

The Role of the Chief Ethics & Compliance Officer

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The Role of the Chief Ethics & Compliance Officer

- **Proposition:**

We hired a highly qualified individual as our new Chief Ethics and Compliance Officer (CECO). Where is the most effective place in the organization to assign her?

- Board of Directors level
- Management level; reporting to Legal
- Management level; reporting to HR
- Management level; reporting directly to CEO

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- **Discussion:**

An effective ethics and compliance program and structure depends on many factors, such as the nature and size of the business, the inherent risks of noncompliance, recent compliance history, experience of management and the workforce, and other factors to be discussed. A program built on rules is principally a compliance program; a program based on values is an ethics program.

Here are some key considerations in determining where to locate the CECO in the organization:

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- **Board Level:**
 - CECO not in the best place to know what is going on
 - Workforce will be skeptical because the “CECO is not one of us”
 - Workforce may view the CECO as the “ethics police”
 - Workforce will conclude that management is not trusted
 - Authority of the CEO is diminished
 - [Sometimes, because of recent serious compliance failures within management, interim assignment of the CECO to the Board is necessary.]

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- **Legal:**

- Fundamentally a bad choice because of the embedded conflict of interest, The lawyer's job is to defend the organization; the CECO's job is to bring the bad news to the boss, to help keep the company out of the dog house, and to help restore the company's reputation when ethical or compliance problems have visited.
- It is inevitable that the CECO's role and stature will be blanketed by the lawyer, and that the CECO's information and advice will be filtered

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- **Human Resources:**

- Most ethics and compliance issues are management issues; not employment issues
- HR has a narrowly-focused, specialized mission; placing the CECO under HR would tend to obscure the importance of the position
- Less likely to be perceived as having authority
- Less likely to be adequately resourced

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- **Directly to CEO:**

- The CEO's place within the organization is with management - - directly responsible to the CEO
- The center of gravity for all company operations lies with management
- Management has the first line responsibility and accountability for ethical business conduct.
- Management is the first responder to ethical crises
- The workforce tends to act as it perceives management really wants it to act

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- **Directly to CEO:**

- The ethics/compliance officer articulates to others that ethics initiatives are that of the CEO, and not “the latest from the ethics office”
- A practical reason is that the CEO is the giver of authority, and holds the ultimate decision on resourcing the ethics office

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■ Conclusions:

- The CECO should be part of management with a direct line to the CEO
 - The CECO must be given adequate resources and authority or will be discounted by both management and the workforce
 - The CECO should have a seat at the table whenever the CEO meets with other “direct reports” and should participate in major business decisions
 - The CECO should remain focused on ethics and compliance and not be given competing assignments
 - In larger organizations, the CECO’s role should be a full-time, dedicated position
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- **Conclusion:**

- In smaller organizations the CECO may be a part-time position (“dual hatted”); the other duties should be compatible duties
- The CECO must have ready access to the Board, which has the obligation to be knowledgeable about and to provide oversight of the ethics and compliance program