



# Plugged In: Enhancing ethics and compliance

## A top power and utility industry priority

Ethics and compliance programs in the energy industry are mature in many ways relative to other sectors. And yet, as energy chief ethics and compliance officers identified in the KPMG 2019 CCO Survey, certain areas still need development.

Heightened public, investor and board attention to ethics-related issues—many of which made major headlines in recent years—is driving an increased focus on compliance programs across all industries.

Meanwhile, rapid technological advances and expanding digitization are accelerating the convergence of business models and markets, leading to greater awareness around data breaches, questionable sales practices, organizational misconduct and other potentially high-profile events.

The pressure is compounded on CCOs in the energy industry where companies face unparalleled regulatory and public interest scrutiny from governments and citizens around the world, with a particular focus on environmental impact and the potential for bribery and corruption at international operations. This constant examination by a broad range of stakeholders, combined with shareholders' expectations for strong financial results, places energy companies in the precarious position of juggling sometimes competing demands.

Given these unique issues, here's what energy CCOs in particular are saying about their near-term plans for ethics and compliance activities.

**Investigations is the number-one ethics and compliance activity energy CCOs plan to enhance in 2019.**

Many utilities and other energy companies successfully receive complaints into a centralized team, but energy CCOs stated significantly more than their peers that they do not conduct, document, and consistently and adequately address root cause analysis to ensure they do not have wider issues across their operations.

Recognizing the need for improvement, 61 percent of energy CCOs surveyed said they will focus on developing investigations capabilities in the coming year. The effort requires some urgency as regulators are stepping up their focus on root cause analysis and remediation as part of assessing corporate compliance programs.\*

**More energy CCOs expect to enhance their due diligence efforts in 2019 than the cross-industry average.**

Because energy companies with a global footprint rely on a host of intermediaries, they open the door to greater risk, especially given that the great majority of corruption cases involve third parties. Unfortunately, energy is below average in seeking to integrate due diligence processes and use a central system for third-party risk management.

While a devolved model for third-party risk management allows for flexibility across geographically and operationally diverse businesses, it lacks central oversight to ensure consistency and quality of risk management, risks duplication, and likely creates increased costs that could be avoided.

### About the KPMG 2019 CCO survey

In January 2019, KPMG surveyed 220 chief ethics and compliance officers (CCOs) representative of the largest organizations across multiple industries. Of those, approximately 13 percent operate in the energy and natural resources industry.

The survey asked the CCOs for their outlook and view on three areas:

- Ethics and compliance activities to enhance
- Regulatory and compliance obligations to refine
- Focus areas for further integration

For our full report on the survey results, please visit <https://advisory.kpmg.us/articles/2019/2019-cco-survey-ungated.html>.

\* For a deeper dive into how organizations are refining their investigation efforts, see *Revamping investigations; Future of ethics & compliance*.

“Increasingly, executives and board directors understand that ethics and compliance should not be bifurcated. A deeply ethical culture is a critical component of a mature compliance program.”

—Amy Matsuo

*Principal, Advisory Regulatory and Compliance Transformation (RC&T) Solution Global and National Leader*

**A far greater share of energy CCOs are focused on improving anti-bribery and corruption (ABC) compliance programs than CCOs in any other sector.**

As global energy companies explore new regions and expand operations across borders, they are challenged by a complex and dynamic framework of governments, regulations and local partnerships other sectors don't often face. For those energy companies operating in high-risk areas, the global regulatory focus on bribery and corruption issues is a never-ending drum beat.

Concerns have been amplified in recent years by growing financial penalties and reputational risks. So despite investments many energy companies have made to improve their ABC programs, almost half of energy CCOs in our survey said they plan to refine those programs further.

Meanwhile, companies across the board increasingly recognize the need for real-time detection. As data access and analytics capabilities improve, many are looking to automate monitoring activities, such as analyzing third-party spend.

Interestingly, energy companies diverged from other industries with respect to enhancing monitoring and testing overall, with just 46 percent of energy respondents planning to enhance such activities, compared to 65 percent from all sectors.

**More than two-thirds of energy CCOs surveyed put refining ethics programs at the top of their list as part of their regulatory and compliance obligations.**

The #MeToo movement and the power of social media; public access to almost real-time data and information; and societal pressure on corporations to act ethically are just a handful of the issues pushing CCOs to institute a deeply ethical culture at their companies, beyond simply regulatory compliance.

Meanwhile, as the survey confirms, the potential business impact of ethical misconduct and increasing board and C-suite belief in the importance of ethics and culture are key drivers behind the corporate world's growing interest in developing ethics programs.

**Nearly one-third of energy CCOs seek to better incorporate culture into their compliance efforts.**

Energy CCOs consider culture a top-five area for improvement, according to the survey, a higher share than in other industries. They are more focused on integrating processes, activities and controls that drive an ethical and compliant culture than their peers from other sectors. This is no surprise given the attention culture is receiving from boards and other key societal stakeholders.



**About the Global Energy Institute**

The KPMG Global Energy Institute (GEI) is a worldwide knowledge-sharing forum on current and emerging industry issues. Launched in 2007, the GEI interacts with its over 30,000 members through multiple media channels, including audio and video Webcasts, publications and white papers, podcasts, events, and quarterly newsletters. To become a member, visit [www.kpmgglobalenergyinstitute.com](http://www.kpmgglobalenergyinstitute.com).

## Contact us

KPMG works with energy and natural resources companies around the world to address their ethics and compliance priorities, assisting CCOs to take steps relevant to the issues raised in the survey findings. We look forward to helping your organization enhance your ethics and compliance programs for today's challenges.

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