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

Boards Are Becoming Increasingly Engaged with Compliance

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

<table>
<thead>
<tr>
<th>What information do you report to your Board?</th>
<th>2014 WME Honorees</th>
<th>2018 WME Honorees</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotline and misconduct reporting statistics</td>
<td>77%</td>
<td>100%</td>
<td>+23%</td>
</tr>
<tr>
<td>Significant regulatory and legal updates</td>
<td>80%</td>
<td>98%</td>
<td>+18%</td>
</tr>
<tr>
<td>Miscellaneous investigations and resolutions</td>
<td>80%</td>
<td>97%</td>
<td>+17%</td>
</tr>
<tr>
<td>C&amp;E trends and best practices updates</td>
<td>76%</td>
<td>94%</td>
<td>+18%</td>
</tr>
<tr>
<td>C&amp;E risk assessment findings</td>
<td>63%</td>
<td>98%</td>
<td>+35%</td>
</tr>
<tr>
<td>Program assessment and benchmarking findings</td>
<td>83%</td>
<td>97%</td>
<td>+10%</td>
</tr>
<tr>
<td>Overall C&amp;E program performance</td>
<td>82%</td>
<td>96%</td>
<td>+14%</td>
</tr>
<tr>
<td>C&amp;E training initiatives and results</td>
<td>84%</td>
<td>98%</td>
<td>+14%</td>
</tr>
<tr>
<td>Overview of key initiatives</td>
<td>80%</td>
<td>98%</td>
<td>+18%</td>
</tr>
<tr>
<td>C&amp;E communication initiatives</td>
<td>84%</td>
<td>94%</td>
<td>+13%</td>
</tr>
</tbody>
</table>

Source: Unverified responses from 2014 and 2018 World’s Most Ethical Companies application data, Ethisphere
Key Performance Indicators (KPIs) and Compliance

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

KPIs vs Metrics

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
Developing Useful KPIs

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

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
How KPIs Evolve with Program Maturity

Program Maturity

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

Putting KPIs into Action

- 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
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

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

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:

- Encouraging employees to speak up: 95%
- Promoting a culture of compliance and ethics: 98%
- Creating and maintaining an open-door environment: 98%
- Incorporating ethics in business decisionmaking: 94%
- Handling employee reports or concerns: 94%
- Identifying and preventing retaliation: 90%
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%

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

Avoiding Unintended Consequences
Avoid Incentivizing Unwanted Behavior

**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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