

Spotlight on the CCO

How Millennials are going
to pave the way to improve
Corporate Compliance

A woman with her hair in a bun is shown in profile, focused on her work. She is wearing a light-colored top and a scarf, and has a headset microphone. She is sitting at a desk with a laptop open in front of her. The background is a large window with a view of trees, suggesting a bright, airy office environment.

EY

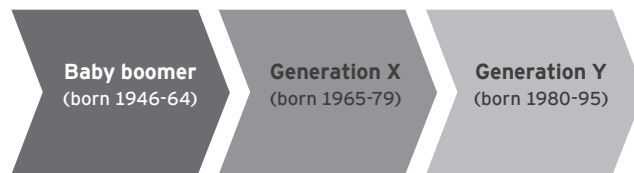
Building a better
working world



Business integrity and the current environment

One of the biggest problems organizations face when implementing governance, risk and compliance programs is getting everyone in the organization to adopt them. Millennials, otherwise known as Generation Y, are known for being an early-adoption generation that takes to new concepts (like Instagram) at light-speed – but also for questioning immature solutions immediately.¹

As regulations and enforcement get tougher, and risks get more complex and interconnected, the success – and very survival – of any business will depend largely on how risk-aware, compliant and well-governed they are. The volume, velocity and variety of risks a company faces on a daily basis are only going to increase in today's digital age, where a single tweet or an unsecured mobile device is all it takes to damage the long-term profitability and reputation of an organization. For example, in June 2015, a large technology corporation was reported to have a software vulnerability on their phones that enabled hackers to look through the phones' camera, listen to the microphone, read incoming and outgoing texts, and install apps.² Added to that, regulations across industries are becoming increasingly onerous and complex.³



By 2020, almost half of the US workforce will be composed of Generation Y employees.⁴ According to a recent EY survey conducted on work-life challenges across generations, that number will rise to 75% by 2025. Born in the '80s and '90s, they grew up playing video games and have never known the world without internet, email or instant messages. As this tech-savvy generation enters the workforce, they will bring a set of their own expectations regarding the use of technology and communication, as well as a unique perspective to the work culture. Needless to say, these expectations are quite different from Gen Y's older counterparts and will present additional challenges to the organization's corporate compliance in the near future. In the changing work environment corporate compliance will inevitably have to adapt to accommodate the work styles of Generation Y and address the risks associated with their needs and expectations. So compliance executives of today have to question and challenge themselves: "Does compliance also have to change to sustain effectiveness?"

Generation Y characteristics

EY recently launched *Global generations: a global study on work-life challenges across generations* to help us, and the broader marketplace, better understand the complexities facing today's workers, with an eye toward attracting and retaining Millennials and maximizing their performance in the workplace. What we found was that Millennials globally are willing to make tough choices and sacrifices to better manage work and home. "Millennials are very ambitious. I'm really bullish on the Millennial generation," commented Karyn Twaronite, EY's Global Diversity & Inclusiveness Officer, who sponsored the study. "They're investing in the hours they need to work, and they're willing to travel. They're willing to just go for it, and that's why we're calling them 'Generation Go.'"

In the governance, risk and compliance field, some of the stereotypical traits of Generation Y are the antithesis of best practices. While some criticisms of Generation Y include "my guess is better than our knowledge," multitasking instead of perfecting something, and being more concerned with image than quality.⁵ According to our research,⁶ these criticisms are counterbalanced with:

- ▶ **Collaborative, networked learning:** the average user spends 55 minutes a day on Facebook.
- ▶ **Fast, easy and fun communication:** Generation Y adults spend 15+ hours a week on the internet.

- ▶ **Flexibility:** 56% of Generation Y prefer to work flexibly and choose when to work, and 79% prefer to be mobile rather than static workers.
- ▶ **Upwardly mobile:** they are eager to take on responsibility and interesting challenges.
- ▶ **Individualistic and egocentric:** Gen Y is more likely to be loyal to themselves than to their employer.
- ▶ **Environmentally aware:** 96% of Generation Y want an environmentally aware workplace.
- ▶ **Immediate feedback:** 34% of bloggers post opinions about products and brands.

Above all, Generation Y does not want to follow the "old corporate model" – they do not want to follow established protocols and processes. Rather, they prefer to think outside the box and strive toward inventing new ways of doing things. They seek transformational change, and where they cannot find it, they look to invent it themselves, including improved corporate structures and leadership. These characteristics will have a significant impact on the corporate culture, leadership style and design of operational procedures to work with the attitude of the next-generation leaders, and therefore directly affect the requirements and perception of corporate compliance.

¹ "Gen Y vs. GRC (Governance, Risk & Compliance)," Fast Track, www.fasttrack365.com/blog/bid/322597/Gen-Y-vs-GRC-Governance-Risk-Compliance, 27 July 2013.

² "Samsung Galaxy phone hack: SwiftKey vulnerability lets hackers easily take control of devices," *The Independent*, www.independent.co.uk/life-style/gadgets-and-tech/news/samsung-galaxy-hack-swiftkey-vulnerability-lets-hackers-easily-snoop-on-phones-10325574.html, 17 June 2015.

³ "2015 Trends and Predictions for GRC," MetricStream, accessed July 2015.

⁴ "ROI on Generation Y Employees," Knoxville Chamber of Commerce, www.knoxvillechamber.com/pdf/workforce/ROIonGenYWhitePaper.pdf, April 2008.

⁵ "Gen Y vs. GRC (Governance, Risk & Compliance)," Fast Track, www.fasttrack365.com/blog/bid/322597/Gen-Y-vs-GRC-Governance-Risk-Compliance, 27 July 2013.

⁶ *The digitization of everything*, EY, 2011; EYeCatcher, EY, 2010.

Changes in the workforce

While today the percentage of Generation Y employees is slightly below 40%, some organizations have already started to adapt their policies and culture to fit the needs of the Millennials. Many companies utilize internal instant-messaging tools and social networks to accommodate Generation Y's communication style. Some companies allow their employees to work from remote locations and use telecommunications as a substitute for face-to-face meetings, all of which helps to satisfy Gen Y's need for flexibility. However, these changes are just the beginning of a big transformation that companies will have to face in the future. Some of the factors that will trigger further changes in companies' work environments, policies and culture include:

- ▶ The annual rate of birth for the Millennial generation is about the same as that of baby boomers over an 18-year period. Millennials number 70 million Americans.
- ▶ The Millennial generation has had slow career promotions because baby boomers have stayed on the job longer. In just a few years Millennials will face rapid advancement in high numbers as a result of mass retirements.
- ▶ When Generation Y reaches management ranks, their approach to information management and process will be at odds with established protocol. While being adept at electronic networking and using technology as collaborative tool, they are less prone to seek a face-to-face opinion when presented with an issue or a problem to be resolved, which could lead to a positive or negative result depending on the situation. This change could result in higher efficiency and reduced cost, but could also result in a decision being made without all factors being considered – for example, if there was information not captured electronically.
- ▶ When Gen Y advances to higher ranks, the organizations will face a need to accommodate two working styles: Gen Y, which is over-reliant on technology and new information, and older and more experienced professionals, who make their decisions only when they are confident they have the right information and who view technology as a supportive tool, relying mostly on their experience and judgment.

- ▶ With the increasing prominence of technology and globalization, and considering Generation Y's willingness to establish global networks and eagerness to work in various cultures, Millennials will be able to pioneer new opportunities in the job market.
- ▶ The national workforce is rapidly aging and will continue to age and retire, creating a loss of skilled, talented and reliable workers.

Industries, processes and customer demands are constantly changing, and it is that requirement for flexibility that directly plays into Generation Y's hands. One clear message from our EY survey is that, in the United States, Millennials want flexible work arrangements, although they worry about "flexibility stigma" – the likelihood that they'll be labeled less than fully committed to work if they use it. These findings are as true for men as they are for women; both are equally focused on careers.

Our recent study found that 70% of Millennials mentioned there was a lack of workplace flexibility, including no option to telecommute, and they cited this as one of the most important job issues. Flexibility is one of the Millennials' top requirements because they are more likely to have a full-time spouse/partner working; 78% of millennials are part of a dual-career couple, compared to 47% of boomers. In order to accommodate the needs of Millennials and retain them as part of your workforce, companies will need to provide holistic pay (a close link between pay and company performance⁷) and benefits including flexibility, and as part of it, the ability to telecommute one to two days a week. The difference between traditional and total performance and reward (holistic) approach is demonstrated in the table below.⁸

Traditional compensation approach	Total rewards approach
Compensation is primarily base pay.	Variable pay is added to base.
Bonuses/perks are for executives only.	Annual/long-term incentives are provided to executives, managers and employees.
Fixed benefits are tied to long tenure.	Flexible and portable benefits are offered.
Pay grade progression is based on organizational promotions.	Knowledge/skill-based broad bands determine pay grades.
Organization-wide standard pay plan exists.	Multiple plans consider job, family, location and business units.



The importance of continuously updating your compliance program

Corporate compliance is fast becoming one of the highest-priority areas for organizations, especially when the Justice Department (DOJ) and other US Government agencies are focusing on evaluating a company's compliance program whenever criminal action is being considered. A trend that we identified in 2014 was the increasing number of enforcement actions against individual defendants by the DOJ. The trend in the previous years was toward corporate settlements followed by individual prosecution. What we are seeing now is that the DOJ is especially focusing more on individuals. Leslie Caldwell (Assistant Attorney General for the Criminal Division, appointed May 15, 2014) stated that "corporations should be holding themselves accountable by designing compliance programs that don't just look good on paper but actually work. Compliance programs are designed to protect the company's reputation, customers, counterparties and the public, as well as ensuring compliance with the law."⁹

In 2014, the DOJ and the Securities and Exchange Commission brought charges related to the Foreign Corrupt Practices Act against 14 individuals. In the United States vs. Elgawhary case, the perpetrator was the former principal vice president of a large corporation. The wrongdoing was announced in February 2014 and involved a kickback scheme.

The compliance program was not robust and failed to confirm that controls were operating effectively. The perpetrator was indicted by a grand jury on charges that he defrauded his former employers, laundered the proceeds of the fraudulent scheme and violated federal tax laws. In December 2014, he pleaded guilty to mail fraud, conspiracy to launder money, and tax evasion. He will be serving 42 months in prison.

To avoid negative scrutiny from regulatory bodies, a company's integrity and compliance program should be implemented effectively, communicated repeatedly, enforced properly, and continually evaluated and updated with the appropriate commitment from leadership. Given that more Millennials will be in leader roles, corporate compliance must be continually evaluated and updated to account for the characterization differences coupled with technological and economical advancements.

Generation Y will change the style of work we are used to live in. Our next-generation executives will have a more significant impact on the corporate culture, business operations and the speed we currently work in. From a compliance point of view, we will experience challenges in delivering in real time, managing a large scale of data, and communicating in new ways by leveraging technology.

⁷ "Why You Need a Holistic View of Pay and Performance," Towers Watson, www.towerswatson.com/en-US/Insights/Newsletters/Global/executive-pay-matters/2013/Why-You-Need-Holistic-View-of-Pay-Performance, 25 April 2013.

⁸ B.D. Singh, *Performance Management System: A Holistic Approach* (Excel Books, 2010).

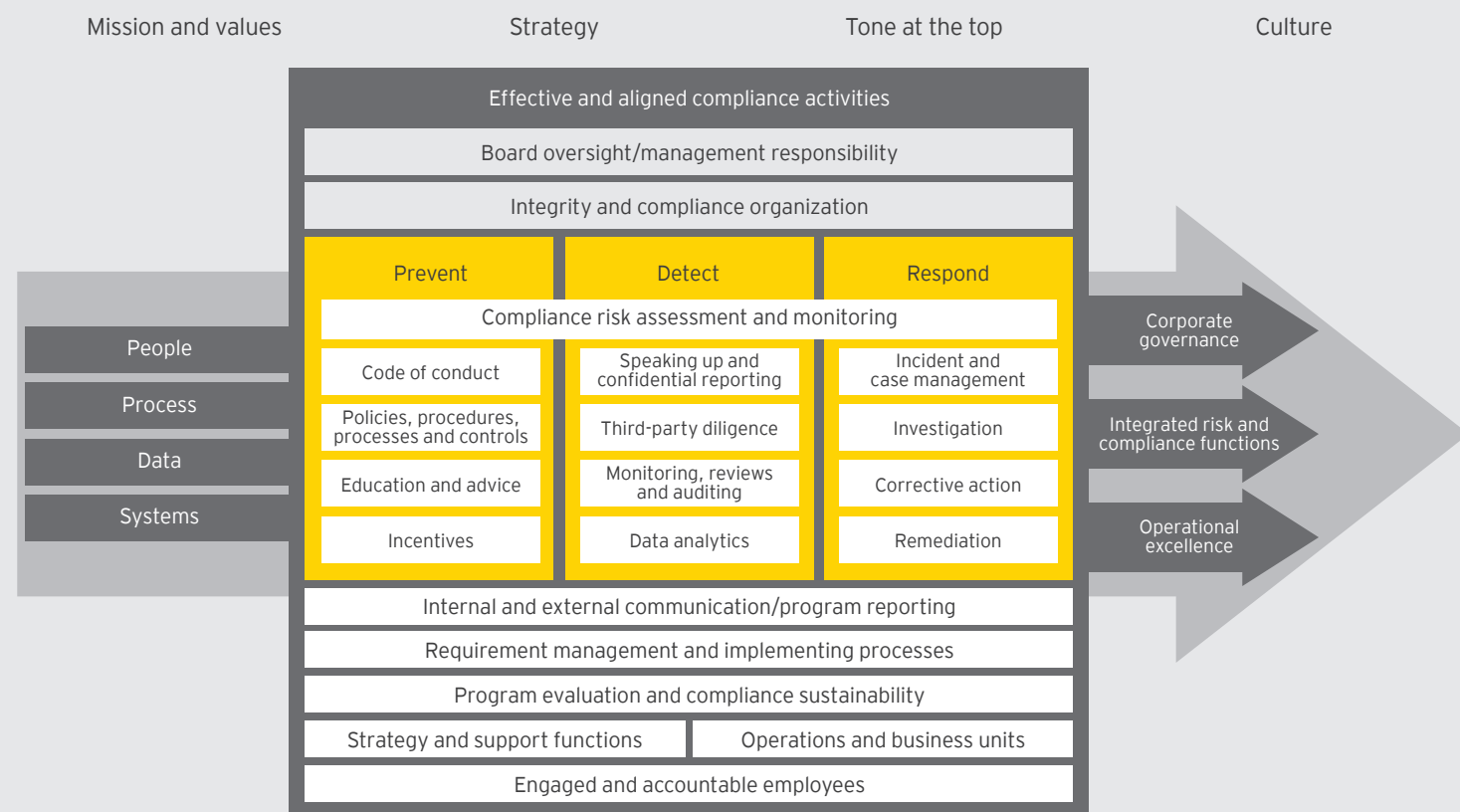
⁹ "Assistant Attorney General Leslie R. Caldwell Delivers Remarks at the Compliance Week Conference," Department of Justice, www.justice.gov/opa/speech/assistant-attorney-general-leslie-r-caldwell-delivers-remarks-compliance-week-conference, 19 May 2015.

So what should the compliance officer do to develop a “next-generation toolkit”?

Organizations should consider updating their Business Integrity & Corporate Compliance (BI&CC) framework models to start accounting for more Generation Y employees in leader roles.

To develop a toolkit for the next generation, we assessed six of the most-likely-to-change areas from our EY BI&CC framework model that should be modernized to integrate the emerging Generation Y workforce.

The EY Business Integrity & Corporate Compliance Framework



Policies, procedures, processes and controls	Education and advice	Incentives	Speaking up and confidential reporting	Internal and external communication	Tone from and at the Top
<ul style="list-style-type: none"> Continuously update and enforce policies and procedures Utilize apps for employees' smartphones in place of web-based activities Design adequate preventive and detection elements and integrate them in the overall compliance program Use diverse company apps across multiple business units, including hour and expense reporting; a platform for feedback, reviews and goal tracking; an online chat system; a company newsfeed and wikis; a whistleblower IM service; news alerts to be sent instantly to colleagues; and harmonization of compliance operations, controls and functions Match company policies with what's happening on the ground 	<ul style="list-style-type: none"> Cater training to the phone-obsessed, "plugged-in" Millennials that prefer more interactive options Tailor training seminars to a Gen Y audience by including more interactive and engaging training methods Provide education around just-in-time compliance support delivery by leveraging technology and support functions Expect to see more cross-divisional teaming and communication, because Gen Y likes being engaged and interacting Leverage the new technology and creative communication ideas through gamification 	<ul style="list-style-type: none"> Look at total compensation, benefits and rewards holistically to include work and life needs of employees Prevent or eliminate stigmas commonly associated with parental leave and flexibility Place greater emphasis on non-salary-related benefits for Gen Y employees Use programs supporting faster promotions and continuous recognition of employees' efforts Tailor to the needs of the workers, rather than "one-size-fits-all" approach Balance between monetary and non-monetary incentives Continuously embed compliance and integrity into incentive and rewards programs to drive the attention and support of the preventive programs 	<ul style="list-style-type: none"> Find new methods of promoting and supporting the escalation process when a behavior is not in line with corporate compliance Gen Y professionals who are "always on the run" will leverage new ways of internal communication and collaboration to communicate on identified matters – but compliance professionals will also have to change their way of response: transparency and information of ongoing and finalized investigations will also be strengthened in the updated compliance program Increase transparency and provide information on ongoing and finalized investigations 	<ul style="list-style-type: none"> Utilize real-time data to assess the effectiveness of the compliance program by comparing to industry standards Implement training websites accessible from handheld devices Facilitate communication and reporting through mobile apps Confront these technological shifts: use of new technology to mitigate cyber risks and protect privacy, use of big data analytics, new processes for collecting prospective employees' information, implementations of large-scale commercial and in-house information systems that track changes in legislation and regulation, and hands-on and targeted group-specific compliance and integrity communications 	<ul style="list-style-type: none"> Deliver consistent messaging from the executive level down to Gen X and Gen Y leaders, who should be open to change Clearly communicate the company's values and culture, accommodating both Gen X and Gen Y employees Establish real-time, 360-degree view of organizational risks Utilize sophisticated listening and big data analytics tools to help predict risk scenarios and guide decision-making Build a more risk-aware, compliant and well-governed corporate culture and organization

How EY can help

Our Business Integrity & Corporate Compliance offering provides a practical way approaching improvements in your effectiveness and sustainability of your integrity and compliance program – from limited engagements involving a focused assessment of a single component, to those where we provide a full range of advisory services. Specifically, we provide:

- ▶ **Compliance risk assessments** that help management identify and prioritize the company's significant integrity and compliance risks, including emerging "frontier" issues.
- ▶ **Integrity and compliance performance assessments** that independently consider the design of the company's compliance infrastructure, including the compliance function, structures, people, processes and entity-level controls; compare compliance infrastructure to leading practices, and identify improvement opportunities. EY uses the Business Integrity and Corporate Compliance maturity model tailored to address the needs of your organization.
- ▶ **Integrity and compliance program implementation and improvement** services that assist you in developing and implementing a plan, as well as core elements and initiatives to mitigate specific compliance risks or to strengthen a company's integrity compliance infrastructure. These services also include integrity diligence services (compliance due diligence and transaction support), proactive data analytics services and fraud investigations/investigation readiness services.
- ▶ **Compliance sustainability and monitoring** help management develop and execute a plan to evaluate and monitor the operation of the company's controls to manage compliance risks as well as integrating integrity and compliance in the day-to-day business operations.

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