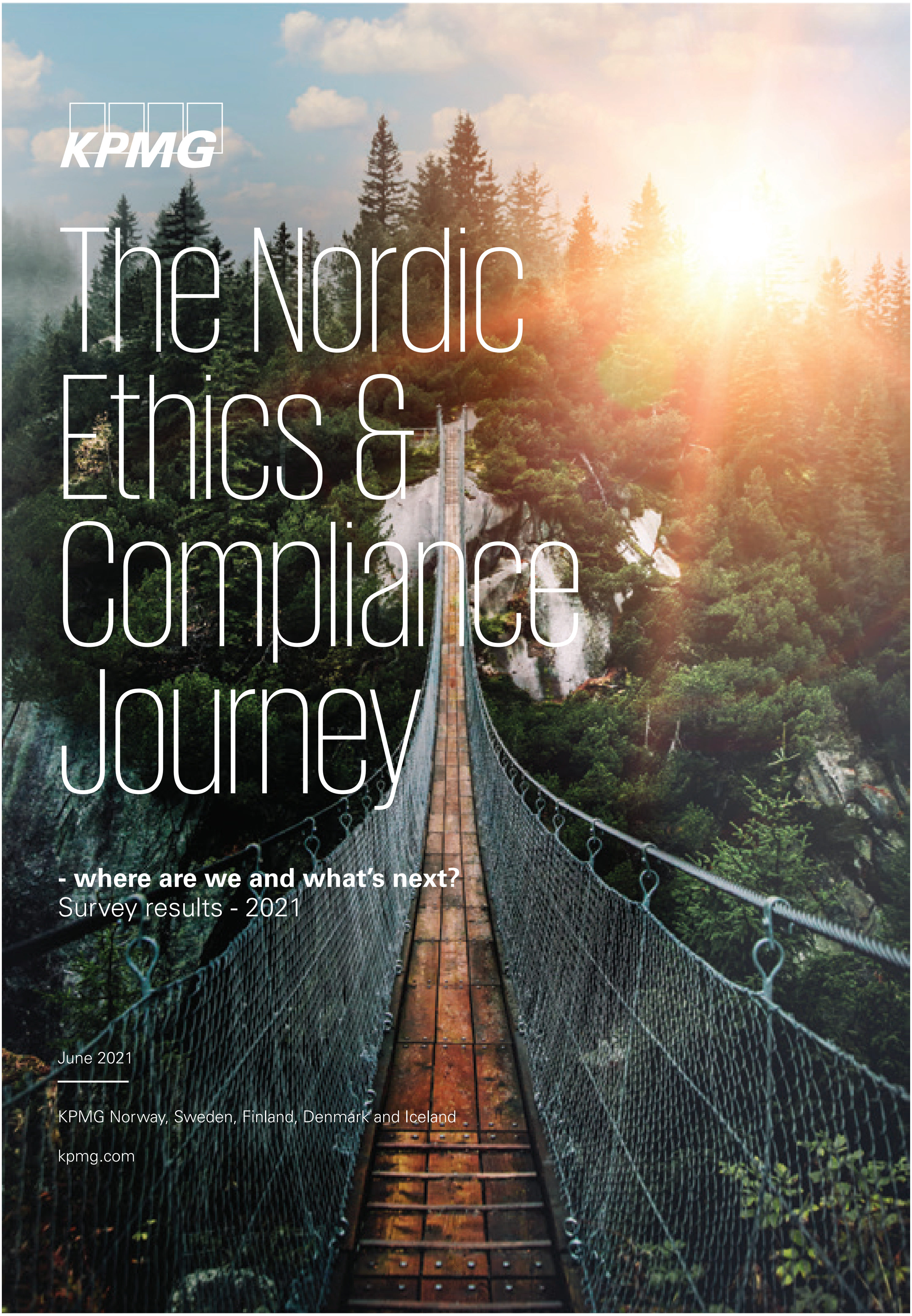


KPMG

The Nordic Ethics & Compliance Journey

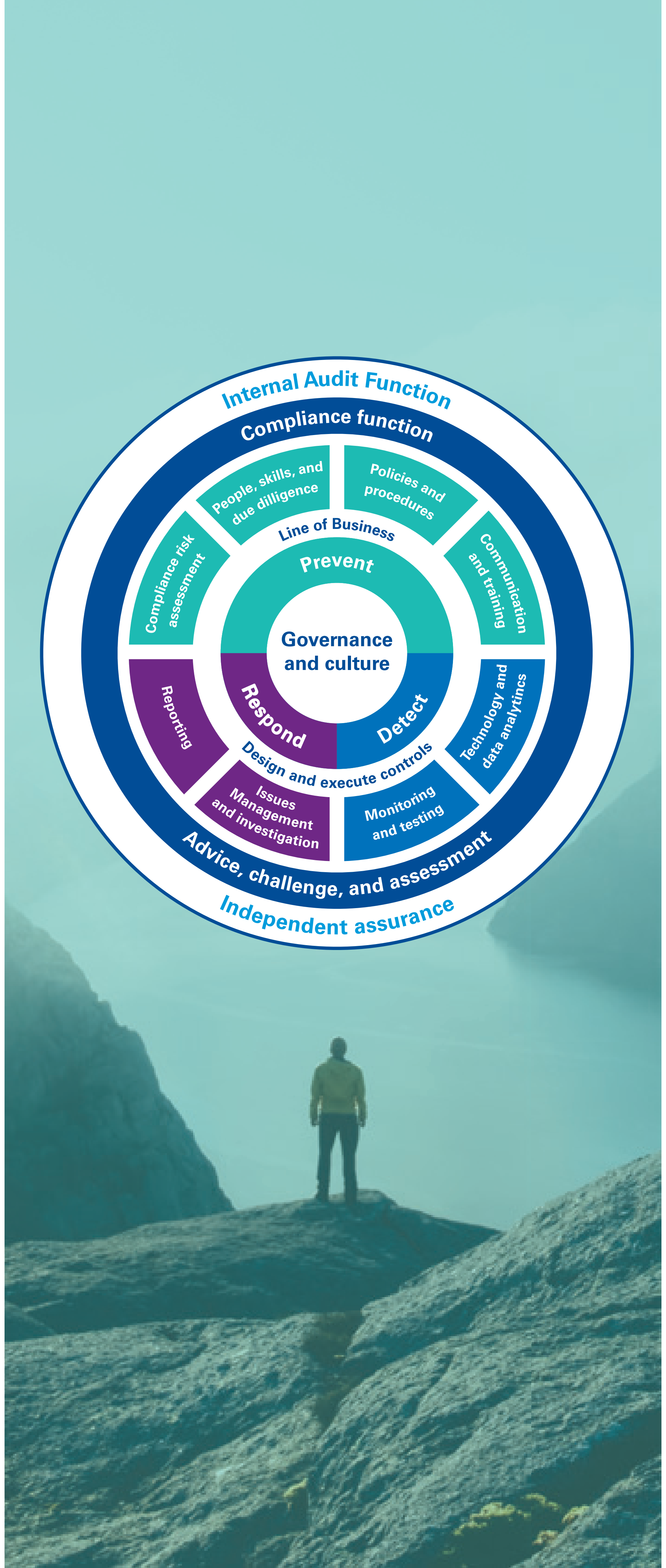
- where are we and what's next?
Survey results - 2021

June 2021

KPMG Norway, Sweden, Finland, Denmark and Iceland

kpmg.com

Contents



Preface

In this survey, we have made an assessment of where Nordic companies are on their ethics and compliance journey, their strengths, and their areas for further enhancement. The survey has sought to capture the perspectives and viewpoints of key stakeholders in the ethics and compliance arena, covering governance, social, and environmental aspects of business performance and risks.

Building and maintaining credibility and trust is a key success factor for organizations. The current landscape can be characterized by increasing legal and regulatory complexity and international enforcement, as well as growing expectations from stakeholders and society at large as to responsible business conduct and sustainable operations. Increased external expectations also mean additional requirements in terms of managing compliance systems, efficiency, digital tools, resource allocation, and competence. Compliance that was "good enough" just a few years ago can be considered immature in today's environment.

The survey was completed by 115 respondents across the Nordics in March and April 2021, both private and public, large, medium, and small-size companies across all industry segments except financial institutions and public municipalities. A large part of the respondents, 27%, have a dedicated compliance role.

We hope that the report will support you in your compliance work and bring you some new perspectives on how to prevent, detect, and respond to compliance risks. The decisions you make today can help mitigate the risks you may encounter tomorrow.

All of you who have participated in the survey will get the opportunity to meet with us to discuss your own results, including benchmarking against peers in the same industry segment. We look forward to discussing your results with you!

Do not hesitate to contact us for more detailed information!

Kind regards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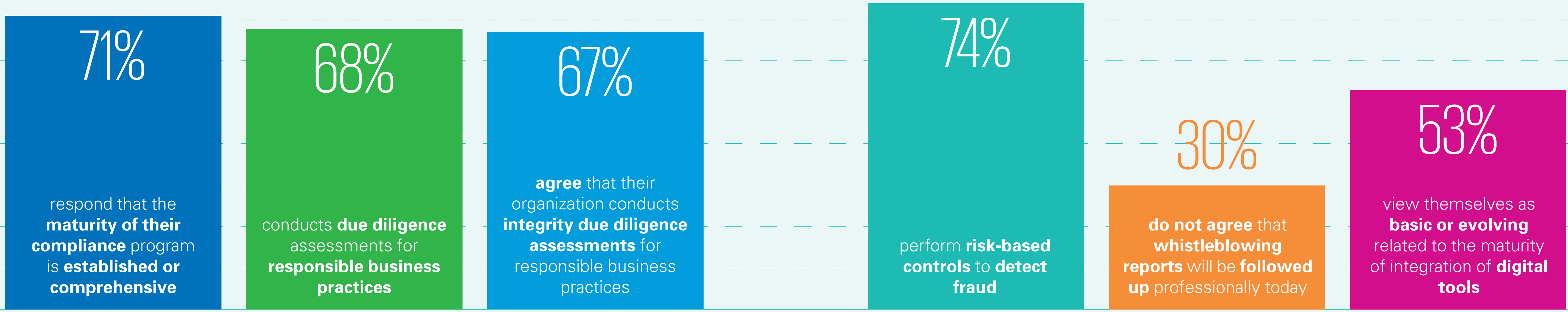
Key findings in numbers



Maturity of compliance programs is increasing : 71% of the respondents state that the maturity of their program is Established or Comprehensive. In our view this is a surprisingly high number. It may be explained by the fact that mature companies are over-represented in the survey: the majority of companies are stock-listed, more than half of the companies have more than 1 000 employees, and a total of 69% have a designated compliance function. At the same time, the survey shows that companies are struggling to operationalize the compliance program to achieve increased governance and control. 54% of the respondents answer that the establishment and increased use of the third-line model has not resulted in increased governance and control but has left it "unchanged". It is interesting to note that respondents still now in 2021 rank "Tone and Commitment from Top Management and Board" as the number 1 preventive activity moving forward. It is also interesting to see that there are significant differences between industry segments when it comes to maturity. On a country level, Norway, Sweden, and Finland view themselves as quite mature while Denmark and Iceland are just behind.

Expanding compliance programs to cover the ESG space: With the recent approval of multiple regulations addressing ESG disclosures especially related to climate change, organizations are facing significant additional reputational and litigation risks. The survey clearly shows that compliance programs no longer "only" focus on sanctions and corruption, but cover the whole ESG space including human rights and environmental aspects. In the survey, conflict of interest is ranked as the number 1 ESG risk, followed by corruption, bribery, and in third place climate change.

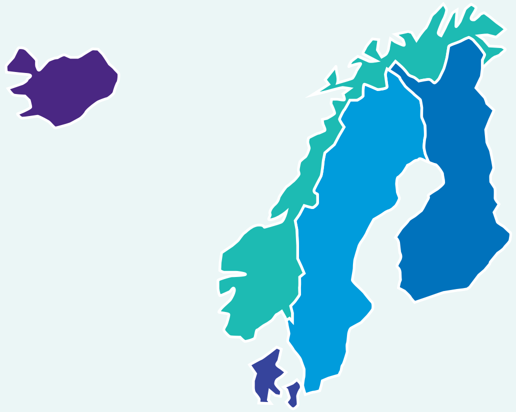
Increased focus on Responsible Supply Chain: The survey shows that the majority of companies have increased their compliance activities with active work in their supply chain. 77% agree or strongly agree that their company actively communicates their Code of Conduct to their suppliers. 67% agree that their organization conducts integrity due diligence assessments for responsible business practices. 72% agree or strongly agree that they carry out risk based controls of suppliers with respect to corruption, 68% with respect to labor conditions and 59% with respect to environmental conditions.

Risk-based control activities being strengthened: 74% of the respondents state that they perform risk-based controls to detect fraud. Only 66% answer that they perform risk based controls on conflict of interest. The survey shows that listed and large companies consider internal control more important than private companies. Companies with offices, joint ventures, suppliers or agencies in countries with CPI below 50 also consider it generally more important. Digital tools enable moving from "static" controls to continuous monitoring and detection of "red flags". Remote working conditions during the Covid-19 pandemic have created weakened internal control environments. Also risks for phishing and cyberattacks have increased during the pandemic.

Whistleblowing perceived as a value: 75% of the respondents state that there is a low threshold in the company for employees to raise concerns. On the other side, 30% do not agree that whistleblowing reports will be followed up professionally. Indeed the target for this important indicator which measures trust should be 100%. It is interesting to note that this percentage is so high when the large majority of the respondents of this survey belong to Compliance, Legal, Sustainability, Finance, and CEO functions. It is also very interesting to see that respondents working for private companies have significantly less trust that whistleblowing reports will be followed up professionally than stock-listed companies and state-owned companies.

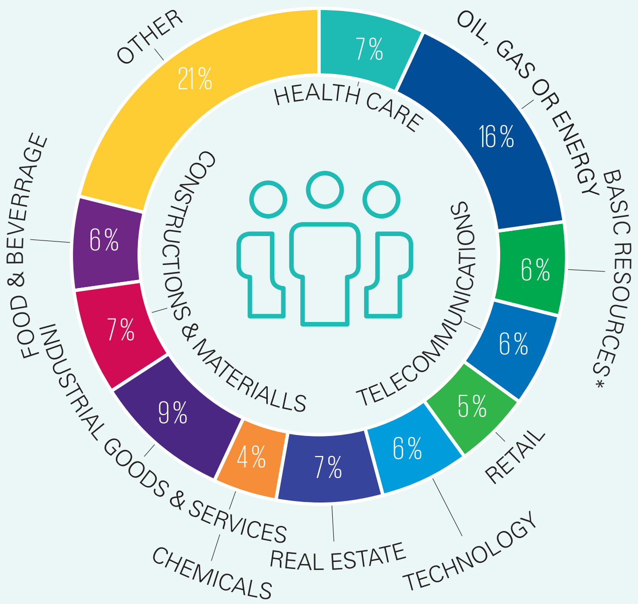
The digital journey has started: The survey shows that the large majority of companies are still in "the early phases" of their digital journey. As many as 53% of the respondents describe the maturity of integration of digital tools in term of compliance work as "basic or evolving". Only 41% of the respondents answer that they think that their compliance program sufficiently leverages technology. The latter observation reflects KPMG's understanding of an area our clients are struggling with today – the journey to transform the compliance program to a digital and more cost effective way of working under increased regulatory scrutiny. Entities have experienced the pandemic as a «real push» for technological advance in ethics and compliance to convert to more efficient processes

Facts about the respondents



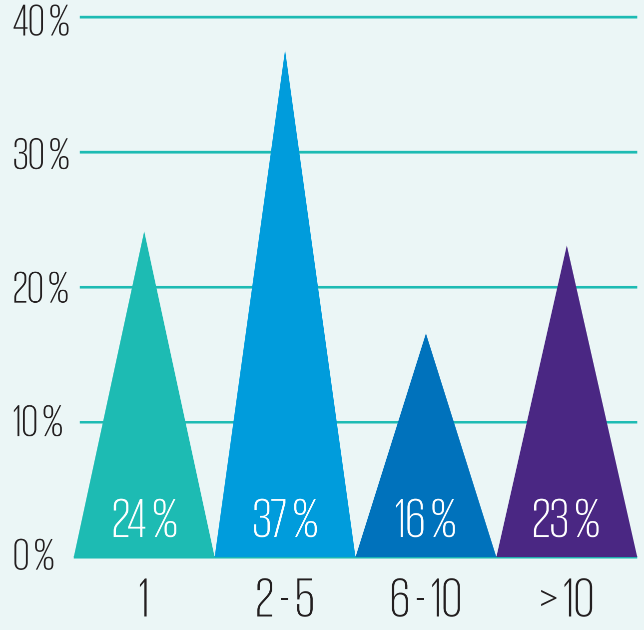
- The survey was completed by 115 respondents across the Nordics.
- A large part of the respondents, 27 %, belong in a dedicated compliance function.
- The majority of companies are stock-listed.
- More than half the companies have more than 1 000 employees
- A total of 69 % have a designated compliance function
- A total of 68 % have an internal audit function
- 42 % of respondents have offices in corruption prone countries. (CPI <50)
- 29 % of respondents are engaged in joint ventures in corruption prone countries (CPI <50)
- 37 % have agents or sales representatives in corruption prone countries (CPI <50)

Respondents by industry



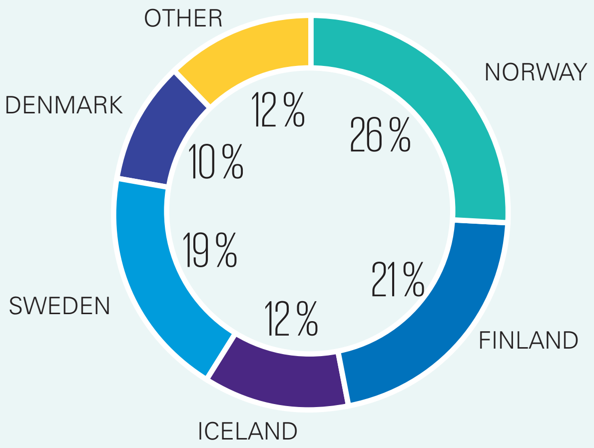
*forestry & paper, industrial metals & mining, fish farming

Employees dedicated to compliance*

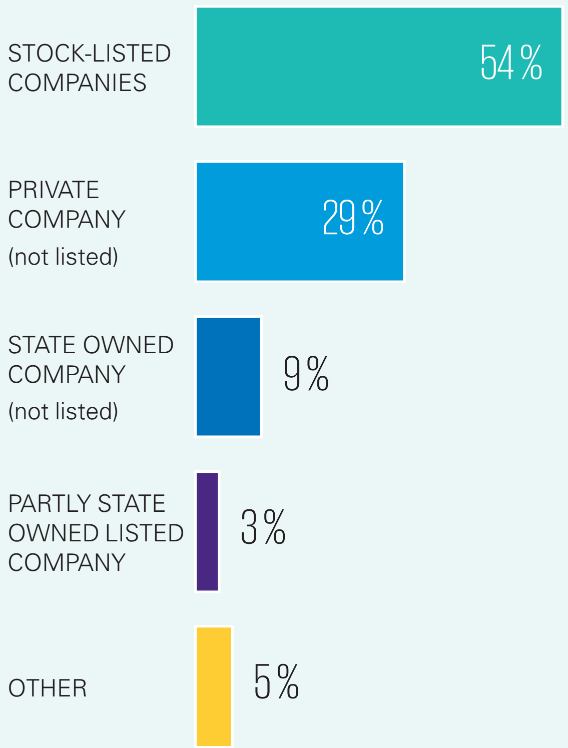


*Full time employees

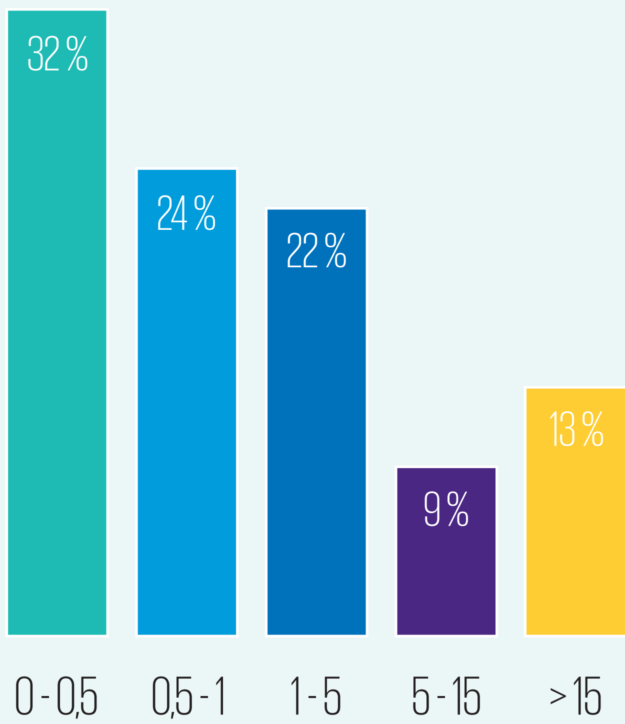
Location of headquarters



Ownership



Revenue (in billion EUR)



Respondent function

Maturity of compliance program - overall view

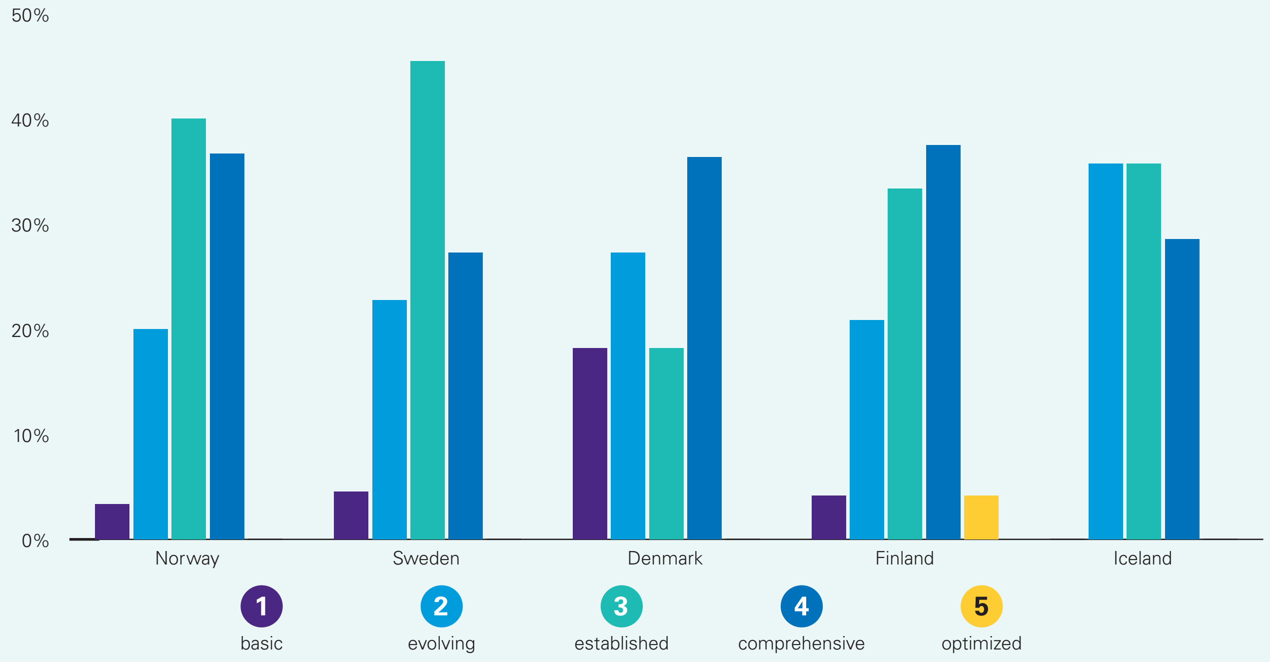
As a general overarching mandate, applicable external guidelines require that companies "exercise due diligence to prevent and detect criminal conduct" and "otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law".

A compliance program should be designed as a comprehensive management system aiming to create and promote culture of ethical conduct, and prevent, detect and correct breaches and violations of laws, regulations or internal policies and procedures (non-compliances).

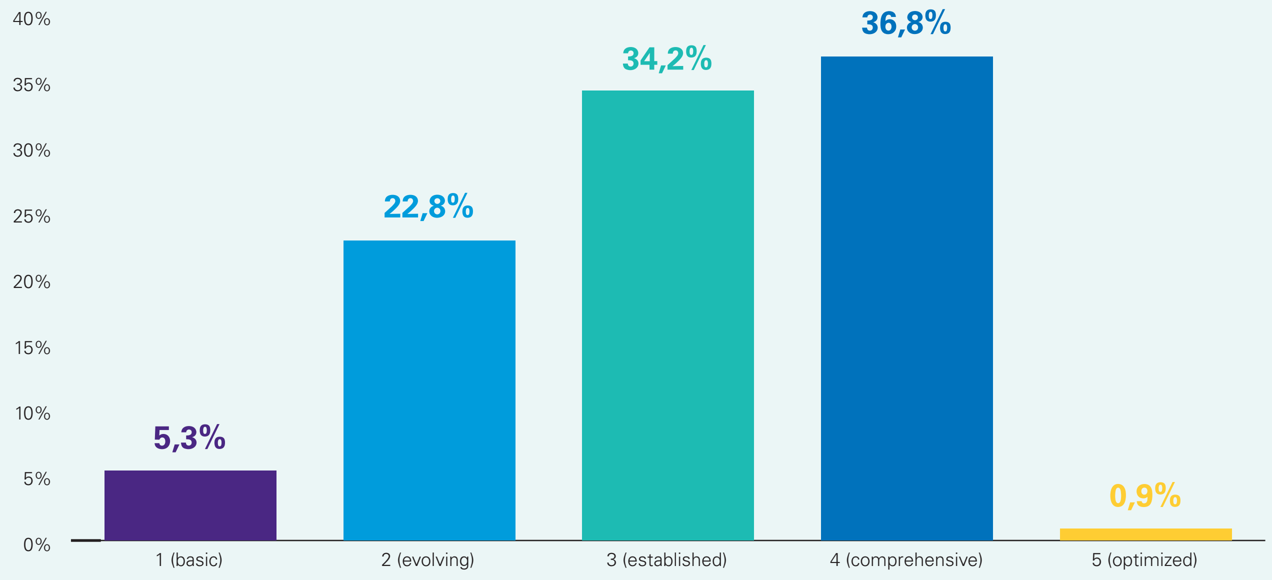
It is critical that the company's compliance program is proportionate to the business operations, risk-based and regularly reviewed and updated. An effective compliance program must be embraced by all parts of an organization and operates best in a framework with strong governance, robust risk identification and mitigation processes.

Key takeaways

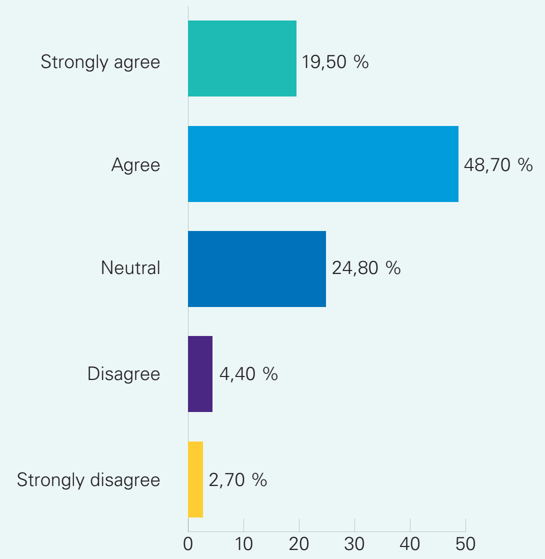
- Overall, 71% of the respondents state that the maturity of their program is at level 3 or 4 (out of 5) i.e. Established or Comprehensive.
- Around 68% agree or strongly agree that the compliance program is well designed.
- Norway, Sweden, and Finland view themselves as quite mature, while Denmark and Iceland are just behind.



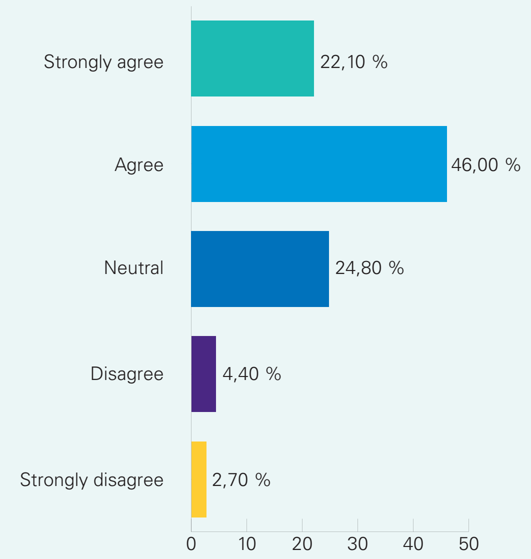
Overall, assuming a broad perspective, on a scale from 1-5, where would you say that your organization is with respect to maturity of the compliance program today:



The company's compliance program is well designed, i.e. addressing the relevant compliance risks in an efficient manner, as identified through a systematic and documented compliance risk assessment:



The compliance program has been applied earnestly and in good faith, i.e. the program is adequately resourced and empowered to function effectively.



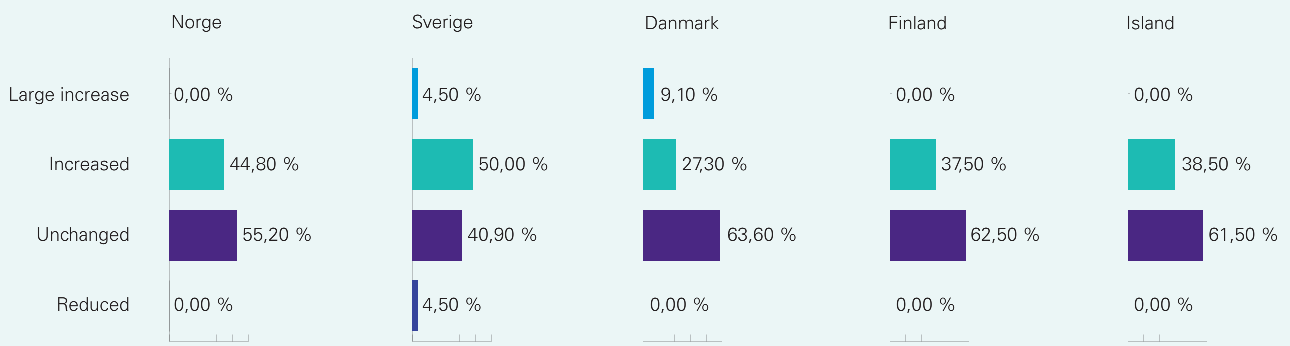
Operationalization of the compliance program

In recent years, we have seen a number of media cases related to governance and control in larger Nordic businesses, and we have seen an increasing number of companies increase their spending on the three line model. The three line model provides a high level overview of the roles and responsibilities for risk ownership (management), risk control (compliance, risk management) and risk assurance (internal audit) and distinguishes between three internal groups (or lines) that are involved in the processes.

Key takeaways

Overall 54% state that increased spending on three line model has had an «unchanged» impact on the governance and control. These are relatively thought-provoking findings and should make top management think carefully about whether having more employees in the second and third line is the right strategy going forward.

Have you experienced that the establishment / increased use of the three line model has resulted in increased governance and control?



From strict internal compliance to the law, companies now need to consider a wider stakeholder group stretching across suppliers and other contractors. We see businesses insisting on tone and commitment from top management and boards, but what is equally important is that ethics and compliance activities must be properly anchored and understood by the organization in order to be successful.

Torbjörn Westman, Head of Assurance Services Partner
KPMG Sweden

For companies with a Nordic and global presence and complex governance structures, it is important that the first line has a clear responsibility for owning and managing compliance risks. The focus in the second / third line should be on the greatest risk and cases that require an independent assessment.

Kenneth Hansen, Head of Internal Audit Services
KPMG Norway

Maturity of compliance programs - industry segment view

BASIC RESOURCES

Companies producing basic resources are among the top performers, especially leading Board of Director approved compliance programs, implementing KPIs, having dedicated compliance roles, having clear compliance ownership in line-of-business and performing regular compliance audits and surveys. They are the top performer in terms of risk based controls and especially perform well when it comes to internal fraud, gifts and hospitality, suppliers environmental risk. They are also among the more mature industries when it comes to leveraging technology.

CHEMICAL:

Chemical companies are among the top performing industries and stand out in compliance and ethics training programs, and providing targeted and effective controls to manage risk. They perform above average, with strong routines for responsible business practices, due diligence, and ownership structure risk assessments. They perform below average with respect to controls of conflict of interest between employees and suppliers. Also supplier environmental risk controls are far below average.

CONSTRUCTION:

Construction companies are lagging behind other industries, with fewer respondents agreeing with the statements presented, especially in handling of conflict of interest between employees and suppliers, environmental risk assessments of suppliers, and having a well-known whistleblowing procedure in place. The industry is among the least mature when it comes to digital tools in compliance.

FOOD AND BEVERAGE:

Food & Beverage companies generally perform better than the rest of the respondents. They actively communicate Code of Conduct to suppliers, they have routines to avoid conflict of interest between employees and suppliers, and they make sure to actively make governance and social risk assessments. They also perform well with regards risk based controls. They leverage technology in compliance, but still considers their use of digital tools to be insufficient.

INDUSTRIAL GOODS:

The industrial goods sector perform above average when it comes to supplier risk controls and are among the top performers with respect to environmental risk controls. They perform below average, and especially poorly when it comes to risk controls for received and offered gifts and hospitality. They have leveraged multiple digital tools in their compliance work.

OIL, GAS & ENERGY:

Oil, gas, and energy companies generally perform better than average, but are lagging behind in terms of routines for avoiding conflict of interest between employees and suppliers . They perform slightly better than the survey average, but are lagging behind in internal fraud and conflict of interest risk based controls. They are among the industries that leverage technology in their compliance efforts the most.

REAL ESTATE:

Real estate are generally lagging behind the Nordic companies on annual revision and approving of compliance programs by the Board of Directors. They are also lagging behind on implementation of compliance KPIs and company ethics and compliance training programs. They have routines in place to avoid conflict of interest, but they evaluate themselves to be lacking governance risk assessments for corruption and bribery. They are generally mature in terms of risk based controls.

RETAIL:

Retail are among the top performers in terms of compliance KPI usage and operationalizing. They are also familiar with, and have routines for, responsible business conduct. They lack routines to avoid conflict of interests and making business sector risk assessments. They perform slightly below average, with received and offered gifts and hospitality and conflict of interest risk based controls particularly lagging behind.. The retail industry lags behind using digital tools in compliance.

TECHNOLOGY:

Technology companies struggle to keep a strong and explicit tone from the top and to encourage employees to speak up about their concerns when compared to other industries. They perform worse than average in terms of risk based controls. Perhaps unsurprisingly, they perform well when it comes to leveraging technology and digital solutions in compliance.

TELECOMMUNICATIONS:

Telecommunication companies perform above average when it comes to risk assessments of suppliers. They lag behind on social risk assessments and actively communicating code of conduct to suppliers. When it comes to the threshold in these companies to raise concerns, they are among the worst performers. They also think that employees to a lesser degree trust that whistleblowing reports will be followed up professionally than companies in other industries They state that they have leveraged digital tools in their compliance work.

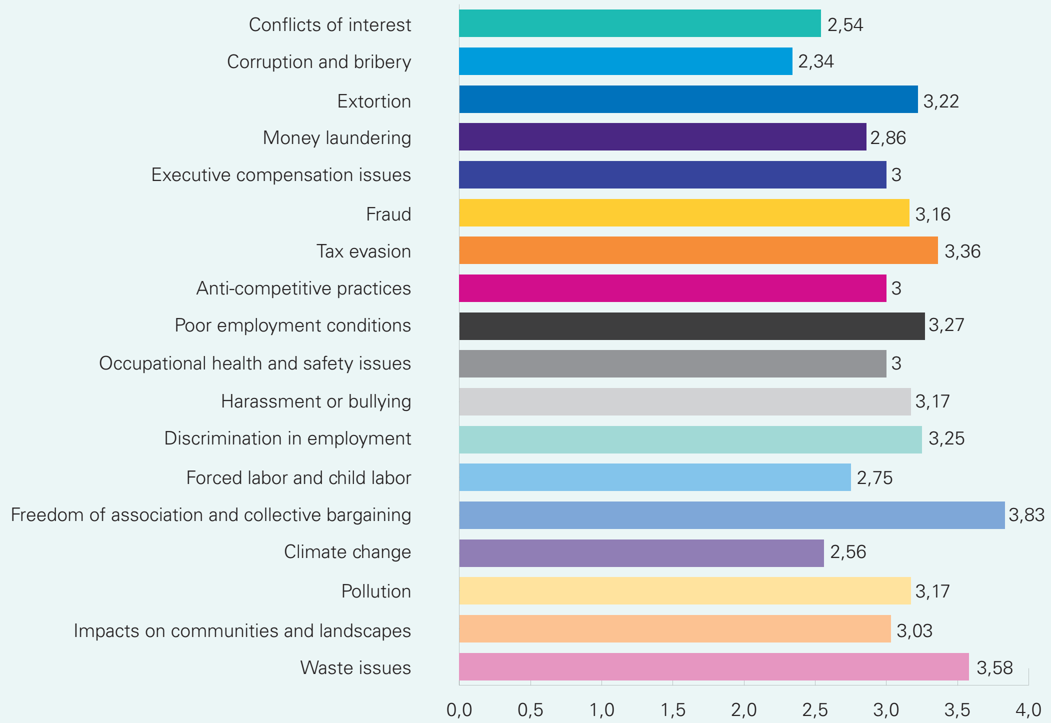
Compliance risk assessment - ESG

In the past, compliance programs and CCOs have focused primarily on corruption, fraud, and sanctions. Now, in 2021, companies have a compliance program covering also the social and environmental aspects. Companies are moving from "static" ESG risk assessments, such as ESG Due Diligence reports prior to signing a contract, to continuous monitoring of ESG risks enabled by efficient digital tools.

Key takeaways

- Conflict of interest is ranked as the number 1 ESG risk, followed by corruption, bribery, and climate change. Interestingly as many as 42% of respondents answer that they have local offices in corruption prone countries (CPI <50) and 29% are engaged in joint ventures.
- Note that topics as sanctions, cybersecurity and protection of personal data were not part of this survey.

Rate the top five risk areas your organization is exposed to:
(the lower the score the more respondents agree)



With the recent approval of multiple regulations addressing ESG disclosures and especially related to climate change, organizations are facing additional reputation and litigations risks with potential significant financial impact which could question their license to operate.

Benoit Chéron, Risk Consulting, Sustainability, Manager,
KPMG Iceland

In line with new legislation and expectations from a wide range of stakeholders, companies are increasingly seeking to achieve impact in their supply chain. This is an exciting development, where time and resources are directed to addressing the most salient risks to people, planet and society in corporate supply chains.

Linn Helene Skovly Aakvik, Expert Responsible Supply Chain
KPMG Norway

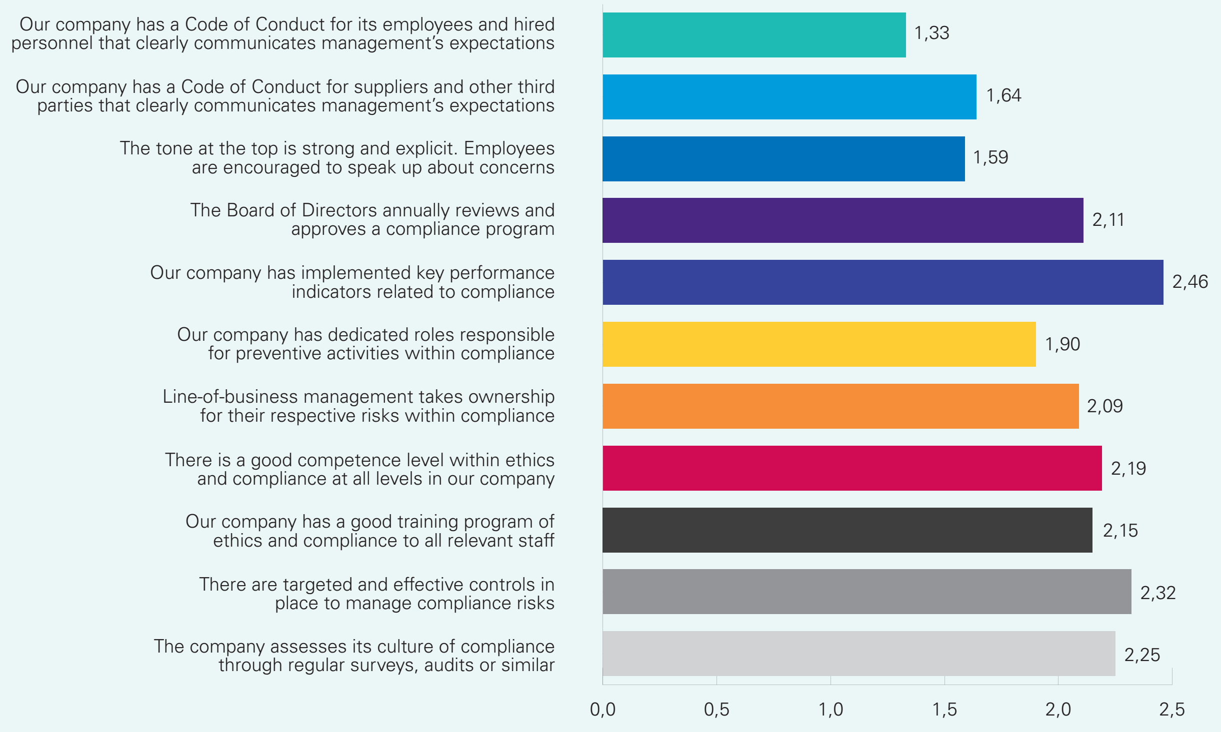
Status today on preventive activities

As a general overarching mandate, applicable external guidelines require that companies "exercise due diligence to prevent and detect criminal conduct" and "otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law". It is critical that the company's compliance program is proportionate to the business operations, risk-based, and regularly reviewed and updated.

Key takeaways

The respondents largely agree on the existence of a code of conduct applicable to its employees and suppliers as the main preventive activities. They point to the lack of key performance indicators related to compliance and the existence of controls to manage the compliance risks.

Indicate your level of agreement with the statement
(the lower the score the more respondents agree):



THE 8 INTEGRITY CULTURE DIMENSIONS

Status today on detective activities

As a general overarching mandate, applicable external guidelines require that companies "exercise due diligence to prevent and detect criminal conduct" and "otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law". It is critical that the company's compliance program is proportionate to the business operations, risk-based, and regularly reviewed and updated.

Key takeaways

- 74% state that they perform risk-based controls to detect fraud, 66% on offered gifts and hospitality, 60% on received gifts and hospitality, 66% on conflict of interests between employees/hired-ins and suppliers
- 73% state that they perform risk-based controls on suppliers with respect to corruption, 68% with respect to labor conditions and 59% with respect to environmental.
- Other surveys performed by KPMG show that remote working conditions during the Covid-19 pandemic have created weakened internal control environments. Also risks for phishing and cyberattacks have increased during the pandemic.

Our company carries out risk based controls of:
(the lower the score the more respondents agree)

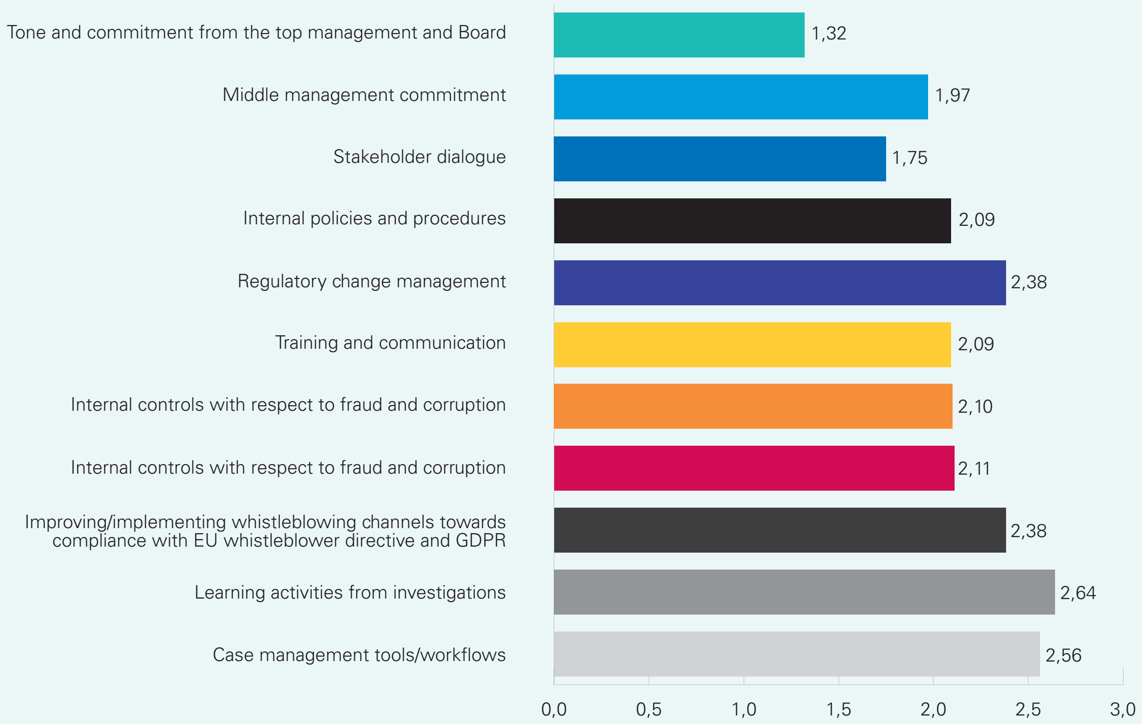
Key compliance activities moving forward

Increased external expectations mean additional requirements in terms of managing compliance systems, efficiency, digital tools, resource allocation and competence. The organization must engage in meaningful efforts to review the compliance program and ensure that it is not stale, as well as to promote improvement and sustainability. Reviews should include gap analyses to determine if particular areas of risk are not sufficiently addressed in the policies, controls, or training.

Key takeaways

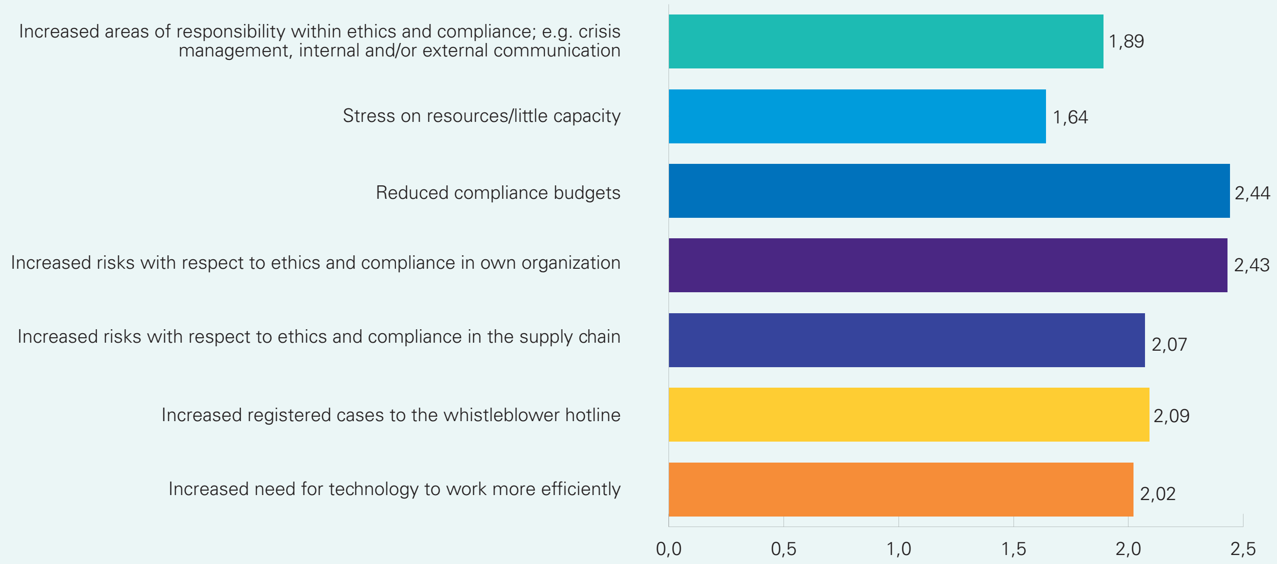
A significant number of respondents still rank "Tone and commitment from the top management and Board" as the main preventive activity, followed by stakeholder dialogue.

Rate the top 3 preventive activities which you think your organization should focus on in 2021:
(the lower the score the more respondents agree)



Stress on resources has been the main challenge during the pandemic.

Rate the top 3 challenges you are facing during the Covid-19 pandemic:
(the lower the score the more respondents agree)



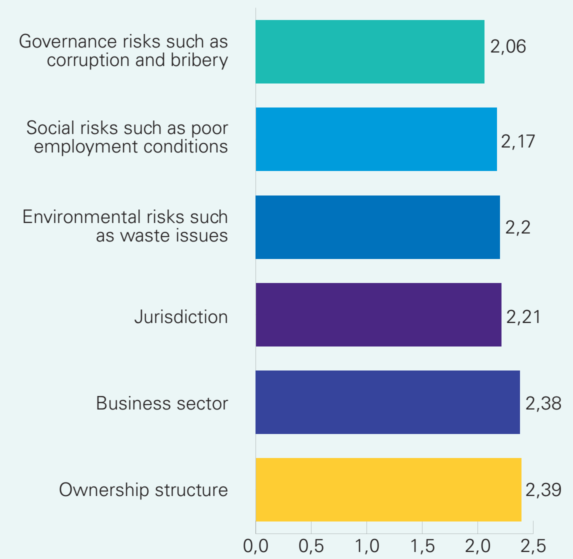
Responsible supply chain

Responsible supply chain management is first of all about cooperating with your suppliers to ensure that they live up to expectations within governance, human rights and environmental aspects. Organizations should engage in ongoing monitoring of the third-party relationships through updated due diligence, training, audits, and/or annual compliance certifications. The OECD Due Diligence methodology for Responsible Business Conduct is increasingly reflected in legislative developments in the area of responsible business conduct.

Key takeaways

- 77,2% agree that their company actively communicates their Code of Conduct to the suppliers.
- 76,3% agree that they have routines in place to avoid conflict of interests between own employees and suppliers.
- 72% agree that they carry out risk based controls of suppliers with respect to corruption, 68,5% with respect to labour conditions, 59,2% with respect to environmental conditions
- Most respondents state that they consider governance risks such as corruption and bribery in their risk scoring of suppliers.

Our company considers the following factors in its risk scoring of suppliers:
(the lower the score the more respondents agree)



Awaited ESG legislation will be a game changer for those businesses that ignore responsibility in their Supply Chain - but also for those engaging for marketing purposes only. There should be nothing special about standing up for basic Human Rights in the supply chain, it should be a part of the day-to-day running of a decent company.

Eivind Pytte Ødegaard, Head of Responsible supply chain
KPMG Norway

Conducting integrity due diligence on potential business partners, agents, or suppliers, is not about coming up with red flags or dealbreakers. It's about making companies aware of any integrity or reputational risks that need to be mitigated before they can move forward with comfort and confidence.

Christy Lorgen, Head of Corporate Intelligence
KPMG EMEA

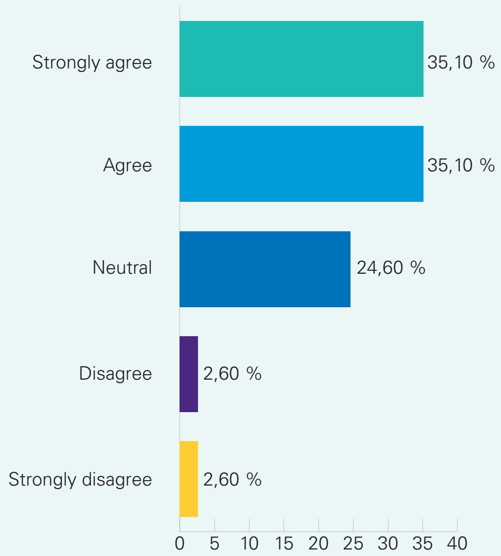
Whistleblowing - speaking up

The new EU Directive strengthens the requirement that the investigators of whistleblowing reports must be independent and competent. The information in the whistleblower channel is highly sensitive .Strict data privacy requirements are set out in the EU-GDPR regulation. Protection against retaliation is sharpened with reversed burden of proof and almost US-type punitive damages liability. Whistleblower protection is extended even to board members and new types of service provision e.g. freelancers and voluntary aides but it can also be effectively extended to supply chain.

Key takeaways

- 75% agree that there is a low threshold in the company for employees to raise concerns, 72% agree that the company has a whistleblowing procedure in place which is well known, 70% agree that they trust that whistle-blowing reports will be followed up professionally.
- Private companies have significantly less trust that whistleblowing reports will be followed up professionally than stock-listed companies and state-owned companies.
- Oil, Gas and Energy and construction companies have significantly less trust that whistleblowing reports will be followed up professionally than other industry segments.
- 72% agree that their organization has taken the requirements of the EU Whistleblower Directive into account when establishing routines and procedures for handling whistleblower cases.
- 63,4% agree that their organization's whistleblowing reporting system can be used, and is adapted for, more than just the employees.

Employees trust that whistleblowing reports will be followed up professionally



EU-Directive on whistleblower protection makes it safe to express concerns and offers management an efficient tool for compliance. It's an ethical backbone for responsible business.

Antti Aalto, Head of Legal Compliance,
Co-Head Global Legal Compliance
KPMG Finland

Excessive enthusiasm combined with little expertise is a recipe for legal and HR problems in investigation of Whistleblower reports.

Timo Piroinen, Head of Forensics
KPMG Finland

Investigations of reports of misconduct in the company require neutral and professional assessments of factual grounds and current violations. Equally important is insight and understanding of the human challenges all affected parties are exposed to. A whistleblowing case is rarely just a whistleblowing case.

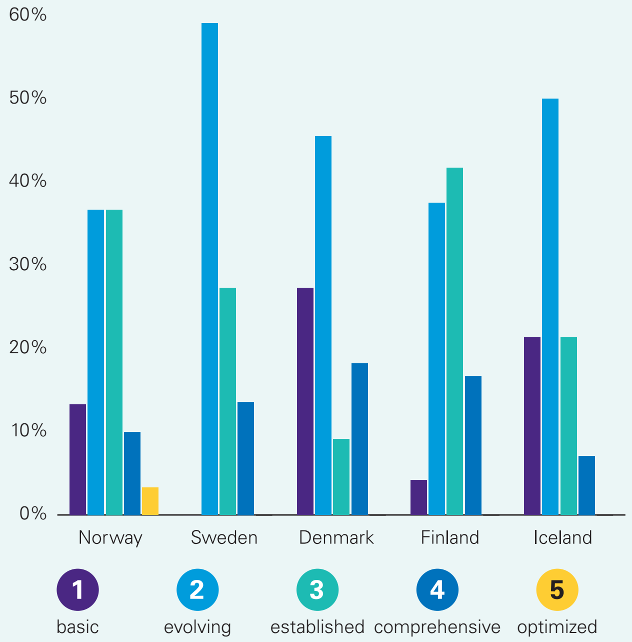
Erik Davidsen, Lawyer, Director
KPMG Norway

The digital journey

The amount of compliance-relevant data to analyze, as well as the increased expectations to traceability, openness, and transparency lead to increased need for efficient digital tools. Digitalization of compliance controls offers the possibility of continuous monitoring of data sources. Digital tools also enable sharing of data across the organization while taking care of the safety aspects and protection of sensitive data.

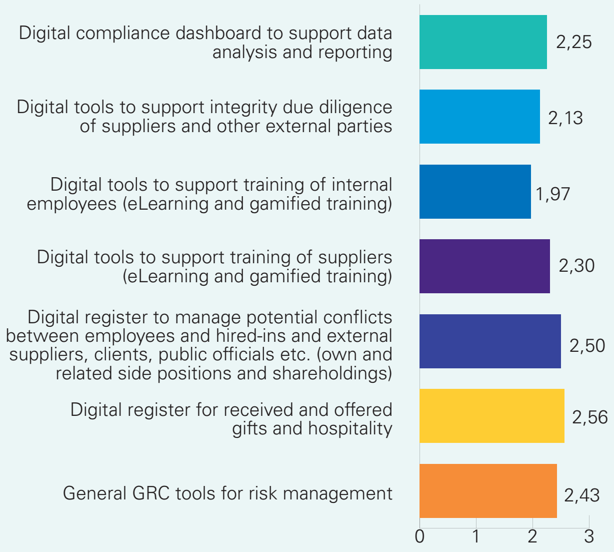
Key takeaways

Only 41,4% of the respondents answer that they think that their compliance program sufficiently leverages technology. 53% assess the maturity of integration of digital tools in term of compliance work is "basic or evolving", and 32% answer that their company intends to invest significantly into digital tools within the next three years. A large number of companies, 40%, answer that they have not looked closely into this yet.



The following digital type of tools would be useful to make our compliance programs more efficient:
(the lower the score the more respondents agree)

Note: Not part of the list but very relevant for compliance: Whistleblowing digital systems, Forensic tools designed to support internal controls and handle large amount of data):



Companies seek to remain competitive while complying with a more comprehensive and ever-changing regulatory environment. New and emerging technologies allow for a more data-driven, efficient and agile compliance function whilst creating a shared space for cross-functional collaboration and making sure compliance is a seamless part of day-to-day business operations.

Esther Voktor Borgen, Compliance Transformation and Digital Tools
KPMG Norway

By bringing digital into the board room, the quality of the oversight of the compliance function will dramatically improve. For example real-time information on the internal control environment, regulatory compliance and, access to AI-powered analysis, would be a true game changer.

Davíð K Halldórsson, Risk Consulting Partner
KPMG Iceland

Conclusion - Ethics and compliance journey

KEY DRIVERS FOR THE EVOLUTION

- Increased expectations of internal and external stakeholders.
- Increased expectations in laws and regulations, changes in the regulatory landscape.
- Increased need for data analysis, traceability, and documentation.

MAIN CHALLENGES AHEAD

- Positioning compliance at the heart of the Board of Directors with a proper oversight and tone.
- Developing digital tools to ensure compliance on the entire value chain (upstream/downstream).

PAST

2010 - 2015

- Unclear requirements
- Unclear roles and responsibilities
- Fragmented pieces of compliance activities
- Main focus on anti-corruption and sanctions

TODAY

2015 - 2021

- Requirements better documented and understood
- Compliance functions and programs in place
- Focus extended to cover ESG, data protection, and security
- Compliance not yet an integrated part of daily operations (1st line)
- Mainly manual processes in data analysis, documentation and reporting

TOMORROW

2021 ->

- Compliance risks integrated into daily operational work
- ESG focus with proactive responsible supply chain activities
- Digitalization enables data-driven, efficient and agile data analysis
- Whistleblowing creates an ethical backbone for responsible business

Acknowlegments and methodology

The survey was sent out to several hundred companies in all Nordic countries, both public and private, including large, medium and small-size companies. The survey was not sent to financial institutions and public municipalities.

The target of the survey was people having a key role with respect to compliance programs covering ESG domains.

We are very grateful to all of the 115 respondents who took the time to complete this survey.

ANALYSIS – LIMITATIONS:

- The results are based on self assessments.
- The "most mature" companies are overrepresented in the survey: the majority of companies are stock-listed, more than half of the companies have more than 1 000 employees, and a total of 69% have a designated compliance function.
- Respondents have different roles in their respective companies: 27% of the respondents have a Compliance role, 14% have a Sustainability/CSR role, 14% have a Finance role, 12% have a CEO role and 21% "other" role.
- The survey did not include any fixed criteria for the different maturity levels. Hence, there will be different interpretations among the respondents. In addition there may also be differences in expectations in the different countries impacting the results per country.
- As a self assessment questionnaire, there may be different interpretations of questions related to country, industry, the function of the respondent, or the company compliance culture and maturity levels.
- Generalizations of country and industries have only been made where there is a reasonable selection of companies to compare.
- A limited selection of respondents chose to remain anonymous; hence KPMG cannot confirm the validity of those respondents.

CONFIDENTIALITY & PRIVACY

The individual survey responses are kept strictly confidential. Participant privacy is protected according to KPMG's privacy policy.

https://home.kpmg/xx/en/home/misc/privacy.html