How to Score your Compliance Program using Key Performance Indicators (KPIs)

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Today we will discuss:

- KPIs vs Metrics
- Developing Useful KPIs
- How KPIs Evolve with Program Maturity
- Avoiding Unintended Consequences

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Boards Are Becoming Increasingly Engaged with Compliance

Increased Board Engagement Reflects Heightened Interest and Importance of Compliance Efforts at Leading Companies

What information do you report to your Board?

	2014 WME Honorees	2018 WME Honorees	Change
Hotline and misconduct reporting statistics	77%	100%	+23%
Significant regulatory and legal updates	80%	98%	+18%
Misconduct investigations and resolutions	80%	97%	+17%
C&E trends and best practices updates	78%	94%	+16%
C&E risk assessment findings	83%	98%	+15%
Program assessment and benchmarking findings	83%	97%	+14%
Overall C&E program performance	85%	99%	+14%
C&E training initiatives and results	84%	98%	+14%
Overview of key initiatives	85%	99%	+14%
C&E communication initiatives	84%	96%	+12%

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Source: Unverified responses from 2014 and 2018 World's Most Ethical Companies application data, Ethisphere

KPIs vs Metrics

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Key Performance Indicators (KPIs) and Compliance

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What Are KPIs?

- A measure of business performance against quantifiable goals

Traditional Use of KPIs

- Financial and sales

KPIs in Compliance

- Measure effectiveness of programs
- As a monitoring tool
- Evidence of efforts being more than a paper program

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KPIs vs Metrics

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KPIs – Strategic Value Drivers

- Evaluates whether an organization is meeting important business objectives
- KPIs are derived from four elements:
  - A defined program element
  - Its goal or objective
  - Components to reach the goal
  - Defining success

Metrics – Yardsticks

- Objective, quantifiable measures used to track the status of specific business processes

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Developing Useful KPIs

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What Makes a Useful KPI?

KPIs Must be **Relevant and Actionable** → Based upon **Program Maturity**

→ **New Program**
Basics are in place (e.g., policies, procedures controls)

→ **Sophisticated Program**
Implementation and effective performance

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Developing Useful KPIs

Sharon J. Zealey, founding member of NextGen Compliance LLC and former Global Chief Ethics & Compliance Officer of The Coca-Cola Company… recommends breaking down metrics into a few different categories:

- ***Quantitative*** *– numerical data such as training statistics*
- ***Qualitative*** *– measures of effectiveness*
- ***Process*** *– efficiency or productivity*
- ***Practical*** *– interface with existing company processes or functions*
- ***Directional*** *–whether the organization is getting better at a process, activity or task*
- ***Input*** *– resources necessary to reach the goal*

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How KPIs Evolve with Program Maturity

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Program Maturity

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1	2	3	4	5
Little or no repeatable processes, limited awareness of risks, reactive	Limited systems with inconsistent implementation, primarily reactive	Systems approach adopted, but development and implementation and improvement efforts are inconsistent	Systems well-developed and consistently implemented and improved	Mature system implemented internally and continually improved through a regular management process

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Putting KPIs into Action

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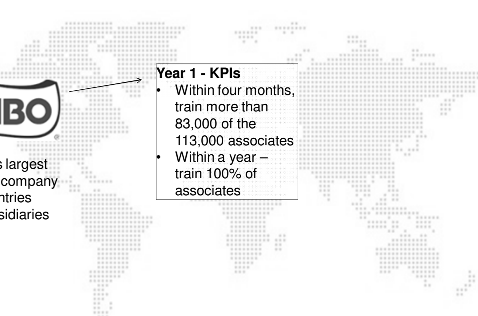

GRUPO BIMBO

- World's largest baking company
- 32 countries
- 22 subsidiaries

Year 1 - KPIs
- Within four months, train more than 83,000 of the 113,000 associates
- Within a year – train 100% of associates

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Putting KPIs into Action – Policies and Procedures

KPI:
- Relevant policies and procedures exist to detect and prevent bribery

Potential Metrics:
- Anti-corruption policies meet relevant requirements and the company's risk profile
- Procedures outline how policies should be followed
- Policies and procedures have been translated into local languages and are accessible to employees and associates

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Putting KPIs into Action – Risk Assessment

KPI:
- The company has assessed its corruption risk and aligned its program with those risks

Potential Metrics:
- The company performs and documents an annual anti-corruption risk assessment that includes the elements identified in the FCPA Resource Guide
- The company has executed a plan for testing its policies, procedures and controls based on the assessment findings
- All findings that pose more than a low risk are addressed within six months

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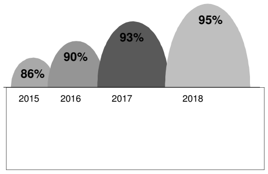
Training Managers to Become Cultural Standard Bearers

Percent of WMEC honorees providing targeted training to managers with direct reports on their special responsibilities with regards to compliance and ethics.



Six Most Common Topics Included Among Manager-Targeted Ethics & Compliance Training from 2018 WMEC Honorees

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Putting KPIs into Action – Training and Capacity Building

KPI:
- The company training program includes training tailored to business function or risk

Potential Metrics:
- 100% of employees responsible for managing vendors have received specialized training
- All employees engaged in a high-risk activity (sales, finance, government contracting) have received specialized training and passed a post-training test with a score of 90%

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Putting KPIs into Action – Corrective Actions

KPI:
- The % of corrective actions required by senior management are achieved in a defined timeframe

Potential Metrics:
- Corrective actions are completed by business units in 60 days or less, 60-90 days, 90-120 days, over 120 days
- Identified corrective actions are assessed by formal audit within six months

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Avoiding Unintended Consequences

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Avoid Incentivizing Unwanted Behavior

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Examples:

Excessive pressure on teams to sell

- *Case in point:* Wells Fargo employees signing up fake accounts

Unrealistic sales targets

- *Case in point:* Toshiba senior teams inflating profits

Steps to Mitigate Risks

- **Embed compliance** within organizations
- **Show leadership** commitment
- **Analyze targets** in light of risks and operations

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Thank You

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