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CENTER



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Dear Colleague,

We are pleased to present *Leading Corporate Integrity: Defining the Role of the Chief Ethics and Compliance Officer*.

This paper responds to a problem expressed by many professionals tasked with leading the ethics and compliance efforts in their organizations: most CECOs do not believe they have been given sufficient authority and resources to accomplish their missions. Even further, they struggle to raise the discussion with executives and directors.

It is our hope that this paper will be a catalyst for discussion. Led by the Fellows of the Ethics Resource Center (ERC), our working group included the executive directors of ERC, Business Roundtable Institute for Corporate Ethics, the Ethics and Compliance Officer Association (ECO A), the Open Compliance and Ethics Group (OCEG), and the Society of Corporate Compliance & Ethics (SCCE).

The challenge before all executives is to achieve a balance between tailoring the CECO job to an organization's unique characteristics while also providing the CECO with the necessary authority and tools universal to all those holding such positions. We hope that this paper will be helpful in providing a framework to find that balance in your organization.

We invite you to add your comments and suggestions in an ongoing web-based dialogue. Additionally, an executive summary, profiles of CECOs, and position descriptions can be found at [www.ethics.org/CECO](http://www.ethics.org/CECO).

Sincerely,

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Leading Corporate Integrity:

Defining the Role of the  
Chief Ethics & Compliance Officer (CECO)

Chief Ethics & Compliance Officer (CECO) Definition Working Group



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Leading Corporate Integrity:

# Defining the Role of the Chief Ethics & Compliance Officer (CECO)

Chief Ethics & Compliance Officer (CECO) Definition Working Group

**For additional resources,  
please visit the Ethics Resource Center  
website: [www.ethics.org/CECO](http://www.ethics.org/CECO)**

## Chief Ethics & Compliance Officer Definition Working Group

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# FOREWORD


The need for this paper was perhaps best evidenced by a headline appearing on Forbes.com on October 23, 2006, questioning “Chief Ethics Officers: Who Needs Them?”<sup>1</sup> The article was a response to statistics that had been reported just a few days earlier by Business Week that during the first three quarters of 2006, a CEO was fired every thirteen days as the result of scandal.<sup>2</sup> “Chief ethics and compliance officers have become trendy in recent years,” the Forbes article went on to say, “but some experts fear they act mainly as window dressing.”

Yet research suggests that when appropriately designed and situated in an organization, ethics programs—and the officers who lead them—can and do make a difference.<sup>3</sup> The key is to have a program that is adequately structured, with sufficient authority and responsibility given to its designated leader to carry out his or her responsibilities. When this happens, a proper tone is set from the top, an ethical culture grows, and misconduct is reduced. By contrast, a Chief Ethics and Compliance Officer (CECO) who serves as window dressing likely does more harm than good, especially in times of difficulty.

A close look at ethics and compliance programs across companies suggests that there is wide disagreement about the best way to situate a CECO. Conversations with CECOs also quickly reveal their frustration: these professionals cannot fully do their jobs. Their issue is not the desire to perform; rather, despite good intentions on the part of their employers, many CECOs are set up for failure due to deficient resources, inadequate preparation, or insufficient authority.

The purpose of this paper therefore is to suggest the role that is most appropriate to the corporate CECO such that an organizational ethics and compliance capability can achieve its intended purpose. The document that follows is a product of the Ethics Resource Center’s Fellows Program, and is also the result of several discussions among leaders of some of the most prominent nonprofit organizations in the ethics and compliance industry, convened to speak with one voice on this issue.

Our intention with this document is to offer suggestions, but not to prescribe detailed solutions. Every organization is unique; therefore the way a CECO functions must also be tailored to the corporate environment in which that person operates. What is universal is the fact that ethics is essential to longstanding success in business and the recovery of public trust in market economies. If ethics is to be a priority, it must be championed and fully supported. To that end, we offer this report as a starting place for a continuing discussion of the most effective ways to enable CECOs and their organizations to achieve success.



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<sup>1</sup> Clark, Hannah. (2006, October 23). *Chief Ethics Officers: Who Needs Them?*  
[www.forbes.com/home/corporategovernance/2006/10/23/leadership-ethics-hp-lead-govern-cx\\_hc\\_1023ethics.html](http://www.forbes.com/home/corporategovernance/2006/10/23/leadership-ethics-hp-lead-govern-cx_hc_1023ethics.html).

<sup>2</sup> LaVelle, Louis. (2006, October 12). *CEOs Feel the Heat.*  
[www.businessweek.com/bwdaily/dnflash/content/oct2006/db20061012\\_398172.htm?campaign\\_id=rss\\_daily](http://www.businessweek.com/bwdaily/dnflash/content/oct2006/db20061012_398172.htm?campaign_id=rss_daily).

<sup>3</sup> Ethics Resource Center (2005). *National Business Ethics Survey*, Washington, DC: ERC.

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# EXECUTIVE SUMMARY

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; and
- 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; and
- 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; and
- Oversee periodic measurements of program effectiveness.

Sample position descriptions and case studies of CECOs are available on the Ethics Resource Center website.<sup>4</sup>

<sup>4</sup> For additional resources related to this paper, please visit [www.ethics.org/CECO](http://www.ethics.org/CECO).

### **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; and
- 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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