THE IMPACT OF CORPORATE COMPLIANCE AND ETHICS IN
BUSINESS PERFORMANCE:
A CASE OF EAST AFRICAN BREWERIES LIMITED (EABL)

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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: Faith Ndirangu (ID. 628656) Date: 20/1/2013

This research thesis has been presented for examination with my approval as the appointed supervisor.

Signed: Prof. Joe K. Kamaria Date: 20/1/2013

Signed: Dean, Chandaria School of Business Date: 20/1/2013

Signed: Deputy Vice Chancellor, Academic Affairs Date: 06/09/13
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ABSTRACT

The purpose of the study was to assess how the Controls Compliance and Ethics (CC&E) agenda has affected or changed the Business Performance at EABL. The study was driven to determine how EABL’s Compliance, Controls and Ethic agenda has affected the organizations operating costs; establish how the Compliance, Controls and Ethic agenda had improved business focus in EABL; and to establish the challenges that the Compliance, Controls and Ethic agenda had brought to EABL. The study achieved this through a survey study that was done on EABL.

A descriptive research design was used to depict methodically the facts and features of a given population or region of interest and a survey study was selected as the methodology of the study. The sample group of this study consisted of EABL staff based at the Nairobi EABL Head office. The respondents were drawn from executives and administration staff at the rate of 30 percent of every number represented which brought the sample size to forty five (45). Stratified sampling was utilized to choose the staff members so as to include both management and non-management staff in the study. The data collected was mainly quantitative in nature; the raw data required minimal manipulation. It was summarized and categorized in frequency distribution tables out of which graphical and chart presentations were generated to give visual image of respondent responses. Presentations were by use of tables and figures. MS Excel spreadsheet, was used for the initial tabulation, analysis and drawing of charts based on the respondents responses. Statistical Package for Social Science (SPSS) Student Version 19.0 which is a unified and comprehensive package was used to analyze the collected data thoroughly and conveniently.

The CC&E program in EABL has resulted to an increase in the administrator salaries, and an increase in the production costs of EABL. This increase however is cushioned by the fact that the CC&E program in the organization has led to a decrease in terms of avoiding expensive investigations, legal fees, lawsuits, reactive retraining, crisis management, employee changes and other fixes. The CC&E program had improved EABLs program in averting misconduct
from the employees in the organization and that the CC&E program in EABL also focused on third parties and their dealings with the organization.

EABL maintains its CC&E program and it is updated on new regulations and policies required regularly. EABL also monitors the organizational misconduct through the CC&E program and that it has a reporting system that enables employees to come forward and report any misconduct. The CC&E audits for EABL are carried out by the compliance department in collaboration with other outside bodies and EABL engages in routine monitoring and they use the compliance and ethical behaviour in their job performance evaluations.

The major challenges faced by EABL are organizational culture which was a little bit rigid to change, information acquisition, the cost of implementation, resistance from older people within the organization and the availability of different cultures among the nations in which the organization operates. EABL had an effective means of measuring compliance and ethics training program and its employees understand very well their role and obligation in reporting any misconduct observed since the organization carries out education of all employees and board members on the CC&E program. The organization promotes anonymity and confidentiality of those employees that report any misconduct observed and it carries out communication of the CC&E program so that both old and new employees are aware.

EABL need to provide CC&E training as part of its employee requirements, this is to ensure that all employees at EABL are trained and well versed with the issues of the CC&E, the company needs to ensure that the internal control over financial reporting is accurate so at to help them identify risk areas and avert problems in the future. EABL should continue to identify new and emerging risk areas and address these risks through a thorough auditing and monitoring process. Violations should not be tolerated by the organization and thus, EABL should enforce discipline in all its employees and should use equity in dealing with any employee found to have violated the rules and laws of the CC&E in the organization.
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LIST OF ABBREVIATIONS

CC&E: The Compliance, Controls and Ethics
CEOs: Chief Executive Officers
CFOs: Chief Financial Officers
CMA: Capital Markets Authority
CMPs: Compliance Management Programs
DT: Deterrence Theory
EABL: East African Breweries Ltd
ERM: Enterprise Risk Management
FCPA: Foreign Corrupt Practices Act
GPG: Good Practice Guidance
HS&E: Health, Safety and Environment
LT: Legitimacy Theory
RT: Reputation Theory
SEC: Securities and Exchange Commission
SPSS: Statistical Package for Social Science
U.S: United States
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

An organization’s reputation is important given the fact that reputation is responsible for more than 40% of the company’s market capitalization (Anderson and Johnson, 2005; Martin and Cullen, 2006). The Compliance Controls and Ethics (CC&E) Agenda is not only the responsibility of the Compliance Department in organizations, but that all employees believe in the importance of a rock solid CC&E environment and understand the importance of their role in achieving and sustaining it.

Good Practice Guidance (GPG) is addressed to companies for establishing and ensuring the effectiveness of internal controls, ethics, and compliance programmes or measures for preventing and detecting the bribery of foreign public officials in their international business transactions, and to business organisations and professional associations, which play an essential role in assisting companies in these efforts as well as their values (Adler and Borys, 1996).

GPG recognizes that to be effective, such programmes or measures should be interconnected with a company’s overall compliance framework. It is intended to serve as non-legally binding guidance to companies in establishing effective internal controls, ethics, and compliance programmes or measures for preventing and detecting foreign bribery (Anderson and Johnson, 2005).

The GPG is flexible, and intended to be adapted by companies, in particular small and medium sized enterprises, according to their individual circumstances, including size, type, legal structure and geographical and industrial sector of operation, as well as the jurisdictional and other basic legal principles under which they operate (Martin and Cullen, 2006).
Whatever their orientation and goals, ethics programs attempt to bring some degree of order and predictability to employee behavior. Thus it makes sense to characterize ethics programs as organizational control systems (Weaver, Trevino and Cochran, 2008), that is, as systems that aim to create predictability in employee behavior and correspondence between specific employee behaviors and more general organizational goals and expectations.

A company’s brand reputational value has four basic elements: expectations, perceptions, business relationships and unique intellectual property assets (Gruner, 2004). Improved quality in each of those areas increases financial value for the organization. To this end, East African Breweries Ltd (EABL) has taken bold actions to ensure that great performance is rewarded and poor performance is addressed EABL’s Code of Business Conduct is designed to help translate our values and principles into actions and guide our daily activities.

East African Breweries Ltd (EABL) is East Africa’s leading branded alcohol beverage business and has an outstanding collection of beer and spirits brands. With breweries, distilleries, support industries and a distribution network across the region, the group’s diversity is an important factor in delivering the highest quality brands to East African consumers and long-term value to East African investors (EABL Report, 2008).

EABL has an annual turnover of Kshs 30 Billion and it has the largest share of the beer industry in the region (Silverman, 2008; CMA Report, 2008). The group employs more than 1000 people across East Africa. EABL has been awarded the accolade of the “Most Respected Company in East Africa”, five years in a row (2000, 2001, 2002, 2003 and 2004) in a survey conducted by Pricewaterhouse Coopers and the Nation Media Group.

Corporate governance is essential to protect the interests of EABL shareholders and the community at large. The company is committed to meeting the standards of good corporate governance set out in the Capital Markets Authority (CMA) Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya (CMA Guidelines) as well as in other internationally recognized codes (CMA Report, 2008).
During the year, the company has continued to work towards full compliance with the CMA Guidelines. The EABL Committee reviewed progress and found the Company to be compliant in most respects. The main Board continues to be made up of at least one-third nonexecutive and independent directors and meets on a quarterly basis (Silverman, 2008). Directors’ awareness is created on corporate governance training available locally.

The EABL Committee developed a new code covering the regulation and reporting of transactions in EABL securities by directors and officers. The code incorporates a closed period of two (2) months prior to publication of the Company’s interim and final financial results during which directors and officers may not deal in shares or any other instrument pertaining to the shares of the Company. It also sets out the procedure for approval prior to trading in EABL securities (EABL Report, 2008).

Regrettably, the past year saw a number of financial scandals involving large corporations in the developed world (Webb, Tarun and Molo, 1993). Under the auspices of the EABL Committee, the company took further steps towards the adoption of best practice found worldwide including the U.S. Sarbanes-Oxley Act 2002, which involves a stringent self-assessment of internal controls. Risk monitoring activities continued to receive renewed focus from Management and the Board.

In terms of ethics, the EABL staff renews their commitment to the Company’s Code of Business Conduct on an annual basis. This code incorporates the Company’s operating, financial and behavioral policies in a set of integrated values. It also includes the ethical standards required of members of the EABL family in the interface with one another and with all stakeholders. In addition, there are other detailed policies and procedures in place across the Group (EABL Report, 2008).
1.2 Problem Statement

Control systems have received much analysis in the organizational and sociological literatures, and a number of different dimensions of control systems have been identified (Practising Law Institute, 2009). Studies have focused on the mode by which control systems create order and alignment in the behavior of organization members (Laufer, 2008). Control systems have been distinguished according to whether they create order by coercing behavioral compliance or by generating employee identification with and commitment to collective organizational values (Etzioni, 1961; Gouldner, 1954; Weber, 1947).

In the case of creating order by coercing behavioral compliance, a control system is seen as necessary to bring employee behavior into conformity with organizational requirements sometimes coercively. In the case of generating employee identification with and commitment to collective organizational values, organizational goals are assumed to be such that employees can identify with them and thereby act according to them, perhaps because they are consistent with the employee’s own needs, goals, or identity (Adler and Borys, 1996).

Two fundamental elements of an effective compliance and ethics program are: exercising due diligence to prevent and detect criminal conduct; and promoting an organizational culture that encourages ethical conduct and a commitment to compliance with the law (Biegelman and Biegelman, 2008). Although EABL has a CC&E program, it is faced with violations of the Foreign Corrupt Practices Act, the Securities and Exchange Commission (SEC) found irregularities in Diageo’s operations in South Korea, India and Thailand. This center on: failure to correctly maintain their books and records, excessive gifts and entertainment, improper payments to government officials - and failures in internal controls (EABL Report, 2008). This is clearly a very serious matter which puts both Diageo’s reputation and license to operate at significant risk. Leaders throughout the business have the responsibility to take steps to ensure every employee in Diageo understands the implications of these findings and the role they must all play to ensure that this never happens.
Ethics programs can be characterized in similar terms as control systems (Paine, 1994; Weaver, Trevino and Cochran, 2008). Some programs are oriented toward rule compliance and threats of punishment for noncompliance. Other programs emphasize ethical values and the potential for employees to be committed to a set of ethical ideals embodied in the organization (Weaver, Trevino and Cochran, 2008; Trevino, Weaver, Gibson and Toffler, 1999) these orientations toward control are referred to as “compliance orientation” and “values orientation”, respectively.

While the elements of compliance and ethics programme at EABL might be known, no study has been conducted to examine the potential impact of the controls, compliance and ethics programme at EABL, thus, this study seeks to assess how the Controls Compliance and Ethics agenda has impacted the Business Performance of EABL.

1.3 General Objective
The general objective of the study was to assess how the Controls Compliance and Ethics agenda has affected or changed the Business Performance at EABL.

1.4 Specific Objectives
The specific objectives that guided the study were:
1.4.1 To determine how EABL’s Compliance, Controls and Ethic agenda has affected the organizations operating costs.
1.4.2 To establish how the Compliance, Controls and Ethic agenda has improved business focus in EABL.
1.4.3 To establish the challenges that the Compliance, Controls and Ethic agenda has brought to EABL.

1.5 Importance of the Study
The study will be of significance to the following stakeholders:
1.5.1 The Kenyan Government
This study will be of great benefit to the government as the findings can be used by the government in implementation of its grand strategies and achieving its 2030 vision. The findings will also be used as benchmark for other private and public organizations that are yet to adopt the CC&E. Those that have adopted can learn effective ways of implementing the same to fit into their strategies.

1.5.2 The EABL Management
The findings of this study will enable the management of EABL to appreciate the value of CC&E in their organization as well as look at the impact of its application and benefits derived from it as the organization pursues its objectives both short-term and long-term. The findings from the study will also enable EABL as an organization to find out more about CC&E and what they ought to do to ensure that the CC&E is implemented and affected comprehensively.

1.5.3 Stakeholders
The findings of this research will be of great help to the different stakeholders as they will act as guidelines for them in implementing CC&E in their various organizations as well as have a deeper understanding of how EABL works under the CC&E. EABL stakeholders include Diageo, suppliers and all the international markets that the organization works and supplies.

1.5.4 Future Scholars
The findings of this study will also be beneficial to future scholars as reference material on areas related to CC&E. Also from the findings of this study, the researcher will outline areas of future research and this will benefit or give an insight to future scholars on areas that would need more research in relation to CC&E issues in the public sector.

1.6 Scope of the Study
Scope of study is a general outline of what the study will cover. Scope defines the parameters of the study. Scope always unless of the unlimited nature (specific) will define specific
boundaries. The scope of the study in this case was EABL headquarters in Kenya. The study sampled the employees working with EABL positioned at their head office, with respondents from different departments in the management position. This research assumed that the CC&E program affects the performance of EABL. The study was carried out during the 2011-2012 financial year of the organization.

1.7 Definition of Terms
This section presents definitions of terminologies used in the study. This section will give conceptual definitions and elaborate what the said terms will mean as used in this study. Some of the terms will include: Business Process; Outsourcing; Performance Measurement; Controls; Compliance; Ethics; Costs; and Business Focus.

1.7.1 Compliance
Compliance is defined as the state of being in accordance with the relevant Federal or regional authorities and their requirements (Parker, 2002).

1.7.2 Controls
Controls are limitations imposed on the activities of a firm in compliance with the requirements of a regulatory agency (Kirkbride and Letza, 2003).

1.7.3 Ethics
Ethics is the basic concepts and fundamental principles of right human conduct (Carroll and McGregor-Lowndes, 2002).

1.7.4 Cost Saving
Cost reduction implies the retention of essential characteristics and quality of the product and thus it must be confined to permanent and genuine savings in the costs of manufacture, administration, distribution and selling, brought about by elimination of wasteful and inessential elements form the design of the product and from the techniques and practices carried out in connection therewith (Anderson and Weitz, 1986).
1.7.5 Cost Reduction
Cost reduction may be defined as the achievement of Real and Permanent Reduction in the unit cost of goods manufactured or services rendered without impairing their suitability for the use intended or diminution in the quality of the product (Anderson and Weitz, 1986).

1.7.6 Controlled Operating Costs
Operating costs are the day-to-day expenses incurred in running a business, such as sales and administration; as opposed to production it also called operating expenses (Caroll and McGregor-Lowndes, 2002). Controlled operating costs is defined as steps taken by management to assure that the cost objectives set down in the planning stage are attained and to assure that all segments of the organization function in a manner consistent with its policies (Kakabadse and Kakabadse, 2002).

1.7.7 Business Focus
Business focus is defined as the state where the organization orients itself towards achieving its potential (Dekkers, 2000).

1.7.8 Challenges
These are the impediments that a business will encounter when implementing decisions (McIvor, 2000).

1.8 Chapter Summary
This chapter is an introduction of the research project and defines the background of the problem and the statement of the problem. It follows further by briefly stating the purpose of the research work. The chapter also shows the research questions that will be used to guide the study as well as examine the various factors responsible for the existing problem. The justifications of the study and scope have also been presented within the chapter as well as the importance and the scope of the study. The next chapter will highlight the literature of the study topic.
The following chapter will look at the literature review of the study based on the set study objectives by looking at the works of other researchers on the same topic. The third chapter will look at the research methodology that was adopted during the research. The fourth chapter gives the study findings from the data analyzed and the last chapter gives the study’s conclusion and offers recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This section presents a review of literature related to the empirical research on the impact of corporate compliance and ethics in business performance. The review of empirical literature restricts itself by and large to the subject of this research study: East African Breweries Limited. The empirical literature review is guided by the three research objectives: (1) to determine how EABL’s Compliance, Controls and Ethic agenda has affected the organizations operating costs, the study will achieve this through a survey study that will be done on EABL. (2) to establish how the Compliance, Controls and Ethic agenda has improved business focus in EABL by asking the employees of EABL how the organization has changed in terms of business focus since the adoption of the CC&E program, and (3) to establish the challenges that the Compliance, Controls and Ethic agenda has brought to EABL.

2.2 Impact of Corporate Compliance and Ethics programs on Operating Costs
EABL’s reputation is critical to its success and the organization makes sure its people always act in a compliant and ethical way. EABL wants to be known for ‘doing the right thing’. EABL has a code of business conduct for all employees, suppliers and customers. The code is designed to translate EABL’s values and principles into actions and guide its daily activities and ensure it reduces its operating costs.

Operating costs are the day-to-day expenses incurred in running a business, such as sales and administration as opposed to production, which is referred to as operating expenses (Carroll and Buchholtz, 2008). For effective cost control, most organizations use Standard Cost Systems, in which the actual costs are compared against standard costs for performance evaluation and the deviations are investigated for remedial actions. Organizations can minimize their operating cost by implementing the corporate compliance and ethics program since, beyond serving as a forward-looking compliance tool to prevent a violation, a corporate compliance program also serves as a backward-looking tool to reduce the potential
liability after a violation has occurred (Kakabadse and Kakabadse, 2002). In this sense, a program is evidence of a company's good-faith efforts to comply and, for that reason, counts as a mitigating factor in enforcement actions. But the mere existence of a corporate compliance program is not sufficient. To help prevent violations and/or claim mitigating treatment, the program must also be "effective." Although that term is a subjective one, various baseline standards exist to guide a company towards that goal.

Because rational pursuit of self-interest is the explanandum of individual behavior, law is theoretically significant only insofar as it alters the relative costs of particular means: legal rules alter the payoff structure of various strategies and decisions, and decisions about compliance and the consequent decisions of government regulators in response are evaluated by rational decision makers on materialist, rather than normative, grounds. Firms will not comply altruistically, yet noncompliance may be costly if the state imposes civil or criminal sanctions (Posner, 2001). In essence, if legal architects craft a formula that converges firm interests with regime rules and ensures that violations are punished by the imposition of costs that exceed the gains of violation, an effective regime can be sustained.

Deterrence Theory (DT) thus explains compliance with legal rules in starkly instrumental terms: if compliance is the decision strategy most likely to yield the greatest benefit to a firm, that firm will comply; conversely, if violation is the strategy most conducive to maximizing firm welfare, a firm will violate the law even if the state is certain to apply sanctions. Norms do not command compliance; material self-interest does. In sum, DT contends that a well-designed and -specified legal regime that publicizes clear rules, enhances monitoring, and swiftly and surely punishes violations with sufficiently costly criminal sanctions will reap firm compliance (Parker, 2006).

However, DT theorists concede that there will always be those who cannot be dissuaded by even the near-certainty of detection and punishment. Even the most extreme punishment the state can impose-death-is insufficient to prevent murder, and the far less stringent sanctions meted out to corporate lawbreakers-fines and brief periods of imprisonment-are perceived by
miscreants as simply the cost of noncompliance (Monroe, 1997). Further, deterrence has
differential impacts: big firms absorb the cost of noncompliance as a business expense, but
small firms are driven out of existence.

Furthermore, threats only deter illegality to the extent that would-be violators perceive and
are sensitive to a risk of detection, prosecution, and conviction. The decline of shareholder
activism and the rise of mutual funds as primary owners of public firms have laid additional
burdens upon government regulators and boards of directors, and both have insufficient
resources to prevent more than a fraction of corporate noncompliance (Parker, 2006).
Moreover, the administration of justice in practice is suffused with politics, and powerful
firms successfully deploy political pressure to prevent strict enforcement of legal regimes.

The EABL Committee developed a new code covering the regulation and reporting of
transactions in EABL securities by directors and officers. The code incorporates a closed
period of two (2) months prior to publication of the Company’s interim and final financial
results during which directors and officers may not deal in shares or any other instrument
pertaining to the shares of the Company. It also sets out the procedure for approval prior to
trading in EABL securities.

Regrettably, the past year saw a number of financial scandals involving large corporations in
the developed world (Peterson and Ferrell, 2005). EABL took further steps towards the
adoption of best practice found worldwide. This involved a stringent self-assessment of
internal controls. Risk monitoring activities continued to receive renewed focus from
Management and the Board and yet, EABL is faced with violations of the Foreign Corrupt
Practices Act (FCPA), the Securities and Exchange Commission (SEC) found irregularities
in Diageo’s operations in South Korea, India and Thailand. These centered on failure to
correctly maintain their books and records; excessive gifts and entertainment; improper
payments to government officials; and failures in internal controls.
2.2.1 Implementation Stages

In order to successfully implement the CC&E program, it is imperative for an organization to integrate, embed, and take leadership, ownership and accountability in its process. Parker (2002) states that it is also fundamental for the organization to provide an open culture where issues can be raised and discussed, and finally the performance and results can be measured (Pfeffer and Salancik, 2003). In the implementation stage, he points out six stages that include: integrating compliance and ethics; embedding compliance and ethics risk management processes into the business; demonstrating leadership; accountability and ownership; providing an open culture; and measuring performance and results.

Integrating compliance and ethics is attained through addressing the “letter of the law” while promoting the “spirit of the law”. For some companies this means making a breach of company policy as serious as breaching laws, resulting in “internal” standards being as important as ‘mandatory’ standards (Koletar, 2003).

Embedding compliance and ethics risk management processes into the business means that organizations must systematically assess and prioritize present and emerging compliance and ethics risks. Such analysis should take into account the organization’s culture, compliance and ethics history, as well as industry issues. Business processes should incorporate compliance and ethics program needs. Boards should routinely discuss these risks, and how they are addressed, with management (Vallabhaneni, 2008).

Demonstrating leadership means that the board should ensure senior management consistently communicates and models the organization’s values and behavioral expectations identified in the compliance and ethics program. Carroll and Buchholtz (2008) note that dynamic leadership, which means the ability to communicate corporate priorities and needs, and to ensure change in the compliance arena. They state that the board needs to adopt a strong statement of compliance provide resources, and make sure that it has direct communications to all employees. Almost one-fifth of all corporate boards now have
separate Compliance Committees. That is a welcome development and one that should be embraced in this new enforcement environment.

The fourth step looks at accountability and ownership. In order to have the compliance and ethics program “make a difference”, it should foster a corporate culture that places responsibility on individuals for their actions and motivates everyone. The board and management should ensure employees have appropriate training and information and should participate in such training themselves (Nelson, 2006). Goodman and Jinks (2004) argues that having CC&E policies does not necessarily mean they may be implemented but states that organizations that approach policy without clear accountability face significant risk to their business. This accountability applies to policy owners for their ongoing review and maintenance of policy, the process of granting exceptions, monitoring incidents and violations of policies and extends to policy governance to track reading, acceptance, and training on an individual basis.

Provide an open culture ensures that organizations’ issues and problems should be, and in some cases are, required by law to be investigated and proactively managed to resolution. Unethical or illegal behavior should be addressed promptly. Employees must be required to raise and resolve violations of compliance or ethics standards. To do so, they must feel confident that they can take action without fear of retaliation. Such fears have been reduced, but not eliminated. The board should inquire of management the steps they are taking to create this open culture. According to Nelson (2006), open culture brings integrity and value to policy management and implementation. Open culture provides collaboration and accountability to policy management processes that are often scattered across the organization. It enables policy management to work in harmony across organization functions delivering efficiency, effectiveness, and agility.

He further states that in today’s environment, ignoring an open culture means processes, partners, employees, and systems that behave like leaves blowing in the wind. Policy management processes are constantly in disarray when operating autonomously, introducing
risk in today’s complex, dynamic, and distributed business environment. Organizations require an enterprise view of policy accountability and collaboration that not only brings together silos, but integrates them into a common policy-management process.

Measuring performance and results means that compliance and ethics processes and results should be monitored and measured. Objective data should support evaluations that are more subjective. Evaluation results should provide the basis for continually improving the program (Koletar, 2003).

Like any other core capability and/or process, the compliance and ethics program should strive to deliver tangible benefits and outcomes to the organization. Every organization is unique and has its own objectives. As such, several objectives of the compliance and ethics program will be unique as well. There are a few universal program outcomes/objectives that a compliance and ethics capability should deliver. These include an enhanced culture of trust, accountability and integrity; prevention of noncompliance, preparation for when (not “if”) noncompliance occurs, protection (to the extent possible) from negative consequences, detection of noncompliance, response to noncompliance and improvement of the program to better prevent, protect, prepare, detect and respond to noncompliance (Nelson, 2006).

2.2.2 Effective Design
A high-performing compliance and ethics program is best organized as an integrated capability assigned to business functions/units while managed and overseen by individuals with overall responsibility and accountability. Compliance can be a daunting challenge, but it is also an opportunity to establish and promote operational excellence throughout the entire organization and significantly improve the overall operational performance (Kakabadse and Kakabadse, 2002).

Broadly understood, compliance is an important mechanism that supports effective governance. Compliance with regulatory requirements and the organization’s own policies
are a critical component of effective risk management (Caroll and McGregor-Lowndes, 2002; Haines and Gurney, 2003).

Monitoring and maintaining compliance is not just to keep the regulators happy, it is one of the most important ways for an organization to maintain its ethical health, support its long-term prosperity, and preserve and promote its values. On a more practical level, a compliance and ethics program supports the organization’s business objectives, identifies the boundaries of legal and ethical behavior, and establishes a system to alert management when the organization is getting close to (or crossing) a boundary or approaching an obstacle that prevents the achievement of a business objective (Dunphy, Griffiths and Benn, 2007; Parker, 2002; Pfeffer and Salancik, 2003).

2.2.3 Corporate Compliance and Ethics Implementation
Implementation is often the most difficult aspect of any program. This is the juncture where most failure occurs. However, if executed well, it can represent the biggest opportunity for positive influence on the organization’s performance and culture.

The engaged involvement of key stakeholders is critical to a successful implementation or major enhancement of a compliance and ethics program, like the dialogue and agreement up front, by all the major parties, regarding the objectives, goals, and overall purpose of the program will be critical to the project’s eventual impact. By working together, compliance and ethics officers, executive management, and the board can help ensure a compliance and ethics program not only contributes to the improvement of the organization’s governance practices but the success of its company’s strategy as well (Nelson, 2006).

2.3 Corporate Compliance and Ethics on Business Focus
While emerging global markets offer many growing, attractive opportunities in the alcohol and beverage business for multinational companies, they also increase the complexity of a company’s operations as well as its compliance risk. Operating in foreign countries challenges companies to ensure that their operations conform to all local laws, while
addressing political and financial complexities, overcoming cultural barriers and meeting other new and significant challenges (Koletar, 2003).

Bribery and corruption have become increasingly unacceptable to a broad range of stakeholders throughout the world, including ordinary citizens who once viewed such practices as inevitable and without direct effect on their lives. New studies, surveys and empirical evidence from ethics and compliance trade organizations and individual companies reveal that stock prices are higher and employees are more satisfied at companies with outstanding reputations for ethical business practices and good governance (Nelson, 2006). CC&E helps organizations to focus on doing legal business and steer away from incidences that may spoil their reputation.

Business focus is where the organization orients itself towards achieving its potential. It is one of the key pillars to business success and it ensures the whole business works towards the same goals and objectives. When a business is planning a new product it has to ensure that the production of the product is in place, marketing and after sales service will be given to ensure that the product is a success. Intense competition forces the business to reassess and redirect scarce resources to where they make greatest positive impact which are the business core functions (Dekkers, 2000).

As a result of the increased public attention, increased regulation and increased awareness of risk, a corporation’s board of directors and senior managers have become more involved in the diligent oversight of corporate governance systems, including compliance programs. Today, compliance programs lead a rapidly growing global trend towards compelling more transparent and ethical business operations. In all countries, the use of commercial agents and processing agents offer a solution to dealing with local complexities; however, the use of an agent can increase a company’s compliance and anticorruption risk (Vallabhaneni, 2008). The corporate compliance and ethics agenda enables organizations to remain focused on their business agenda and goals through discipline, regular check-up through auditing, benchmarks and performance measurement and monitoring.
2.3.1 Discipline and Auditing

A compliance program addresses how employees will be disciplined for compliance violations. Company policies should clearly set out the consequences for violating compliance standards, as well as express management’s expectation for employee behavior and how swiftly appropriate disciplinary action will be taken. Once organizations have this in place, it is able to focus on its business while using checks and balances to ensure everything is running (Koletar, 2003).

A CC&E has audits to verify that organizations and agents have incorporated its code of conduct and other relevant policies into their operations. One key feature of a successful compliance program is the ability to conduct prompt and appropriate investigations of compliance violations.

If a potential violation of compliance standards is raised, established policies and procedures are followed to properly investigate, ensure appropriate disciplinary action is taken, and if necessary, implement corrective measures to prevent future occurrences. Depending on the nature of the issue, some investigations may be conducted with the assistance of outside counsel or other members of the company’s legal department (Vallabhaneni, 2008).

2.3.2 Performance Measurement, Monitoring and Risk Assessment

A company should determine if their code of conduct and compliance systems are working as intended. To function properly, covered persons must recognize that reporting possible compliance issues will not result in retaliation and that all allegations of compliance violation will be thoroughly investigated and resolved.

Continual reviews and revising of the code of conduct enables the organization to address the most important compliance risks facing the code of conduct at the time. In addition, the company may implement an advanced automated data management system that can enable it to tracks the implementation of the CC&E and offer a resolution with the goal of ensuring
that potential compliance issues are tackled in time and in some cases prevented (Nelson, 2006).

A compliance program is an integral part of a company’s overall risk management program. The Enterprise Risk Management (ERM) system should include a thorough assessment of all material risks including compliance risks. The compliance program should be customized to reflect each company’s identified risks, their likelihood of occurring and the likely outcome should they occur. Once this is achieved, the organization can focus on its goals while using these checks to monitor and correct the places they fail (Vallabhaneni, 2008).

2.3.3 EABL Best Practice

EABL has committed itself to CC&E through ensuring that its management is committed to the CC&E. Senior personnel play a critical role not only due to their status as authority figures but also because of their inherent ability to set the company’s tone and culture, both of which are essential for compliance success.

EABL has a formal program that serves as the company’s compliance infrastructure. The program consists of processes and procedures to guide employees. The program entails procedures that enable practical, day-to-day execution of specific compliance requirements and company compliance philosophies by individual employees (Nelson, 2006). The procedures have been tailored to the company’s operations to maximize efficiencies and relevancy, thereby increasing the chances that employees rely on them.

Training is the bedrock of any effective compliance program, serving as the single-most effective mode of communicating compliance obligations and functions to employees. Absent training, employees are ignorant of their responsibilities and powerless to help their companies comply, rending the implementation of all other best practices meaningless (Vallabhaneni, 2008). The level of training should be adequate to fully educate employees and tailored to each employee’s functions, a factor that EABL has put into consideration.
While other best practice principles address internal aspects of a corporate compliance program, this one looks outward to identify compliance risks posed by third parties. Third-party due diligence has become particularly significant given the government’s willingness to pursue actions against companies that enable a third party to commit a violation and overlook obvious risks posed by that third party. Due diligence is perhaps the only effective means to mitigate such risk.

Companies must also follow through with their findings by closing any such gaps. In addition to reviews performed internally by the companies themselves, companies should also regularly enlist an independent third party to conduct an external review to ensure that all possible risks are discovered. Of course, the devil of any effective corporate compliance program is in the details. Beyond ensuring that the program reflects the above principles, companies must identify all applicable compliance obligations and ensure individual employees execute tasks required to fulfill those obligations (Vallabhaneni, 2008).

In today’s business world and enforcement environment, no company or compliance employee engaging in international trade can afford to ignore the above best practices. Although no “get out of jail free” card exists, implementation of those practices is a good starting point to avoid any worst-case scenario. This begs the question of EABL facing a lawsuit due to fraudulent reporting yet they have a CC&E program within the organization.

2.4 Challenges of Corporate Compliance and Ethics on Business

These are the impediments that a business will encounter when implementing the Compliance Controls and Ethics agenda. Compliance controls and Ethics programme has a negative image in the minds of some and can potentially generate bad publicity. There are other problems on a more practical level too. Compliance Control and Ethics necessitates the sharing of information. Depending on the business, this can potentially cause problems if the information gets into the hands of competitors (AMR Research, 2006; Cusick, 2004). Some of the challenges that affect CC&E in organizations include the regulatory policy.
2.4.1 Regulatory Policy and Benchmarking
A broadened conception of organizational compliance is reflected in regulatory policy trends. Compliance motivates organizations to focus on higher level regulatory aims, in effect going beyond traditional notions of compliance (Murphy, 2004), or more colloquially as doing the right thing with respect to community values. This implies a moral dimension to contemporary compliance, which may overlap with corporate ethics or corporate social responsibility (Campbell, 2007; Verschoor, 2006).

One challenge in developing meaningful quantitative benchmarks for a compliance program is the need to analyze performance and results in the context of the compliance program and culture. Each company must establish processes to evaluate the effectiveness of its compliance program on an ongoing basis (Arjoon, 2006).

2.4.2 Culture and Leadership Commitment
To achieve optimal organizational compliance outcomes, legal scholars claim that organizations must nurture a culture that recognizes acting in a compliant manner as consistent with organizational success, and that shapes employee behaviour to act in accordance with expected standards (Haines and Gurney, 2003, 2004; Parker, 2002). A culture that encourages compliance among employees has been referred to as a 'culture of compliance' (Lotzhof, 2006).

Employees are more receptive to ethics-based change when their leaders not only talk about values, but embody them in practice. Corporate leadership’s reputation for ethical behavior can engender pride, enthusiasm and desire for employees to become better corporate citizens; therefore, corporate leaders who seek to build a more ethics-based workplace must consistently live their creed. While an ethical business culture must be developed up, down and across a company, a clear and convincing desire to foster such a culture must start at the top (Vallabhaneni, 2008; Rasmussen, 2006).
A company’s commitment to operate throughout the world in strict accordance with its compliance standards should be set forth in its code of conduct. The code of conduct describes the legal and ethical standards and obligations that apply to all company employees (Rasmussen, 2006). A company’s commitment to ethical business conduct is also captured in other policies and guidelines for anti-corruption, export and import controls, anti-boycott, employment and labor, insider trading, financial integrity, privacy requirements, entertainment and gifts, antitrust, and health, safety and environment (HS&E). A company’s expectations must be communicated throughout the company and the company should monitor its adherence and hold its employees and managers accountable for their actions (Koletar, 2003).

2.4.3 Compliance Training, Education and Communication

Ethics and compliance education is highly beneficial because it helps foster a culture in which employees do not simply acquiesce to externally imposed rules, but rather define themselves by values - values that inspire them to not just follow the law, but to respect it and ensure that their colleagues do the same (Campbell, 2007). In order to obtain this goal all necessary steps should be taken to effectively communicate compliance standards to all employees so that they know, from the moment they are hired, the expectations for conducting business with integrity.

A compliance program includes ongoing communication to assure that all covered persons understand the company’s expectations for ethical business conduct as well as where to get advice on handling compliance and ethics issues. Organizations should foster ongoing written and oral communications among covered persons on key compliance subjects. Forms of communication that are used ensure that employees are current on important compliance information, and initiatives include newsletters and other types of periodic internal communications, bulletins posted on the company intranet and direct communications from senior management cascaded throughout the company (Vallabhaneni, 2008).
2.4.4 EABL’s Challenge with CC&E

Diageo, headquartered in London, is a leading producer and distributor of premium branded alcoholic beverages, including Johnnie Walker, Smirnoff, Captain Morgan, and Guinness. Through various direct and indirect subsidiaries, Diageo maintains operations in more than 180 countries. Diageo self-disclosed the FCPA violations following an internal investigation in order to take advantage of the leniency provisions in the FCPA. As a result, the settlement took the form of a cease-and-desist order rather than a more restrictive injunctive action, the Department of Justice did not institute additional proceedings against Diageo, and the $3 million dollar civil penalty is smaller than many much-larger penalties that have been imposed in these cases (EABL Report, 2008).

This settlement provides guideposts for the areas in which both compliance committees and management must maintain vigilance to avoid running afoul of the FCPA. These guideposts include: liability for the activities of subsidiaries, working with third-party agents and consultants, the risks of providing gifts and entertainment, working with state owned enterprises, and the requirement for transparent books and records.

In fact, all three subsidiaries found to have been the cause of Diageo’s FCPA violations were companies acquired by Diageo (Nelson, 2006). The SEC attributed some of the FCPA violations to weak compliance policies exacerbated by rapid expansion through acquiring companies with weak compliance programs. One of Diageo’s subsidiaries reimbursed its third-party promoters and distributors for payments the promoters made to government officials for the purpose of securing label registrations for Diageo’s products. They also reimbursed the third parties for payments made to officials to secure import permits and administrative approvals.

It is clear that properly managing compliance risks is vitally important as technology companies re-focus on innovating, growing revenue, and expanding into new markets. To deal efficiently with compliance and other risks, many companies have or are considering an Enterprise Risk Management (ERM) program. ERM programs should be tailored to each
company's culture and style, but important common attributes include the timely identification of the most strategic compliance risks, among others, so they can be elevated for management or board-level attention (Koletar, 2003). A good program also will include strategic planning that takes into account risks on the horizon and internal controls that can be scaled or defined to manage any area of compliance. In addition, companies and other organizations would do well to leverage and capture the local knowledge and experience, both good and bad, of people and teams throughout their global operations. That step can help identify common threads of compliance that can lead to a more effective and efficient management of compliance issues around the globe. Had Diageo done this in totality, it would have avoided the scandal that it is currently facing and the tarnished brand name that it has acquired.

2.5 Chapter Summary
In this chapter the researcher reviewed the literature that has been done on Corporate Compliance and Ethics and its impact on reducing costs, concentrating on core business and challenges the organization faces. First literature on cost reduction gives us whether the intended costs are reduced. Secondly, concentrating on core business focus will determine whether the organization achieves what was intended and lastly I discussed the challenges the organization faces.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter is a blueprint of the methodology that was used in this study. In this chapter the research methodology was presented in the following order, research design, and target population, sampling procedure, data collection methods and presentation.

3.2 Research Design
Cooper and Schindler (2001) define research design as a plan or a structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. Research design refers to the plan or strategy of shaping the research (Henn, Weinstein and Ford, 2003). Further Donald (2006) notes that a research design is the structure of the research, it is the “glue” that holds all the elements in a research project together.

Descriptive research design is used to describe systematically the facts and characteristics of a given population or area of interest, factually and accurately (Isaac and Michael, 1977). Descriptive studies involves collecting data that test the validity of the hypotheses regarding the present status of the subjects of the study in this case the impact of control compliance and ethics program on the EABL as an organization. The researcher chose descriptive research design since it employs the use of a survey research method.

Survey research may be in the form of a sample survey or a census survey. In a sample survey, the researcher gathers information from the responses of part of the population that is of interest to the study and in a census survey; however, information is gathered from every member of the population (Dillman, 2000). For that reason, a census survey is applicable when the population is relatively small and readily accessible. For the purposes of this study, the researcher used sample survey since only a sample from the population selected for the study was administered with questionnaires.
3.3 Population and Sampling Design

This section of the chapter looked at the study's population, the sampling design and sample size and the sampling techniques that were used to collect data.

3.3.1 Population

A population is defined as the total collection of elements about which we wish to make some inferences (Cooper and Schindler, 2003). According to Cooper and Schindler (2003), a population element is the subject such as a person an organization, customer database, or the amount of quantitative data on which the measurement is being taken. The population of this study comprised of EABL employees located at the EABL Head office in Nairobi.

The survey was conducted on the specific population of interest which included all the managers of the organization (top managers, middle-level managers and the low level managers in the various departments of the organization) and all other members of the EABL. This was the population that had been actively involved in the management planning of the organization for at least five years. The total targeted population was one hundred and fifty (150) people and their distribution was shown on table 3.1.

Table 3.1 Distribution of Population

<table>
<thead>
<tr>
<th>Management Level</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>30</td>
</tr>
<tr>
<td>Management Staff</td>
<td>120</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
</tr>
</tbody>
</table>

3.3.2 Sampling Design

Sampling is the process of selecting a number of individuals for a study in such a way that the individual selected represents the large group from which they are selected (Mugenda and Mugenda, 2003). Sampling procedure may be defined as a systematic process of individuals for a study to represent the larger group from which they are selected (Cooper and Schindler,
2003; Robson, 2002). They all define sampling as method of selecting a portion of the population for conducting a study in order to represent the population adequately since it is impossible to take the entire population because of time, financial factors and errors which will discourage the researcher and lead him to surrender the study.

3.3.2.1 Sampling Frame
According to Cooper and Schindler (2000) a sampling frame is a list of elements from which the sample is actually drawn and is closely related to the population. In the ideal case, the sampling frame should coincide with the population of interest. For this study, the sampling frame came from the official list of employees working with EABL. The sample elements came from the personnel department of EABL. Within the context of this study, focus was placed on the EABL headquarters in Nairobi.

3.3.2.2 Sampling Technique
Statistical sampling techniques are the strategies applied by researchers during the statistical sampling process. Stratified sampling is the sampling procedure where the population is divided into sub-populations (strata) and random samples are taken of each stratum (Cooper and Schindler, 2003). Stratified sampling was used to select the employees' from the population forming the population element in order to ensure fair representation of the management staff. Stratified sampling technique was used to select the employees from among the list provided by the personnel department in order to capture both the managers and Management staff who were the study's strata. According to Lewis et al., (2003) stratified random sampling is a modification of random sampling in which one divides the population into two or more relevant and significant groups based on one or more attributes. A stratified sample was obtained by taking samples from each stratum or sub-group of a population.

This method was used because it was simple, easily applied to a small population and ensured bias was not introduced. At the same time unbiased random selection was important in drawing conclusions and making generalization from the results of the sample back to the
population. The study sample was divided into two stratum comprising of managers and management staff. Random samples were then drawn from each stratum.

3.3.2.3 Sample Size

A sample size allows the researcher to make generalizations about the population. A sample is a subset of a population, but that subset is only useful if it accurately represents the larger population. To ensure that the sample accurately represented the population, the researcher clearly defined the characteristics of the population, determined the required sample size and chose the best method members of the sample were selected from the larger population (Denscombe, 1998).

According to Chandran (2003) a sample is a small proportion of an entire population; a selection from the population. Cooper and Schindler (2001) state that when carrying out a study, 30% of the population yields an adequate sample. For the purpose of this study, 45 respondents were considered to be a representative of the total population. This sample size took into account all the management bodies at EABL. The percentage share that had been given to each level was considered to cover more than 30% of the members in each management level. The sample elements consisted of 9 managers and 36 management staff that was drawn from 30% of the total number of managers brought the sample size to 9 managers and another 30% from the total number of management staff bringing the number to 36 members adding to a total sample size of 45. The sample size and its percentage selection are summarized in the table below:

**Table 3.2 Distribution of Sample Size**

<table>
<thead>
<tr>
<th>Management Level</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Population</td>
</tr>
<tr>
<td>Managers</td>
<td>30</td>
</tr>
<tr>
<td>Management Staff</td>
<td>120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150</strong></td>
</tr>
</tbody>
</table>
The Managers were equivalent to the strategic level and comprises the Head of Departments and Sections. The Management staff was equivalent to the tactical level of management and comprises all the middle level officers in all departments of the company. The Management staff was tasked with the responsibility of implementing policies made at the strategic level. Finally there were other staffs whose main duty was performing daily tasks which are routine and repetitive in the company.

3.4 Data Collection Methods
Primary data was collected for the study using self-administered questionnaire. A questionnaire is a general term including all data collection techniques in which each person is asked to answer the same set of questions in a predetermined order (Saunders, Lewis and Thornhill, (2003). Beri (1995) defines a structured questionnaire as a formal list of questions designed so as to get the facts. He states that open ended questionnaires are preferred when the researcher is interested in what is upper most in the mind of the respondent but this was not the case in this study and hence the questions in the questionnaire were closed ended.

The questions first sought the general data of the respondents. The rest were divided into 3 sections as per the research objectives. Section A addressed the general aspect of the respondents, Section B addressed the extent Corporate Compliance and Ethics decision reduced costs, Section C established if Corporate Compliance and Ethics increased EABLs focus towards its core business while the last Section D established the challenges EABL faced as a result of Corporate Compliance and Ethics programme.

3.5 Research Procedure
The researcher developed a questionnaire based on the research questions; the questionnaire was pilot tested by being administered randomly to a selected sample of five (5) respondents from the target population to refine it and test the reliability of the instrument and also ensure that the questions therein were able to meet the objectives of the study. This was achieved by first stratifying the individuals according to level of management and number of years worked.
The researcher administered the questionnaires individually to the selected employees of the EABL Company who were the target population of the study. The researcher exercised care and control to ensure all questionnaires issued to the respondents were received and to achieve this, the researcher maintained a register of questionnaires, which were sent, and which were received from the respondents. The respondents were given a two day period to complete and fill the questionnaires so that they did not rush through and ensured they gave an accurate account. Questionnaires that contained more than one response to a question unless required were considered null and void.

3.6 Data Analysis Methods

Data analysis entailed editing, coding and tabulation of data collected into manageable summaries that were easy to interpret. This study used quantitative method of data analysis. To ensure easy analysis the questionnaires were coded according to each of the research questions to ensure accuracy during the analysis process. Descriptive statistics such as the simple frequency distributions were used. The data collected was mainly quantitative in nature and due to the nature and size of the organization under the study and the research being conducted; the raw data required minimal manipulation. It was summarized and categorized in a frequency distribution table out of which graphical and chart presentations were generated to give visual image of respondent responses. Presentations were by use of graphs, tables, charts and pie charts.

The data collected was classified into meaningful categories (coded), edited and tabulation of the same have been done. MS Excel spreadsheet, was used for the initial tabulation, analysis and drawing of charts based on the respondents responses. Statistical Package for Social Science (SPSS) Student Version 19.0 which is a unified and comprehensive package was used to analyze the collected data thoroughly and conveniently.
3.7 Chapter Summary
This chapter focused on the research methodology that was used in carrying out the study. A
descriptive research design was selected for the study and it used the sample survey
approach. The population of this study comprised of EABL employees located at the EABL
Head office in Nairobi. Data was collected by the use of survey questionnaire which was
administered by the researcher directly to the target population. Quantitative data collected
was analyzed by the use of descriptive statistics using statistical analysis tool and presented
through graphs and tables. The next chapter discusses the results and findings of the study
from the collected and analyzed data.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
The study was driven to carry out an investigation of corporate compliance and ethics in business performance: a case of EABL. Following the set objectives of the study which were to determine the impact of CC&E on the organization’s operating costs; establish how the CC&E agenda has improved business focus in EABL and determine challenges that the Compliance, Controls and Ethic agenda has brought to EABL. A questionnaire was created to collect the data that would enable the researcher achieve the set objectives. After data collection and sorting, the results or the study are presented in this chapter in the form of charts, tables and graphs with brief explanations of their meaning.

4.2 Demographic Information

4.2.1 Position in Organization
The respondents were asked to indicate their position in the organization and as table 4.1 shows; 20% of the respondents in the sample were individuals in management position in the organization while 80% were non-management. The results indicate that the researcher attained the objective of targeting both management and non-management staff.

Table 4.1 Position in Organization

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>Non-Management Staff</td>
<td>36</td>
<td>80.0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.2 Duration in EABL
The subjects were asked how long they had worked for EABL and the results are as follows: 46% of the respondents had worked for EABL for 1-5 years, 26% had worked for the organization for 6-10 years, 17% had worked for 11-15 years and 9% had worked for 16-20
years. This shows that the majority of the respondents were well acquainted with the organization.

Table 4.2 Duration in EABL

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 Years</td>
<td>21</td>
<td>46.6</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>12</td>
<td>26.6</td>
</tr>
<tr>
<td>11-15 Years</td>
<td>8</td>
<td>17.7</td>
</tr>
<tr>
<td>16-20 Years</td>
<td>4</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.3 Duration in Position

The respondents were asked how long they had held the position they were in at the time and as seen in the figure 4.1, 53% had been in the position for 1-5 years, 31% had been there for 6-10 years, 11% had been in their position for 11-15 years and 5% had been in the position for 16-20 years. This shows that the respondents had enough working experience to become candidates for the study.

![POSITION DURATION](image)

Figure 4.1 Duration in Position

4.2.4 CC&E Program in Organization

The study also revealed that the respondents were familiar with the CC&E program and that the organization (EABL) had implemented the program and that a CC&E department
managed the program and ensured its implementation. The department is also in charge of making compliance and ethics policies and procedures for the organization. Figure 4.2 shows that the CC&E program has been in the organization for over 2 years. The response received from the population of study showed that 38% indicated two years while 29% showed that the program had been in the organization for three years and 37% stated that it had been around for 4 years. Six percent did not have an idea of the program duration.

![CC&E Program at EABL](image)

**Figure 4.2 CC&E Program in Organization**

### 4.2.5 Oversight Committee

Subjects were asked whether EABL had an oversight committee and figure 4.3 shows that EABL has a CC&E oversight committee that oversees its implementation and policy making procedures. The committee achieves this through regular reviews and audits of the program as well as carrying out follow ups where necessary.

![Oversight Committee](image)

**Figure 4.3 EABL's Oversight Committee**
4.2.6 CC&E Program Maintenance

EABL has a CC&E maintenance program that is overseen by the CC&E department. Figure 4.4 shows that 65% of the respondents indicated that it was done internally while 19% had no idea who maintains the compliance and ethics within the organization. It was noted by 16% that EABL collaborates with other external institutions in order to ensure that the business was run with the best ethics practices.

![CC&E Program Maintenance](image)

**Figure 4.4 CC&E Program Maintenance**

4.3 Impact of CC&E and Operating Costs

4.3.1 CC&E Training Program

The respondents also noted that there was training that was carried out by the organization about compliance and ethics. Table 4.3 shows that EABL carries out its CC&E training quarterly since the majority of the respondents 44% indicated that they carried it out quarterly. Forty percent stated monthly while 8% noted it being done semi-annually and 6% stated annually. The study also indicated that EABL has observed that the CC&E has had an impact on operating costs since all respondents testified to this being a fact.
Table 4.3 CC&E Training Program

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>18</td>
<td>40.0</td>
</tr>
<tr>
<td>Quarterly</td>
<td>20</td>
<td>44.4</td>
</tr>
<tr>
<td>Semi-Annually</td>
<td>4</td>
<td>8.8</td>
</tr>
<tr>
<td>Annually</td>
<td>3</td>
<td>6.8</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.2 CC&E Employee Training

Figure 4.5 shows that EABL invests in training its employees on compliance and ethics since 86% of the population testified to this being true and 7% stated the opposite and another 7% had no idea.

![CC&E Employee Training](image)

Figure 4.5 CC&E Employee Training

4.3.3 Overhead Costs

The researcher wanted to establish other overhead costs that EABL faced due to CC&E implementation and as seen in figure 4.6, 91% of the respondents stated that there were other overhead costs that included staff costs, training costs, travel expenses, training materials, conference facilities, printing and stationery costs, promotional items and accommodation for trainings taking place outside of Nairobi.
4.3.4 CC&E Impact on Various Costs

The researcher wanted to establish how the CC&E program had affected different cost structures of the organization. Table 4.4 shows that the CC&E program has resulted to an increase in the administrator salaries, production costs, organizations training costs, organizations business costs, departmental costs and in the market entry fee. The study revealed that there was a slight decrease in legal costs. As seen from the table, the most affected were training costs, departmental costs, business costs and the new market entry fee.

Table 4.4 CC&E Impact on Various Costs

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>SI</th>
<th>A</th>
<th>SD</th>
<th>D</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrator salaries</td>
<td>4.4</td>
<td>51.1</td>
<td>22.2</td>
<td>13.3</td>
<td>9.0</td>
<td>2.71</td>
<td>1.058</td>
</tr>
<tr>
<td>Production costs</td>
<td>22.2</td>
<td>44.4</td>
<td>11.1</td>
<td>0.0</td>
<td>22.3</td>
<td>2.51</td>
<td>1.375</td>
</tr>
<tr>
<td>Legal costs</td>
<td>4.4</td>
<td>13.3</td>
<td>22.2</td>
<td>42.2</td>
<td>17.9</td>
<td>3.56</td>
<td>1.078</td>
</tr>
<tr>
<td>Training costs</td>
<td>40.0</td>
<td>22.2</td>
<td>26.7</td>
<td>4.4</td>
<td>6.7</td>
<td>1.93</td>
<td>0.863</td>
</tr>
<tr>
<td>Business costs</td>
<td>15.5</td>
<td>11.1</td>
<td>60.0</td>
<td>9.0</td>
<td>4.4</td>
<td>2.62</td>
<td>0.860</td>
</tr>
<tr>
<td>Departmental costs</td>
<td>13.3</td>
<td>13.3</td>
<td>53.3</td>
<td>13.3</td>
<td>6.8</td>
<td>2.73</td>
<td>0.863</td>
</tr>
<tr>
<td>New market entry fee</td>
<td>6.8</td>
<td>17.9</td>
<td>61.9</td>
<td>9.0</td>
<td>4.4</td>
<td>2.91</td>
<td>0.900</td>
</tr>
</tbody>
</table>
4.3.5 Overall Impact on Operational Costs
The CC&E program has resulted to a positive impact on operational costs as seen in figure 4.7, 55% of the respondents noted that the impact was positive. Forty two percent stated it had an average impact meaning positive on some and negative on some of the operating costs. A small percentage of 3% stated that it had negative impact on the operating costs. This shows that CC&E has a positive impact on operating costs.

![Overall Impact on Operational Costs](image)

Figure 4.7 Overall Impact on Operational Costs

4.4 Impact of CC&E on Business Focus
4.4.1 Improved Business Focus
The CC&E program has improved EABLs business focus as the respondents testified to this being true. Fifty one percent indicated that they totally agreed to seeing improvements in the business focus and 49% agreeing to the same. The CC&E was also consistent with the organizations' code of conduct as well as the mission, vision and the organizations' values. The impact on the business focus was noted to be positive by the respondents.
Table 4.5 Improved Business Focus

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totally Agree</td>
<td>23</td>
<td>51.1</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>48.9</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.2 CC&E Program at EABL

The CC&E program has improved EABL's program in averting misconduct from the employees in the organization. The CC&E program in EABL also focuses on third parties and their dealings with the organization. Table also shows that EABL maintains its CC&E program and it is updated on new regulations and policies required. EABL maintains appropriate governance policies related to compliance. As shown, EABL's also maintains a compliance and ethics strategic plan, a non-retaliation policy, compliance manual, and policies and procedures around identified risk areas as well as appropriate governance policies related to compliance. The organization has also defined the responsibilities, purpose, function and authority of compliance and ethics positions.
<table>
<thead>
<tr>
<th></th>
<th>TA</th>
<th>A</th>
<th>D</th>
<th>TD</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain compliance and ethics strategic plan</td>
<td>57.8</td>
<td>26.7</td>
<td>11.1</td>
<td>4.4</td>
<td>1.62</td>
<td>0.860</td>
</tr>
<tr>
<td>Maintain a non-retaliation policy</td>
<td>28.9</td>
<td>40.0</td>
<td>22.2</td>
<td>8.9</td>
<td>2.07</td>
<td>0.863</td>
</tr>
<tr>
<td>Maintain compliance manual</td>
<td>33.3</td>
<td>22.2</td>
<td>26.7</td>
<td>17.8</td>
<td>2.29</td>
<td>1.121</td>
</tr>
<tr>
<td>Maintain policies and procedures around identified risk areas</td>
<td>37.8</td>
<td>35.6</td>
<td>6.7</td>
<td>19.9</td>
<td>1.96</td>
<td>0.928</td>
</tr>
<tr>
<td>Maintain appropriate governance policies related to compliance</td>
<td>37.8</td>
<td>35.6</td>
<td>19.9</td>
<td>6.7</td>
<td>2.07</td>
<td>1.074</td>
</tr>
<tr>
<td>The organization develops internal controls aimed at preventing misconduct</td>
<td>46.7</td>
<td>33.3</td>
<td>15.6</td>
<td>4.4</td>
<td>1.84</td>
<td>0.928</td>
</tr>
<tr>
<td>Compliance and ethics standards are included in contractual agreements with third parties (e.g., vendors, business partners, agents)</td>
<td>31.1</td>
<td>28.9</td>
<td>33.3</td>
<td>6.7</td>
<td>2.20</td>
<td>0.991</td>
</tr>
<tr>
<td>Maintain the credibility and integrity of the compliance program</td>
<td>57.8</td>
<td>33.3</td>
<td>8.9</td>
<td>0.0</td>
<td>1.49</td>
<td>0.661</td>
</tr>
<tr>
<td>The organization has defined the responsibilities, purpose, function and authority of compliance and ethics positions</td>
<td>40.0</td>
<td>37.8</td>
<td>13.3</td>
<td>8.9</td>
<td>1.91</td>
<td>0.949</td>
</tr>
<tr>
<td>The governing board understands its responsibilities in the compliance and ethics program</td>
<td>35.6</td>
<td>42.2</td>
<td>11.1</td>
<td>11.1</td>
<td>2.00</td>
<td>0.953</td>
</tr>
<tr>
<td>The role of counsel in the compliance and ethics process has been clearly defined</td>
<td>24.4</td>
<td>31.1</td>
<td>40.0</td>
<td>4.5</td>
<td>2.27</td>
<td>0.915</td>
</tr>
<tr>
<td>The organization maintain knowledge of current regulatory and legal changes</td>
<td>42.2</td>
<td>40.0</td>
<td>11.1</td>
<td>6.7</td>
<td>1.82</td>
<td>0.886</td>
</tr>
</tbody>
</table>
4.4.3 Period of Risk Assessment

EABL takes its risk assessments quarterly to ensure compliance within the organization. As shown in figure 4.8, most of the respondents 69% indicated it was done quarterly but other departments took it semi-annually. The study also showed that EABL had integrated the compliance and ethics program across all its business units. These units included the procurement, finance, production, planning, sales and marketing and other business operating departments. This was looked at by their internal organ which is the CC&E department.

![Period of Risk Assessment](image.png)

**Figure 4.8 Period of Risk Assessment**

4.5 Challenges of the CC&E

4.5.1 Existence of Challenges

The researcher wanted to establish whether EABL faced any challenges after implementing the CC&E program and the study showed that they did have challenges, figure 4.9 shows that 87% of the respondents stated they faced challenges while 13% did not notice any challenges. When asked to indicate the challenges, the respondents stated that the major challenges faced were organizational culture which was a little bit rigid to change, information acquisition, the cost of implementation, resistance from older people within the organization and the availability of different cultures among the nations in which the organization operated.
4.5.2 Appropriate Policies

The researcher wanted to determine whether EABL had an effective means of measuring compliance and ethics training program and table 4.7 shows that the majority indicated that the organization had an effective means since 60% of the respondents stated the organization was better at measuring the program while 40% disagreed. The study also indicated that the employees of EABL understood very well their role and obligation in reporting any misconduct observed. The study also observed that education of all board members on the CC&E program took place and that the CC&E department trained those who received complaints as well as trained them on how to identify potential compliance issues.

Table 4.7 Appropriate Policies

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>60.0</td>
</tr>
<tr>
<td>No</td>
<td>18</td>
<td>40.0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.3 CC&E Challenges

The respondents were asked to indicate their opinion on challenges that faced their organization in relation to control compliance and ethics program. Their response has been presented on table 4.8. Their response showed that the communication of the CC&E program
was effective in EABL and the organization promotes the CC&E program in its organization and to its suppliers and other third parties that they work with and that the organization promotes anonymity and confidentiality of those employees that report any misconduct they observe. The results also showed that EABL monitors the organizational misconduct through the CC&E program and it has a reporting system that enables the employees to come forward and report any misconduct.

Table 4.8 CC&E Challenges

<table>
<thead>
<tr>
<th></th>
<th>SA</th>
<th>AG</th>
<th>A</th>
<th>D</th>
<th>SD</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication of compliance and ethics information</td>
<td>28.9</td>
<td>51.1</td>
<td>11.2</td>
<td>4.4</td>
<td>4.4</td>
<td>2.00</td>
<td>11</td>
</tr>
<tr>
<td>Promotion of compliance and ethics culture</td>
<td>24.5</td>
<td>44.4</td>
<td>8.9</td>
<td>8.9</td>
<td>13.3</td>
<td>2.42</td>
<td>7</td>
</tr>
<tr>
<td>Maintenance of anonymity and confidentiality of whistle blowers</td>
<td>31.1</td>
<td>35.6</td>
<td>15.6</td>
<td>11.2</td>
<td>6.5</td>
<td>2.27</td>
<td>9</td>
</tr>
<tr>
<td>Monitor for organizational misconduct</td>
<td>20.0</td>
<td>62.2</td>
<td>8.9</td>
<td>6.7</td>
<td>2.2</td>
<td>2.04</td>
<td>10</td>
</tr>
<tr>
<td>Operating systems for reporting non-compliance</td>
<td>11.1</td>
<td>11.1</td>
<td>57.8</td>
<td>8.9</td>
<td>11.1</td>
<td>2.98</td>
<td>2</td>
</tr>
<tr>
<td>Contradiction between compliance and governance policies</td>
<td>20.0</td>
<td>20.0</td>
<td>26.7</td>
<td>22.2</td>
<td>11.1</td>
<td>2.76</td>
<td>4</td>
</tr>
<tr>
<td>Evaluation of compliance and ethics program</td>
<td>17.8</td>
<td>31.1</td>
<td>15.6</td>
<td>19.9</td>
<td>15.6</td>
<td>2.84</td>
<td>3</td>
</tr>
<tr>
<td>Proportion of discipline to violation</td>
<td>28.9</td>
<td>22.2</td>
<td>26.7</td>
<td>13.3</td>
<td>8.9</td>
<td>2.51</td>
<td>6</td>
</tr>
<tr>
<td>Enforcement of discipline consistently</td>
<td>26.7</td>
<td>28.9</td>
<td>22.2</td>
<td>8.9</td>
<td>13.3</td>
<td>2.53</td>
<td>5</td>
</tr>
<tr>
<td>Incentives that encourage compliance and ethics</td>
<td>11.1</td>
<td>20.0</td>
<td>28.9</td>
<td>20.0</td>
<td>20.0</td>
<td>3.18</td>
<td>1</td>
</tr>
<tr>
<td>Disclosing of non-compliance to regulatory agencies</td>
<td>17.8</td>
<td>51.1</td>
<td>13.3</td>
<td>11.1</td>
<td>6.7</td>
<td>2.38</td>
<td>8</td>
</tr>
</tbody>
</table>
The results also indicate that although there might be a small misunderstanding, there was no contradiction between the two policies and the organization conducts an evaluation of its CC&E program and its effectiveness. The table shows that EABL enforces discipline in the CC&E program and it rarely uses incentives to encourage compliance and ethics within the organization and it discloses all non-compliant reports to the relevant authorities and regulatory bodies.

### 4.5.4 CC&E Audits

CC&E audits for EABL are carried out by the compliance department in collaboration with other outside bodies. The figure shows 71% stating that audits were done by the CC&E department in EABL and 13% stating the outside bodies that are the Global CC&E department and the Lauren Compliance Services. The study also showed that EABL engages in routine monitoring and they use the compliance and ethical behaviour in their job performance evaluations.

![Figure 4.10 CC&E Audits](image)

### 4.5.5 Internal Investigations

EABL response to the ethics issues are by referring them to the CC&E department and using the line managers to handle the cases as well as involve the legal department in the issues. The organization also provided standard practices and using the speak-up help line within the organization that promotes anonymity. Table 4.9 shows that internal investigations
concerning ethics and compliance are handled by the Diageo Security in collaboration with the CC&E department and the human resources department. The table shows that 75% of the respondents indicated the investigations being done by Diageo, 18% stated the CC&E department while 7% stated it was the human resources department.

**Table 4.9 Internal Investigations**

<table>
<thead>
<tr>
<th></th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Human Resources</td>
<td>3</td>
</tr>
<tr>
<td>CC&amp;E Department</td>
<td>8</td>
</tr>
<tr>
<td>Diageo Security</td>
<td>34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

The study also showed that EABL maintains a record of the compliance investigations in order to learn and prevent future re-occurrence of misconducts. The study showed that the impact of the CC&E program on the organization in the whole was positive in-spite of the challenges and increase in operating costs.

**4.6 Chapter Summary**

In this chapter, the data collected through questionnaires has presented. The survey questionnaires given have provided the responses of the population selected for the study and have shed light on the CC&E program at EABL. The data analysis from the questionnaires was used to answer the research questions that guided the study. These research questions were set to determine the impact of the CC&E program on the operating costs; business focus and the challenges faced by EABL and the chapter has shown that the CC&E program has had a positive impact on the operating costs of EABL as well as improved the business focus in the organization.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The previous chapter shows the data that was collected and analyzed and presented in the form of tables and figures. This chapter deals with the discussion and findings of the study as well as offers a conclusion and recommendations that EABL can adopt to improve their CC&E program and avert more costs that may arise as a result of conducting business unethically.

5.2 Summary
The purpose of the study was to assess how the Controls Compliance and Ethics agenda has affected or changed the Business Performance at EABL. The study was driven to determine how EABL’s Compliance, Controls and Ethic agenda has affected the organizations operating costs; establish how the Compliance, Controls and Ethic agenda had improved business focus in EABL; and to establish the challenges that the Compliance, Controls and Ethic agenda had brought to EABL. The study achieved this through a survey study that was done on EABL.

A descriptive research design was used to depict methodically the facts and features of a given population or region of interest and a survey study was selected as the methodology of the study. The sample group of this study consisted of EABL staff based at the Nairobi EABL Head office. The respondents were drawn from executives and administration staff at the rate of 30 percent of every number represented which brought the sample size to forty five (45). Stratified sampling was utilized to choose the staff members so as to include both management and non-management staff in the study. The data collected was mainly quantitative in nature; the raw data required minimal manipulation. It was summarized and categorized in a frequency distribution table out of which graphical and chart presentations were generated to give visual image of respondent responses. Presentations were by use of graphs, tables, charts and pie charts. MS Excel spreadsheet, was used for the initial tabulation, analysis and drawing of charts based on the respondents responses. Statistical
Package for Social Science (SPSS) Student Version 19.0 which is a unified and comprehensive package was used to analyze the collected data thoroughly and conveniently.

The CC&E program in EABL has resulted to an increase in the administrator salaries, and an increase in the production costs of EABL. This increase however is cushioned by the fact that the CC&E program in the organization has led to a decrease in terms of avoiding expensive investigations, legal fees, lawsuits, reactive retraining, crisis management, employee changes and other fixes. The CC&E program had improved EABLs program in averting misconduct from the employees in the organization and that the CC&E program in EABL also focused on third parties and their dealings with the organization.

EABL maintains its CC&E program and it is updated on new regulations and policies required regularly. EABL also monitors the organizational misconduct through the CC&E program and that it has a reporting system that enables employees to come forward and report any misconduct. The CC&E audits for EABL are carried out by the compliance department in collaboration with other outside bodies and EABL engages in routine monitoring and they use the compliance and ethical behaviour in their job performance evaluations.

The major challenges faced by EABL are organizational culture which was a little bit rigid to change, information acquisition, the cost of implementation, resistance from older people within the organization and the availability of different cultures among the nations in which the organization operates. EABL had an effective means of measuring compliance and ethics training program and its employees understand very well their role and obligation in reporting any misconduct observed since the organization carries out education of all employees and board members on the CC&E program. The organization promotes anonymity and confidentiality of those employees that report any misconduct observed and it carries out communication of the CC&E program so that both old and new employees are aware.
5.3 Discussion

The study sample was individuals in management position in the organization together with non-management. The majority of the respondents were well acquainted with the organization since they have worked with the organization for more than five years. The study also revealed that the respondents were familiar with the CC&E program and that the organization (EABL) had implemented the program and that a CC&E department managed the program and ensured its implementation. The department is also in charge of making compliance and ethics policies and procedures for the organization.

5.3.1 Impact of CC&E and Operating Costs

From the findings of the study, the study showed that EABL carries out its CC&E training quarterly and that the CC&E program had an impact on the organizations’ operating costs. These results are in tandem with Kakabadse and Kakabadse (2002) who stated that a company can reduce their operating costs by implementing the company compliance and ethics program as, other than serving as a futuristic compliance tool to avert an infringement, a corporate conformity program also works as a retrospective tool to decrease the potential accountability after an infringement has occurred.

The study revealed that EABL invests in training its employees on compliance and ethics, the organization suffered these costs together with other overhead costs as staff costs, training costs, travel expenses, training materials, conference facilities, printing and stationery costs,
promotional items and accommodation for trainings taking place outside of Nairobi as a result of the CC&E implementation and training as revealed by the study findings. Pfeffer and Salancik (2003) stated that even if there may perhaps be some further administrative cost in the preliminary establishment and continuing upkeep of the CC&E program, a lot of these expenses ought to be offset by the impact of the CC&E program which leads to reduction in investigations, legal fees, lawsuits, reactive retraining, crisis management, employee changes and other fixes.

The CC&E program has resulted to an increase in the administrator salaries, and an increase in the production costs of EABL as demonstrated by the study findings. These results disagree with Kakabadse and Kakabadse (2002) findings that the CC&E program can reduce organizations’ operating costs however Pfeffer and Salancik (2003) can be used to explain since they state that the initial cost will go up but with time; it brings the operating costs down.

The study showed that EABL enforces discipline in the CC&E program and that it keeps tabs on the proportion of discipline and violation in order to draw a program that remains consistent as shown by the data analyzed from the study findings. Koletar (2003), states that a conformity program deals with how staff will be disciplined for conformity violations. Organizational policies should plainly set out the repercussions for infringing on compliance standards, in addition to express administration’s expectation for staff conduct and how quickly suitable disciplinary measures will be applied.

From the data analyzed in the study, it was revealed that the CC&E program in EABL had resulted in a slight increase in the organizations business costs, and the departmental costs. These results disagree with Kakabadse and Kakabadse (2002) findings that the CC&E program can reduce organizations’ operating costs however Pfeffer and Salancik (2003) can be used to explain since they state that the initial cost will go up but with time; it brings the operating costs down.
On the other hand, the impact of the CC&E on costs seemed positive since it had led to a decrease in the organizations legal costs, the market entry fee, and it had resulted to a positive impact on operational costs of EABL as demonstrated by the study findings. Pfeffer and Salancik (2003) argued that a lot of expenses on operating costs ought to be offset by the results of the program which leads to avoiding expensive investigations, legal fees, lawsuits, reactive retraining, crisis management, employee changes and other fixes and as seen, the program had already started having a positive impact on EABLs operating costs.

5.3.2 Impact of CC&E on Business Focus

The study findings and results revealed that the CC&E program had improved EABLs business focus as the respondents testified to this being true. The CC&E was also noted to be consistent with the organizations’ code of conduct as well as the mission, vision and the organizations’ values and as a result its impact on EABLs business focus was positive.

The study showed that the CC&E program had improved EABLs program in averting misconduct from the employees in the organization and that the CC&E program in EABL also focused on third parties and their dealings with the organization as demonstrated by the study findings from data analyzed. Businesses need to lay out their program in order to be able to focus on operations while applying checks and balances to make certain systems are running (Koletar, 2003) something that EABL had done and he further states that the CC&E program needs to have assessments to verify that businesses and agents have included its code of conduct and other pertinent policies into their processes.

From the study findings and results, the study showed that EABL promoted the CC&E program in its organization across the board and to its suppliers and other third parties that they worked with. Even as other best practice doctrines address internal features of an organization’s conformity program, CC&E program at EABL looked externally to identify conformity risks created by third parties as seen in the results in the study findings. Third-party due assiduousness has turned out to be particularly noteworthy given the states
readiness to take action against businesses that facilitate a third party to commit an infringement and overlook apparent possibilities posed by that third party (Campbell, 2007).

The study indicated from the results and analyzed data that EABL maintains its CC&E program and it is updated on new regulations and policies required regularly. Nelson (2006) urged that an organization should establish if their code of conduct and conformity structures are working as projected. To function correctly, covered personnel ought to recognize that reporting probable compliance matters will not end in retribution and that all accusations of compliance infringement will be comprehensively looked into and resolved.

The study also showed that EABL maintained appropriate governance policies related to compliance and continual analysis and improvement of the code of conduct helped the company to focus on the most significant compliance possibilities facing the code of conduct then as seen in the study findings. In addition, findings showed that the organization may put into practice a superior automated data management system that can help it track the performance of the CC&E and present a resolution intended at ensuring that possible compliance matters are handled promptly and in some cases avoided.

The study findings demonstrated further that EABL monitored the organizational misconduct through the CC&E program and that EABL had a reporting system that enabled the employees to come forward and report any misconduct. A CC&E has assessments to verify that businesses and agents have included its code of conduct and other pertinent policies into their processes. One main aspect of a successful conformity program is the capability to conduct quick and proper investigations of compliance infringements and report them.

The study showed that EABL takes its risk assessments quarterly to ensure compliance within the organization from the findings. These study findings also demonstrated that EABL had integrated the compliance and ethics program across all its business units. These units included the procurement, finance, production, planning, sales and marketing and other
business operating departments. This was looked at by their internal organ which is the CC&E department.

5.3.3 Challenges of the CC&E

The findings in this study showed that EABL had challenges with the CC&E implementation and the major challenges faced were organizational culture which was a little bit rigid to change, information acquisition, the cost of implementation, resistance from older people within the organization and the availability of different cultures among the nations in which the organization operated. Haines and Gurney (2003) indicated that for an organization to achieve optimal business compliance results, companies must cultivate a culture that acknowledges acting in a compliant way as consistent with business success, and that influences employee conduct to act in harmony with expected standards.

The study findings also demonstrated that EABL had an effective means of measuring compliance and ethics training program and that the employees of EABL understood very well their role and obligation in reporting any misconduct observed. The study findings also showed that education of all board members on the CC&E program took place and that the CC&E department trained those who received complaints as well as trained them on how to identify potential compliance issues. Campbell (2007) stated that ethics and compliance training was extremely beneficial since it helped promote a culture in which staff do not merely comply to externally imposed regulations, but rather identify themselves by values which motivate them to follow the regulations and respect it and make sure that their fellow colleagues also comply.

The results from the analyzed data indicated that EABL promoted anonymity and confidentiality of those employees that reported any misconduct that was observed within the organization. The results also revealed that the communication of the CC&E program was effective in EABL and that the organization did not have a communication problem in its CC&E program. Vallabhaneni (2008) stated that a conformity program includes continuing communication to give surety that all covered personnel understand the organization's
expectations for decent business behavior in addition to where to obtain advice on managing compliance and ethics matters. Companies must promote continuance written and oral communications amongst covered personnel on major compliance matters.

The study results demonstrated that EABL used incentives to encourage compliance and ethics in the organization and it disclosed all non-compliant reports to the relevant authorities and regulatory bodies as shown by the analyzed data. The study results further indicated that there was a small misunderstanding but there was no contradiction between compliance policies and the governance policies. Vallabhaneni (2008) states that conformity program is a fundamental part of the organization’s overall possibility management program. The conformity program should be tailored to mirror each organization’s needs as well as those of the governments they are operating in.

The study results also showed that the CC&E audits for EABL are carried out by the compliance department in collaboration with other outside bodies. The findings of the study also showed that EABL engages in routine monitoring and they use the compliance and ethical behaviour in their job performance evaluations.

5.4 Conclusion

5.4.1 Impact of CC&E and Operating Costs

EABL has invested in training its employees on compliance and ethics and this has led the organization to suffer overhead costs such as staff costs, training costs, travel expenses, training materials, conference facilities, printing and stationery costs, promotional items and accommodation for trainings taking place outside of Nairobi as a result of the CC&E implementation and training. The CC&E program has resulted to an increase in the administrator salaries, and an increase in the production costs of EABL. This increase however is cushioned by the fact that the CC&E program in the organization has led to a decrease in terms of avoiding expensive investigations, legal fees, lawsuits, reactive retraining, crisis management, employee changes and other fixes.
5.4.2 Impact of CC&E on Business Focus

The CC&E program had improved EABL's program in averting misconduct from the employees in the organization and that the CC&E program in EABL also focused on third parties and their dealings with the organization. EABL maintains its CC&E program and it is updated on new regulations and policies required regularly. This program is maintained by ensuring appropriate governance policies related to compliance and continual analysis and improvement of the code of conduct is carried out in the organization to help the company focus on the most significant compliance possibilities facing the code of conduct then. EABL also monitored the organizational misconduct through the CC&E program and that it has a reporting system that enables employees to come forward and report any misconduct. Last but not least the CC&E audits for EABL are carried out by the compliance department in collaboration with other outside bodies and EABL engages in routine monitoring and they use the compliance and ethical behaviour in their job performance evaluations.

5.4.3 Challenges of the CC&E

The major challenges faced by EABL are organizational culture which was a little bit rigid to change, information acquisition, the cost of implementation, resistance from older people within the organization and the availability of different cultures among the nations in which the organization operates. EABL had an effective means of measuring compliance and ethics training program and its employees understand very well their role and obligation in reporting any misconduct observed since the organization carries out education of all employees and board members on the CC&E program. The organization promotes anonymity and confidentiality of those employees that report any misconduct observed and it carries out communication of the CC&E program so that both old and new employees are aware. EABL responses to the ethical issues by referring them to the CC&E department and using the line managers to handle the cases as well as involve the legal department in the issues. Internal investigations concerning ethics and compliance are handled by the Diageo Security in EABL in collaboration with the CC&E department and the human resources department.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Recommendations on CC&E and Operating Costs

EABL need to provide CC&E training as part of its employee requirements, this is to ensure that all employees at EABL are trained and well versed with the issues of the CC&E. At the conclusion of each general training session, EABL should do a survey follow-up on all employees to establish their understanding of the codes as well as show their commitment to the Code. This follow-up survey will enable the organization to understand the effectiveness of their training sessions.

In order to further encourage open lines of communication regarding potential violations, EABL should establish a toll-free, 24-hour, ethics hotline to allow individuals who want to report anonymously, to do so. Should the employees choose to reveal their identity, EABL should ensure that they are protected by the Company’s Non-Retaliation for Reporting Policy, EABL needs to affirm its non-retaliation policy and ensure that all employees are protected at all times and re-visit this policy to ensure that no employee becomes a victim of blowing the whistle.

5.5.1.2 Impact of CC&E on Business Focus

EABL need to ensure that the internal control over financial reporting is accurate so at to help them identify risk areas and avert problems in the future. The company should encourage its employees to contact a supervisor or General Counsel with any questions concerning how to comply with relevant laws, rules, regulations, the Company’s Code of Business Conduct and Ethics or company policies. This would ensure that the employees are constantly updated on any new issues that arise in terms of the CC&E programme.

5.5.1.3 Challenges of the CC&E

EABL should continue to identify new and emerging risk areas and address these risks through a thorough auditing and monitoring process. Violations should not be tolerated by the organization and thus, EABL should enforce discipline in all its employees and should
use equity in dealing with any employee found to have violated the rules and laws of the CC&E in the organization. The company should also keep a proper record of any disciplinary action resulting from non-compliance issues and upon conclusion of an internal investigation, corrective action and preventative measures should be determined and implemented as appropriate. EABL should record all reported violations, investigations and resolutions and maintain the same for corrective action in the organization.

5.5.2 Recommendations for Further Studies
There is still room to undertake further research on the impact of the Corporate Compliance and Ethics program in organizations. A similar study can be conducted but with focus on other EABL branches outside of Nairobi as well as other government institutions so as to compare whether they have similar impacts and face similar challenges. Alternatively all these studies proposed above can be carried but on both private and public organizations.
REFERENCES


APPENDICES
APPENDIX I: COVER LETTER

FAITH NYAMBURA NDIRANGU
UNITED STATES INTERNATIONAL UNIVERSITY,
P.O. BOX 14634-00800,
NAIROBI.

Dear Sir/Madam

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH PROJECT
I wish to request you to kindly participate in a management research project that I am currently undertaking as part of my Master of Business Administration (MBA) program at United States International University. My MBA research project seeks to investigate the impact of corporate compliance and ethics in business with a key focus on East African Breweries Limited.

The objective of this study is to establish the implementation of the corporate compliance and ethics program and its impact on organizations operating costs, the CC&E implementation impact on business focus and finally challenges of implementing the program in EABL.

The information you will provide is strictly for academic purposes and will not be disclosed to third parties. The identity and information of your organization will be treated confidentially.

Yours Sincerely,

FAITH NYAMBURA NDIRANGU.
APPENDIX II: QUESTIONNAIRE

This study seeks to establish the impact of Corporate Compliance and Ethics in EABLs business focus and operating costs as well as establish the challenges that the organization has faced due to the CC&E. The following questionnaire has been developed to help the researcher gather information necessary to meet the research objectives that have been highlighted above.

SECTION A: DEMOGRAPHIC INFORMATION

1. What position do you hold in the organization?
   Top Management [ ] Middle Management [ ] Lower Management [ ] Other [ ]

2. How long have you worked for EABL?
   1-5 Years [ ] 6-10 Years [ ] 11-15 Years [ ] 16-20 Years [ ]
   21 and Above [ ]

3. How many years have you been in service in the above mentioned position?
   1-5 Years [ ] 6-10 Years [ ] 11-15 Years [ ] 16-20 Years [ ]
   21 and Above [ ]

4. Are you aware of the corporate compliance and ethics program?
   Yes [ ] No [ ]

5. Does your organization have a corporate compliance and ethics program?
   Yes [ ] No [ ]

6. Does your organization have a compliance department?
   Yes [ ] No [ ]

7. Who created the compliance and ethics policies and procedures?
   Human Resource [ ] Compliance Department [ ]
Outsourced Organization [ ] Other [ ] Specify ..................................................

8. How long has this programme been running in your organization?
..............................................................................................................................

9. Does the organization have a compliance and ethics oversight committee?
   Yes [ ] No [ ]

10. How does the organization ensure that the compliance and ethics oversight committee’s goals and functions are implemented?
.............................................................................................................................
.............................................................................................................................

11. Who maintains the compliance and ethics policies and procedures in the organization?
   Internal Body [ ] External Body [ ] No Idea [ ]

12. Does EABL collaborate internally and externally with other institutions to practice business best practices?
   Yes [ ] No [ ]

SECTION B: CC&E AND OPERATING COSTS

13. Has the implementation of the CC&E in the organization impacted the operating costs in EABL?
   Yes [ ] No [ ]

14. Does the organization have CC&E training?
   Yes [ ] No [ ]
15. How often is the CC&E training carried out?
   Monthly [ ]
   Quarterly [ ]
   Semi-annually [ ]
   Annually [ ]
   Other [ ] Specify ............................................................

16. Does the organization pay for the CC&E training?
   Yes [ ]  No [ ]

17. Are there other overhead costs incurred as a result of the CC&E implementation?
   Yes [ ]  No [ ]

18. Please indicate the overhead costs
   ......................................................................................
   ......................................................................................
   ......................................................................................

19. Using the following key: Increase (I); Slight Increase (SI); Average (A); Slight Decrease (SD); Decrease (TD); how would you rate the change in operating costs in the following areas of the organization’s business in relation to the control compliance and ethics program of the company?

<table>
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<tr>
<th></th>
<th>I</th>
<th>SI</th>
<th>A</th>
<th>SD</th>
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<tbody>
<tr>
<td>Administrator salaries</td>
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<td>Production costs</td>
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<td>Legal costs</td>
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<td>Training costs</td>
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<td>Business costs</td>
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<td>Departmental costs</td>
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New market entry fee

20. How is the impact of CC&E on operational costs?
   Positive [ ]  Average [ ]  Negative [ ]

SECTION C: CC&E AND BUSINESS FOCUS

21. There has been a great improvement on business focus as a result of the CC&E program. Would you agree with the statement?
   Totally Agree [ ]  Agree [ ]  Neutral [ ]  Disagree [ ]
   Totally Disagree [ ]

22. Using the following key: Totally Agree (TA); Agree (A); Disagree (D); Totally Disagree (TD); how would you agree with the following statements in relation to your organization? (Please tick the appropriate box).

<table>
<thead>
<tr>
<th>Statement</th>
<th>TA</th>
<th>A</th>
<th>D</th>
<th>TD</th>
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<tbody>
<tr>
<td>Maintain compliance and ethics strategic plan</td>
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<tr>
<td>Maintain a non-retaliation policy</td>
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<tr>
<td>Maintain compliance manual</td>
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<tr>
<td>Maintain policies and procedures around identified risk areas</td>
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<tr>
<td>Maintain appropriate governance policies related to compliance</td>
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<tr>
<td>The organization develops internal controls aimed at preventing misconduct</td>
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<tr>
<td>Compliance and ethics standards are included in contractual agreements with third parties (e.g., vendors, business partners, agents)</td>
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<tr>
<td>Maintain the credibility and integrity of the compliance program</td>
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<td>The organization has defined the responsibilities, purpose, function and authority of compliance and ethics positions</td>
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</table>
The governing board understands its responsibilities in the compliance and ethics program

The role of counsel in the compliance and ethics process has been clearly defined

The organization maintain knowledge of current regulatory and legal changes

23. How often does the organization ensure a periodic compliance and ethics risk assessments are conducted across the organization?
   Monthly [ ]
   Quarterly [ ]
   Semi-annually [ ]
   Annually [ ]
   Other [ ] Specify .................................................................

24. Has the organization integrated the CC&E risk assessments across all parts of the business?
   Yes [ ] No [ ]

25. Please indicate what areas the organization has integrated the CC&E in its business focus
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

**SECTION D: CHALLENGES OF CC&E**

26. Are there challenges faced with the implementation of the CC&E?
   Yes [ ] No [ ]

27. If yes, what are the major challenges that you face as an organization?
28. Do you have an effective means of measuring compliance and ethics training?
   Yes [ ] No [ ]

29. Do EABL employees understand their obligation to report misconduct?
   Yes [ ] No [ ]

30. Do compliance and ethics personnel participate in continuing education to maintaining professional competence?
   Yes [ ] No [ ]

31. What is the track participation in ongoing compliance and ethics training programs?

32. Does the compliance and ethics department ensure there is education for all board members, employees, vendors, and other agents?
   Yes [ ] No [ ]

33. Does the compliance department train those who receive questions and concerns from employees and others on how to identify potential compliance and ethics issues?
   Yes [ ] No [ ]

34. Using the following key: Strongly Agree (SA); Agree (AG); Average (A); Disagree (D); Strongly Disagree (SD); kindly indicate your opinion on the following
statements that relate to the challenges faced by your organization in relation to
to control compliance and ethics program in your organization?

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>AG</th>
<th>A</th>
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<tr>
<td>Communication of compliance and ethics information</td>
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<td>Promotion of compliance and ethics culture</td>
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<td>Maintenance of anonymity and confidentiality of whistle blowers</td>
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<td>Monitor for organizational misconduct</td>
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<td>Operating systems for reporting non-compliance</td>
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<td>Contradiction between compliance and governance policies</td>
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<tr>
<td>Evaluation of compliance and ethics program</td>
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<td>Proportion of discipline to violation</td>
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<td>Enforcement of discipline consistently</td>
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<tr>
<td>Incentives that encourage compliance and ethics</td>
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<tr>
<td>Disclosing of non-compliance to regulatory agencies</td>
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</table>

35. Who carries out the conduct compliance and ethics audits for your organization?
   Human Resource [ ]   Compliance Department [ ]
   Outsourced Organization [ ] Other [ ] Specify.............................................

36. Does your organization engage in routine monitoring of compliance and ethics related
   activities?
   Yes [ ]   No [ ]

37. Do you use compliance and ethical behavior as a factor in job performance
    evaluations in EABL?
   Yes [ ]   No [ ]
38. How do you respond to compliance and ethics inquiries?

..........................................................................................................................................................................................................................................................
..........................................................................................................................................................................................................................................................
..........................................................................................................................................................................................................................................................

39. Is there a validated and appropriate channel of noncompliance reporting within the organization?

Yes [ ]    No [ ]

40. Does the organization engage internal resources to assist in investigations?

Yes [ ]    No [ ]

41. Who conducts internal investigations in EABL?

Human Resource [ ]  Compliance Department [ ]
Outsourced Organization [ ]  Other [ ] Specify...........................................................

42. Does the organization maintain records on compliance investigations?

Yes [ ]    No [ ]

43. Has the CC&E impacted EABL as an organization positively or negatively?

Positively [ ]    Negatively [ ]    No Idea [ ]

THANK YOU FOR TAKING YOUR TIME TO FILL THE QUESTIONNAIRE