Overview

• Why metrics matter

• Developing and utilizing metrics to change behavior

• The danger of the wrong metrics
Ethics and Compliance Challenge

**Ethics:**
- Perception: Most people are ethical
- Reality
  - Cheating/Lying/Stealing
    - High school
    - College
    - MBA
  - Resumes
  - Workplace

Ethics and Compliance Challenge

- Laws and rules can be complicated
- Not their area of expertise
- More than enough work already
- Intense pressure
  - One of our biggest challenges as ethics and compliance officers is to give management specific direction and tasks
What **do** they need to do? - Boards

- Define scope of the program
- Approve key policies and procedures
- Require periodic, substantive reporting by management/ethics & compliance officer
- Align incentives

**Tip:** Add expertise to board or appropriate committee.

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What **do** they need to do? - Management

- Actively support program
- Execute ethics & compliance program
- Insist on compliance
- Be a role model

**Tip:** It’s management’s job to implement the program and ensure compliance. The role of the compliance officer is to ensure management has the tools & resources.
Roles & Responsibility of Compliance Officer

• Design (and redesign) program with input from management (operations), employees, peers and experts
• Develop policies and procedures
  - Structural → OSGs
  - Substantive → high risk areas
• Develop/acquire educational programs applicable to targeted job functions

Tip: Identify, address, measure and report your top 5 risks/metrics.

Roles & Responsibility of Compliance Officer (Cont.)

• Give management clear direction, explicit targets

• Simplify complex, clarify ambiguous

• Monitor and report on execution

• Have the difficult conversations

• Ensure you are on the same page as CEO about the Compliance Program
Ethics and Compliance Challenge

- $ Focused management
- Cognitive dissonance
- Unbalanced incentives
- Weak internal controls

How can we meaningfully impact management and other employee behavior?

Why Incentives?

- Don’t have an effective program without incentives
- Proven motivator
- Focus management’s attention
- Emphasizes most important
- Rewards hard work & innovation
Incentives

**Negatives:**

- Promote greed
- Promote “tunnel vision” or obsessive focus on target
- Encourage manipulation
- “We shouldn’t need to incentivize ethical behavior”

**Trust is not an internal control!**

Aligning Incentives

- Are ethical and compliant business practices fundamental to who we are?

- Prove it:
  - Specific, measurable objectives
  - Aligned incentives
  - Internal transparency
  - Climate monitoring
Ethics & Compliance Metrics

• Specific
  ➢ Structural – orientation, education, screening, reporting, investigation, remediation
  ➢ Substantive (high risk areas)
• Objectively measureable
• Fair, reasonable
• Meaningful impact

Tip: Target leaders of key business units/departments.

Incentive Options

• Gate to incentive compensation
• Factor considered in calculating incentive compensation
• Factored into performance evaluation
• Cash awards
• Recognition (non-monetary)
• Eligibility for pay increase
• Eligibility for promotion
Transparency

• Transparency changes behavior
  - Taps competitiveness and self-preservation instinct

• Require “public” reporting to peers, management and board

• Must be objective, fair, reasonable and targeted to organization risks

See attached sample of ethics/compliance objectives

Incentives: Transparency

• Publicize the negatives / consequences

• Publicize the positives
  - Emails with CC to C-Suite, Business Presidents, etc.
  - “Ethical Leadership Bulletins”
  - Promotions – Ethics & Compliance track records, leadership, etc.
Risks

• Not being focused
• Setting the bar too high
• Board/Senior Management not committed
• Perception of unfairness/arbitrariness

Personal Effectiveness

• Leverage authority
• Practice difficult/crucial conversations
• Think before you speak
• Attack the problem, not the person
• Listen carefully

Admit mistakes – the two most disarming words in the English language are _________________. 
Thank you.