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INTEGRITY DEDUCES FORMULA FOR ETHICS & COMPLIANCE SPENDING AT GLOBAL COMPANIES

CFOs allocate just \$80 per employee each year to keep companies out of headlines and executives out of spotlights

Boston, Mass. – October 7, 2008 – [Integrity Interactive® Corporation](#), a technology-powered and data-driven company that helps global corporations manage and reduce the risk of compliance failures, today announced groundbreaking research that uncovers the hidden rules that govern corporate ethics and compliance spending. This is the first and only report that actually quantifies spending by Global 2000 corporations on this critically important line item. One surprise finding is that global companies allocate just \$80 (€57 or £46) per employee each year (on internal *and* external spending) to eliminate or at least substantially reduce the likelihood of headline-grabbing, value-destroying ethics and compliance failures. This is roughly equal to the cost of a couple of business books from Amazon, or a business lunch for two at a moderately-priced restaurant.

“One of the questions Integrity hears most often from General Counsel and Chief Compliance Officers is: *how much should my company spend on ethics and compliance?*” said [Dave Curran, CEO](#) of Integrity. “After contacting hundreds of companies in the Global 2000, Integrity was able to deduce the spending formulas and unspoken rules of thumb that many CFOs use to set ethics and compliance spending.”

Ethics and compliance [risk management](#) and mitigation is an important line item in the budget of every large corporation today. This line item represents the total amount a company spends (inside and outside) to protect its most valuable assets from the risk of legal and ethical failures, such as scandals, brand reputation damage, supply chain issues, product recalls and more. It’s useful to think of compliance risk management as *proactive* “scandal prevention and reduction.” Other budget line items, such as outside legal spending, cover *reactive* “scandal clean up and cure.”

To fund their entire compliance risk management effort in any given year, Integrity’s research revealed that companies typically allocate:

- **\$80 per employee:** This per-capita amount covers everything necessary to protect an employee from committing an ethical or legal blunder, including: business controls; information systems; compliance training; incident reporting hotlines; legal personnel; HR personnel; and senior management time. The larger a company’s workforce, the more it spends in absolute dollars on compliance risk management and mitigation (because it has more people engaged in potentially risky behavior).

- **0.02% of total annual revenue:** While many companies allocate two percent or more of total revenue on marketing and brand-building, they spend less than one one-hundredth of that amount on compliance risk management. The more revenue a company has, the more it spends in absolute dollars on compliance because it is engaged in more sales or bigger-ticket sales, and therefore has a more valuable top line to protect.
- **0.02% of total market capitalization:** Companies spend approximately 0.02 percent of the total value of their capital stock, public or private, on compliance risk management. The more valuable a company's stock, the more that company spends on compliance because it is a bigger target to outsiders with more shareholder value to protect.
- **9.35% of total legal department spending:** Companies devote nearly 10 percent of their total legal department spending, both inside and outside, to compliance – with only litigation-related costs receiving greater budget allocation. Smaller, though still significant, legal department line items include: fines, penalties and damages; in-house legal salaries; M&A transaction fees; corporate advisory services; and legal information and data subscription services.
- **18.69% of outside counsel fees:** Compliance spending reaches nearly 20 percent of a company's annual outside legal fees. If assumed that compliance spending is mostly "prevention" and outside counsel fees are mostly "cure," this means that most CFOs operate on the assumption that it takes three ounces of prevention to equal one pound of cure. Put another way, for every \$10 set aside for scandal prevention and clean up, only \$1.87 actually goes to prevention (with the remaining \$8.13 going to clean up).
- **\$1 outside for every \$3 dollars spent inside the company:** As an interesting side note, Integrity's research found that most companies spend at least \$1 with outsiders to manage compliance risk for every \$3 spent on internal solutions and resources. While internal resources continue to bear the primary burden of compliance risk management, most companies today ascribe significant value to third-party validation provided uniquely by outside partners, advisors and vendors.

"For roughly the cost of a few business books from Amazon.com, global companies can protect their employees from the risk of serious corporate integrity failure," said Curran. "There is no excuse for not having a stringent ethics and compliance program in place. It is the best way for companies to mitigate corporate risk and prevent business scandals."

Methodology

Over the past year, Integrity requested compliance spending data (internal and external) from more than 100 companies in the Global 2000. The compliance spending formulas above were derived by qualified Integrity analysts from data provided by a statistically-reliable cohort of companies responding to this request. Company respondents: represent a variety of different industries; include both private and publicly-traded companies; generally have at least 2,000 full-time employees; conduct physical business operations in multiple countries and on at least two major continents; are headquartered in Europe, Asia, North America, Africa, or the Middle East; and include both clients and non-clients of Integrity. Actual budget submissions provided by individual companies are confidential.

About Integrity

[Integrity](#) is a technology-powered, data-driven company that helps global corporations measure, manage, and mitigate the risk of compliance failures and attention-grabbing scandals. Integrity combines proprietary technology, content, data, and professional services to keep companies out of headlines, boards out of spotlights, executives out of cross-hairs, and employees out of trouble. Our comprehensive compliance risk management offerings include: Strategy & Assessment; Training & Communications; and Measurement & Reporting. We put senior executives and in-house professionals in charge and in control of compliance risks, and give them the support they need to move business conduct standards from ‘aspirational’ to operational. Integrity works with hundreds of the world’s great companies, and serves millions of employees on six continents. For more information about Integrity, please visit www.i2c.com.

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