

Leading Corporate Integrity: Defining the Role of the Chief Ethics & Compliance Officer

*Chief Ethics & Compliance Officer (CECO) Definition Working Group, Ethics Resource Center
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Executive Summary (taken directly from article):

Senior corporate executives are under great pressure to build and maintain strong organizational ethics programs. The stakes are high for any organization that fails to make ethics a priority and then finds itself embroiled in scandal. Public perceptions— often driven by the media—spoil a company's reputation and weaken its brand value.

Lowered trust among investors can devastate a company's ability to attract support for growth. Regulators and lawmakers may move swiftly to punish and/or further regulate those who step outside accepted ethical boundaries. Today, many organizations are choosing to consolidate the critical responsibility for ethics and compliance programs under a chief ethics and compliance officer (CECO). But the specific roles and reporting lines for this relative newcomer among corporate management positions are not always clearly defined; many CECOs report feeling set up for failure due to insufficient authority or inadequate resources.

This paper is intended to serve as the starting point for a dialogue within corporate management circles—particularly among CEOs, boards of directors and the CECOs themselves—about the proper placement, qualifications, and responsibilities for a leader of the corporate ethics and compliance function. This paper also provides resources and identifies additional steps for further examination of this critical management function.

The Bottom Line: CECOs Add Value:

- CECOs whose roles are clearly and properly defined and who are empowered to create and maintain strong ethics programs:
 - Help provide shelter from severe sanctions in the event of legal/regulatory difficulty
 - Contribute to the establishment of an enduring ethical culture
 - Help other corporate leaders prevent misconduct or effectively address it when it occurs
 - Provide a public demonstration of the organization's commitment to integrity

The Cornerstone: A Clearly Defined Role:

- To truly be a value-added function, the CECO must have a well-defined role and be endowed with adequate resources. This demands a balance between tailoring the job to an organization's unique characteristics and providing the CECO with the basic authority and tools that should be universal for all who hold such positions.

At minimum, a CECO should be:

- Held accountable to the governing authority while carrying out its delegated fiduciary responsibilities Independent to raise matters of concern without fear of reprisal or a conflict of interest;
- Connected to company operations in order to build an ethical culture that advances the overall objectives of the business; and

- Given the authority to have decisions and recommendations taken seriously at all levels of the organization.
- The CECO also must have the financial and human resources necessary to comprehensively promote standards, educate the workforce, and respond to potential violations in a timely manner.

Assuring Access and Independence: Reporting Relationships & Accountability:

- A CECO's line of reporting is perhaps the single biggest influence on his or her credibility and authority within the organization. Ideally, the CECO will have:
 - Employment decided and terminated only at the direction of the board of directors
 - A direct reporting relationship to either the board or the CEO
 - Direct, unfiltered access to the board
 - Performance goals defined by the board and CEO
- The CECO position should be augmented by the board's appointment of one independent director or member of the audit committee, knowledgeable about business ethics and compliance, with accountability for ethics and compliance.

Responsibilities: Being a Full Member of the Executive Team:

- A CECO should be a full member of executive leadership, expected to:
 - Oversee assessment of organizational risk for misconduct and noncompliance
 - Establish organizational objectives for ethics and compliance
 - Manage the organization's entire ethics and compliance program
 - Implement initiatives to foster an ethical culture throughout the organization
 - Supervise ethics and compliance staff embedded throughout the organization
 - Frequently inform the board of directors and senior management team of risks, incidents, initiatives driven by the ethics and compliance program, and progress toward program goals;
 - Implement a program of measurement to monitor program performance
 - Oversee periodic measurements of program effectiveness

Personal Qualifications: Knowledge, Skills & Integrity:

- Like any other member of the senior executive team, a CECO should enter the position with certain knowledge and skills, including:
 - Management experience;
 - Ability to work at the executive level;
 - Knowledge of business;
 - Knowledge of and passion for ethical conduct and compliance; and
 - Strong personal character and a commitment to integrity.

The CECO's Special Role: Professional Development & Responsibility to the Field:

- Beyond their daily duties, CECOs have a responsibility to themselves and to the broader ethics and compliance field. As executives, CECOs should consider themselves accountable to a standard of conduct equal to that imposed upon other executives, the board, the broader public, and to CECO peers. As a result, CECOs must:

- Demand a high standard of conduct from vendors, non-governmental organizations (NGOs), and others providing ethics and compliance related services
- Take responsibility for the preparation of rising CECOs and other ethics and compliance professionals
- Advance knowledge and shape public dialogue about ethics and compliance.

Conclusion: The CECO Role Continues to Evolve:

Infusing and maintaining the highest ethical standards across the extended enterprise are among the most important job responsibilities in corporations today. The role of the CECO has emerged in response to the demand for a more accountable, transparent, and ethical business culture, and the creation of CECO positions across industries is testimony to corporate leaders' recognition of the importance of ethics and compliance in assuring their companies' success and longevity.

Still, many executives and boards have not yet realized the potential of their CECOs, in some cases by not providing adequate resources or authority to those holding the position. This report further defines the CECO role and demonstrates its critical value to an organization.

Properly constituted, the CECO investment is always worthwhile—because, in the end, ethical conduct is a key ingredient in building and sustaining investor and stakeholder trust and in protecting society from organizational misconduct.

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