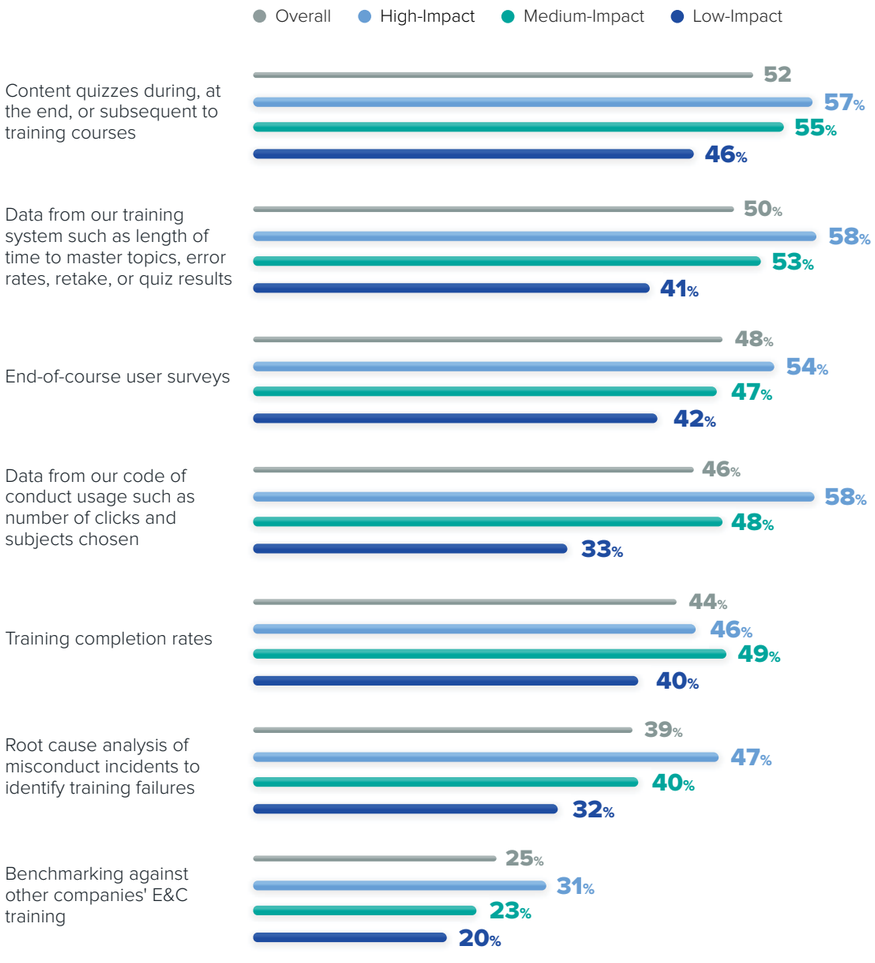
(Select all that apply)



Measuring training impact is of critical importance, and another area where high-performing programs excel. The ECCP asks “How has the company measured the effectiveness of the training? Have employees been tested on what they have learned? How has the company addressed employees who fail all or a portion of the testing? Has the company evaluated the extent to which the training has an impact on employee behavior or operations?” Evaluating the impact of training is the foundation for improving it, and high-performing programs are significantly more proactive in this area using a variety of methods.

What methods does your training program use to measure training effectiveness and impact?

(Select all that apply)

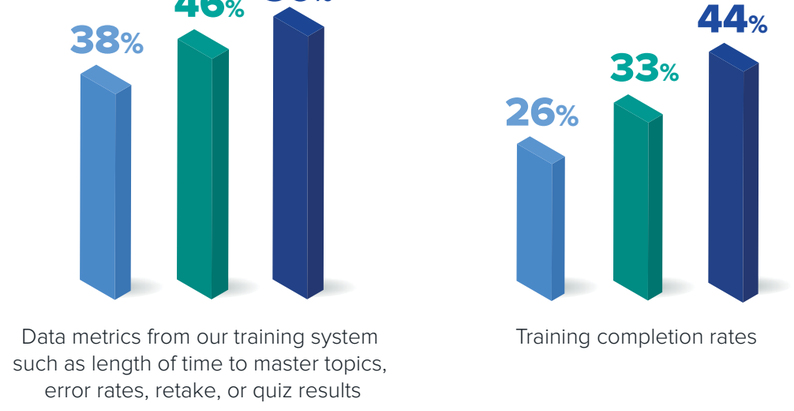


This is not entirely surprising, as our data shows how programs’ approach to measuring effectiveness and impact has become more sophisticated over time. Since we first started asking E&C professionals this question four years ago, data metrics have grown in importance every year, overtaking training completions as the method of choice. This growing trend likely reflects the ECCP’s emphasis on data as the key to demonstrating program impact.

What methods does your training program use to measure training effectiveness and impact?

10 Years of Benchmarking

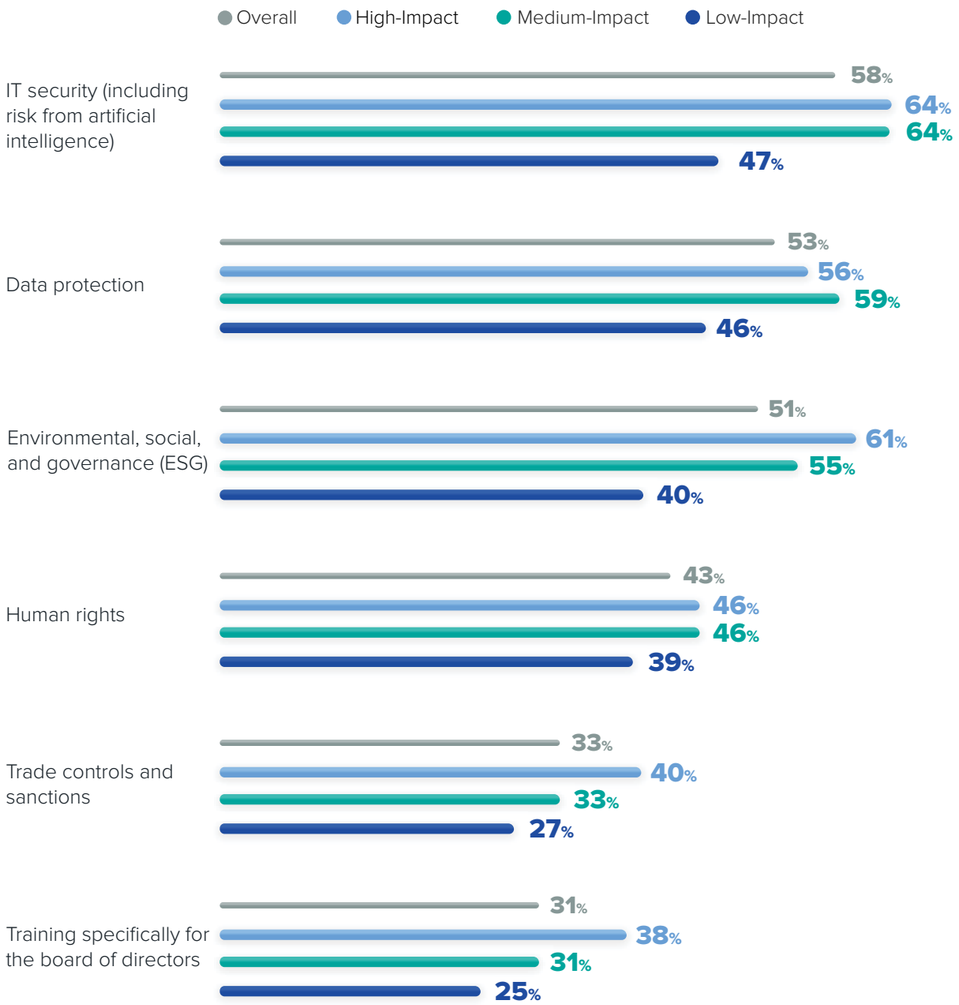
(Select all that apply)



Finally, updating training to reflect the organization's risk profile is essential for effectiveness. This year, respondents listed AI's impact on IT security as a major area of focus. In general, high-performing programs are more proactive than less-effective programs when it comes to updating training.

What topics are you considering adding to or strengthening in your current training curriculum?

(Select all that apply)



4

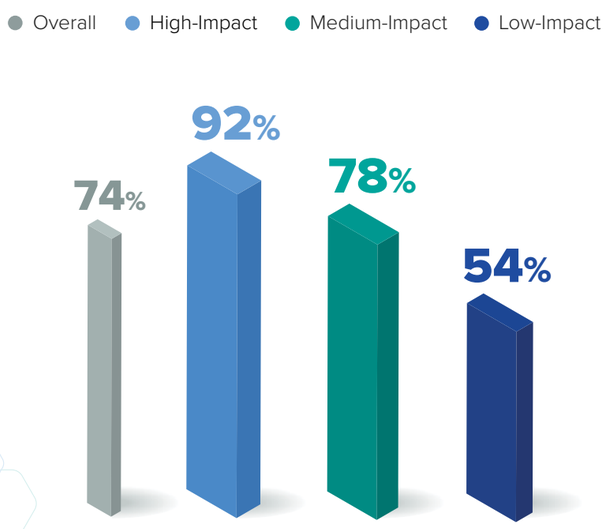
Meeting employees where(ever) they are

This year's survey indicates 74% of E&C programs—and 92% of high-performing programs—have made significant changes to meet the needs of employees working remotely and on a hybrid basis. What does this look like in practice? Compared to those that haven't adjusted to changing workforce models, these programs were made to be more tailored for relevancy to employees, made it easier for employees to comply, and prioritized the data and analysis that enables them to measure impact and continuously improve.

This approach to making E&C program elements more employee-friendly and engaging reflects in the best practices that high-performing programs use with respect to their codes of conduct, policies, and hotlines.

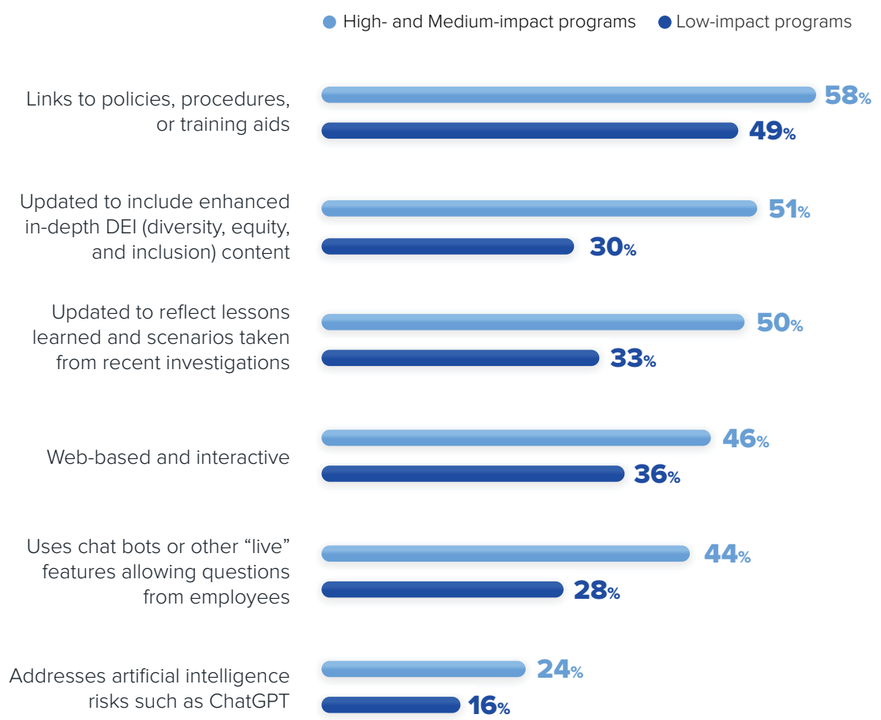
Have you made significant changes to your E&C program to meet the needs of employees working remotely and on a hybrid basis?

(% Agree)



In the important area of codes of conduct, our 2024 global data shows that high-performing programs lead the way in implementing best practices and updating their codes to address new risks such as AI. But the data also shows significant room for improvement, even among high-performing programs.

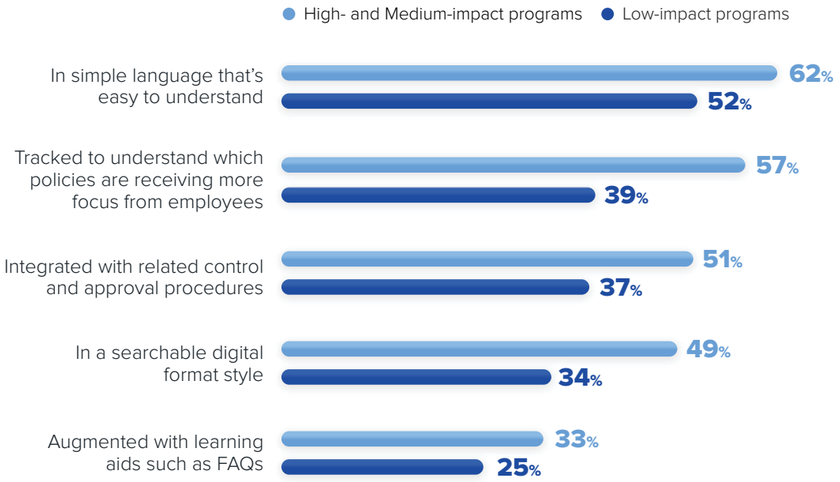
Please select the following features that apply to your organization's code of conduct



These results were confirmed by LRN's 2023 Code of Conduct Report. For example, although the most common format for a code of conduct is a digital PDF, more and more companies are beginning to put their codes into a web-based format. The key driver of this trend is the desire to extract meaningful data on employees' interactions with the code, something that cannot be done with a PDF. In addition, a well-designed web-based code will be more engaging, interactive, and accessible.

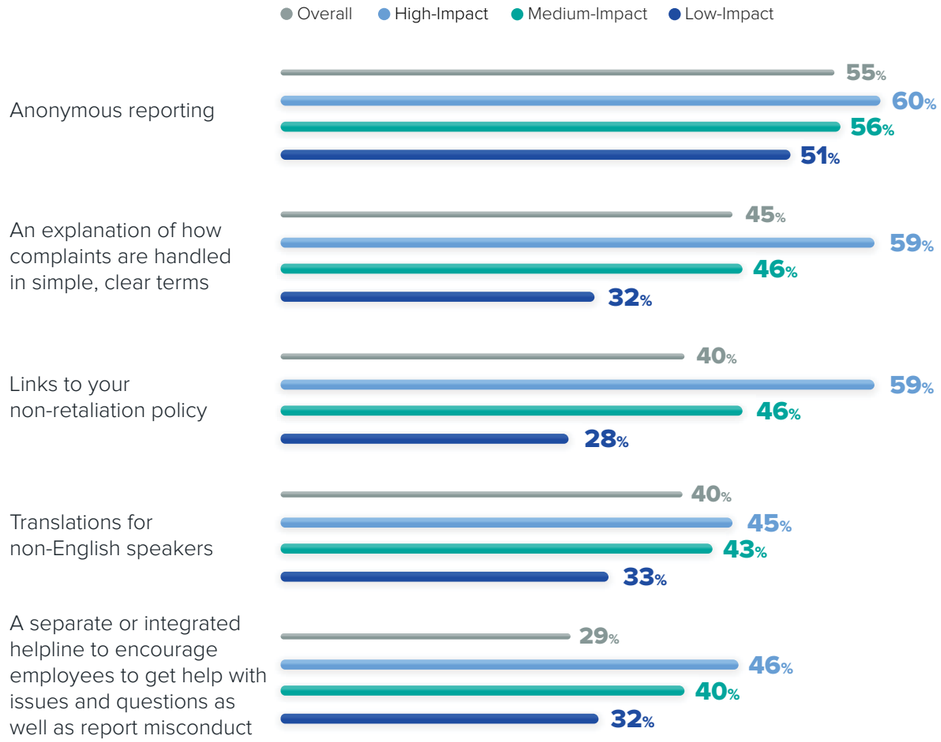
Another area where high-performing programs are leading the way with best practices is policy development, particularly in making policies more accessible for employees. Simplifying policies to make them more accessible to employees from every background and education level is crucial for increasing employee engagement.

Please select the following features that apply to your organization's policies



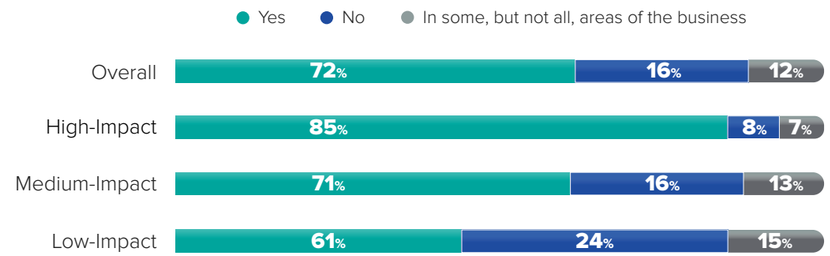
Hotlines remain an important fixture for E&C programs, and it's important they are developed with employees in mind. High-performing programs are more likely to have hotlines that feature anonymous reporting, explanatory background on how complaints are handled, links to non-retaliation policies, and translations and helplines.

Does your hotline have any of the following features?



They also have implemented mechanisms to track complaints raised by employees to their managers or Human Resources function, a growing best practice as studies show that the great majority of E&C complaints are made to managers or HR.

Do you have a mechanism to track complaints raised by employees to their managers or the Human Resources department?



Conclusion

LRN's annual *Ethics & Compliance Program Effectiveness Report* is an opportunity to stand back and take a strategic look at how E&C programs are responding to evolving geopolitical and technological changes. The dizzying pace of change in both areas has led to new risks and regulations as well as major compliance scandals.

In response, our data shows that E&C programs have refocused on the basics—risk identification and mitigation—while continuing to innovate in areas such as training, to ensure their continuing relevance and impact. As we have seen for the past several years in particular, high-performing programs focus on values, adapt to change, and emphasize personal accountability—continuing to lead the way with innovation and impact.

About the Program Effectiveness Index

Measuring outcomes, not just activities

The LRN Program Effectiveness Index (PEI) was introduced in 2016 to evaluate the impact that organizations' compliance programs have on workplace behavior. The study provides insight into the ethical culture of the organizations surveyed, not merely their E&C program structures.

The 2024 Ethics & Compliance Program Effectiveness Report is based on a survey of 1,415 ethics, compliance, and legal experts around the world representing more than 25 industries.

How we quantify program effectiveness

LRN's Program Effectiveness Index (PEI) is a proprietary framework for analyzing the impact of E&C programs. Notable for its unconventional approach to program effectiveness, the PEI measures outcomes across three areas of critical workplace behavior rather than measuring program activities (such as the number of employees trained or hotline reports generated, etc.) to gain insight into ethical culture and how the program works "in practice."

The areas we measure are:

Ethical decision-making:
Are the choices employees make animated by values or expediency?

Organizational justice:
Are senior executives and high performers held to the same standards of conduct as other employees?

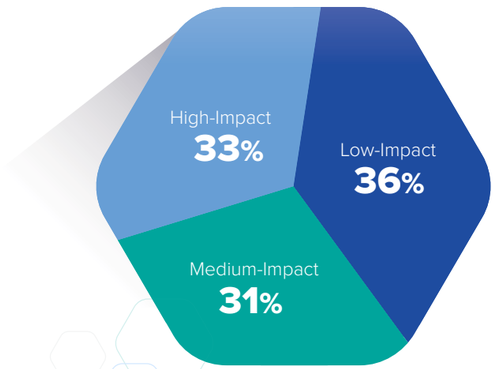
Freedom of expression:
Do employees speak up, contribute willingly, and exchange ideas freely?

Respondents rated their organizations against the following eight statements using a five-point agree/disagree scale:

1. Top performers are held to the same standards as everyone else.
2. Managers hold themselves to the same standards as everyone else.
3. Leaders explain how our values influence their decision-making.
4. Even under pressure, employees follow our values and code of conduct.
5. Employees in my organization voice their opinions in team meetings, even in front of managers.
6. Employees in my organization question decisions that don't seem to match our values or ethical standards.
7. Employees in my organization don't compromise our ethical standards to achieve results.
8. Employees in my organization are comfortable going above their boss to raise ethical concerns.

We combined and averaged these responses to generate an overall PEI score for each survey participant's organization. LRN then analyzed PEI scores across tertiles (or thirds). We consider those programs that fall into the top tertile to have a "high-impact" on organizational culture and strategy as demonstrated by their indicia of a healthy ethical culture. Those that fall in the middle and bottom tertile are characterized as having "medium-impact" and "low-impact" on organizational culture and strategy, respectively. The distribution of programs is as follows:

Distribution of E&C programs



LRN's Program Effectiveness Index and accompanying report therefore ranks programs by their workplace impact. This methodology differs from most surveys of E&C programs, the majority of which focus on measuring activities, not outcomes. This approach is consistent with the shift in regulators' approach to evaluating E&C program effectiveness and the extent to which programs work "in practice."

Methodology

The survey results presented in this report are based on completed online interviews with a global sample of 1,415 ethics, compliance, and legal professionals. Nearly all respondents came from organizations with at least 1,000 employees and were largely based in the Europe (40%), North America (34%) and Asia-Pacific (26%) regions.

The responding sample of ethics and compliance professionals represents 19 countries and 26 industries.

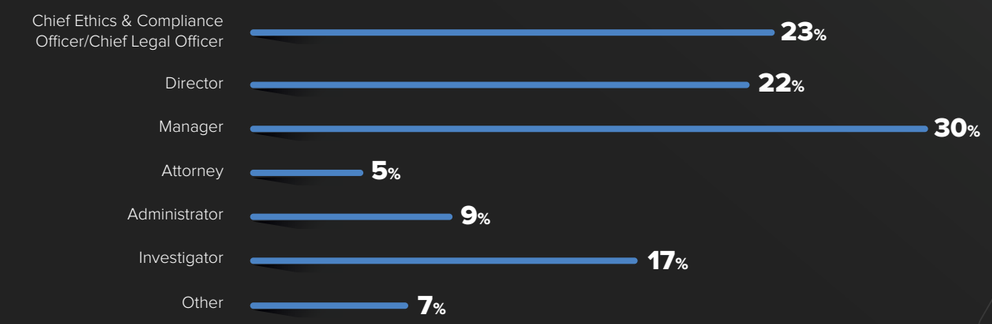
Participants were drawn from global panels fielded by research firms Sago and Dynata, as well as LRN's organic promotion efforts. All survey respondents were pre-screened to ensure their job responsibilities involve development, oversight, or implementation of ethics and compliance and/or legal objectives, policies, or procedures.

The survey was fielded in November 2023.

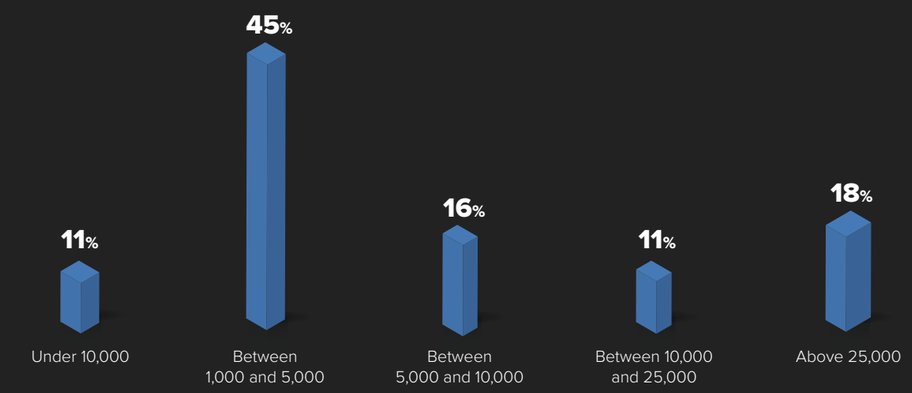
About the 2024 Ethics & Compliance Program Effectiveness Report

Respondent demographics

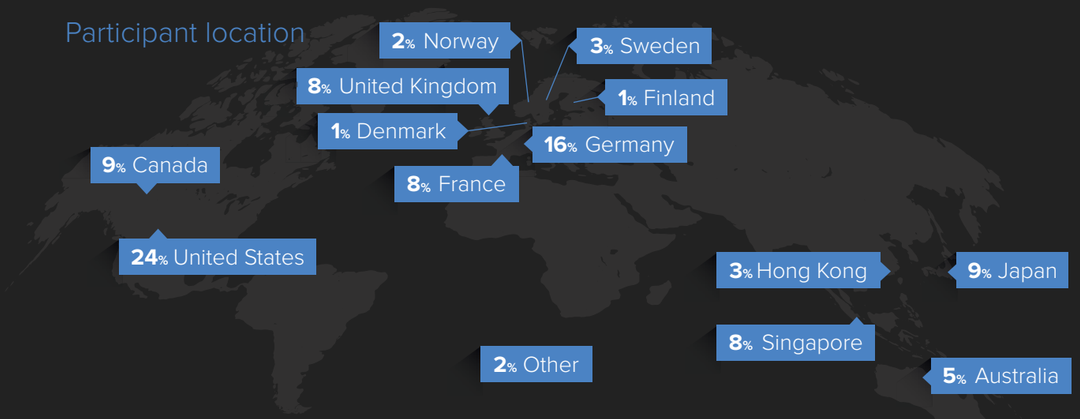
Participant role



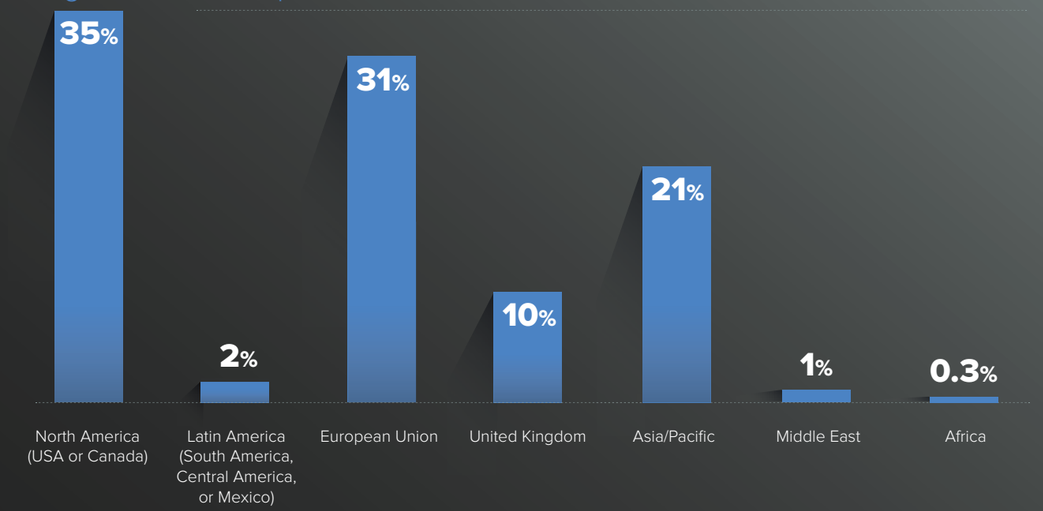
Company size (# employees)



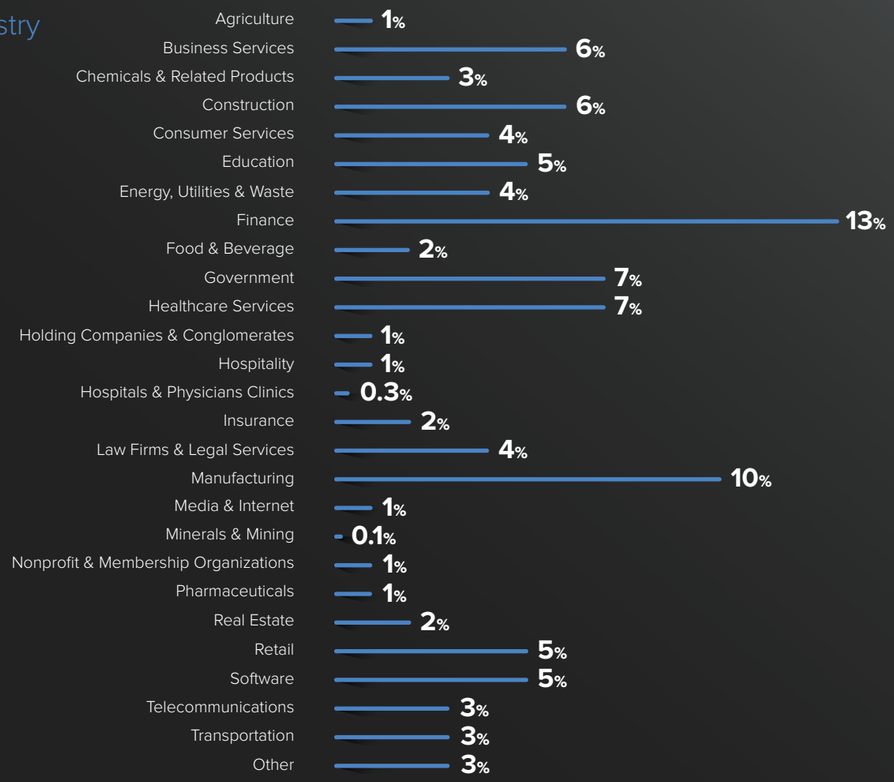
Participant location



Organization headquarters



Industry



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