
How to create an effective ethics and compliance measurement program

The Federal Sentencing Guidelines offer substantial incentives for companies to develop and maintain effective ethics and compliance programs, but how can companies determine if their programs are “effective”? Companies can assess the effectiveness of their programs and establish and promote operational excellence by using performance measures to gauge and encourage improvement.

Monitoring and maintaining compliance is one of the most important ways an organization promotes its values, sustains a positive ethical climate and supports its long-term prosperity. Studies suggest that companies with a reputation for responsible conduct attract and retain the best employees, customers, partners and investors – yielding long-term, sustainable competitive advantage.

To enable this success, leading companies are employing methods to measure the performance of their ethics and compliance programs. Accurate, timely performance data allows organizations to view the current state of their efforts, enables executives to gauge their programs’ impact on business performance and provides compliance managers with fact-based insight to continually improve and strengthen their initiatives.

Organizations that measure the performance of their ethics and compliance initiatives focus on five key elements to ensure the maximum effectiveness of their process.

Choose a limited set of metrics to track.

Perhaps the most difficult task in initiating an effective compliance measurement system is deciding exactly what to measure. Companies may be tempted to measure many factors. However, too many measures can be costly and burdensome to track and creates too much data which makes it difficult to interpret results and decide how to improve the program.

In contrast, leading companies select a few important factors to measure, determined by examining which results are the most critical to achieving the objectives of the business. Some factors may include general objectives such as increasing revenue, growth and profitability, while other factors may focus on specific objectives such as increasing customer loyalty or improving brand and reputation.

In finalizing the selection of measures, a useful guideline to keep in mind is to choose measures that illustrate to everyone – employees, managers and executives – what the company considers most important. As one business maxim states, “what gets measured is what gets done.” In other words, metrics can drive behaviors that impact corporate culture.

Use a balanced set of measures.

To obtain an accurate picture of the ethics and compliance program’s performance, leading companies choose measures that balance and complement each other. Companies are holistic systems; each component affects the others. A narrow focus on one specific metric, department or process might help to understand and address an immediate problem, but it can also encourage unintended consequences. For example, an airline that stresses on-time takeoffs may begin losing more passengers’ luggage. To prevent the wrong results, managers must ensure the set of measures work together. A good set of measures balance:

Cost, quality and time

A company can achieve a flawless product, but at a cost that no customer will pay. Or, a company can push for a two-hour delivery window and pay for the resources to accomplish it, only to discover that customers would be satisfied with a longer time frame. An effective set of measures places cost, quality and time in perspective and balances all three.

Short-term and long-term indicators

A useful set of measures balances short-term and long-term objectives to assess progress over both time frames. Overemphasis on short-term results neglects important indicators of progress towards long-range goals because data points are needed over several years of measurement to recognize patterns of improvement and reconcile the cost of the initiative.

Leading and lagging indicators

Lagging indicators show how the company has already performed (revenue growth in the past quarter; number of workplace accidents in the last year); leading indicators are those that may predict future performance (on-time delivery rate, which can lead to higher customer satisfaction ratings and, in turn, more sales to existing customers). Effective measures need to examine both of these.

Financial and nonfinancial measures

Financial measures are primarily lagging indicators; they show the results of actions already taken. Nonfinancial measures such as employee satisfaction can lead to higher financial performance in the future. A balanced set of metrics includes both financial and nonfinancial measures.

Finally, the total set of measures should also identify specific people and activities that have an effect on each metric chosen. This identification helps correlate specific accountabilities and responsibilities with the organization’s performance and aids in establishing who should take corrective action to keep the metrics within the desired ranges.

Target goals and chart progress.

Having chosen a balanced set of measures, companies can then create targets to increase program effectiveness. However, it is important to target realistic goals based on meaningful levels of change that can be achieved. Companies study various metrics to compare their performance against:

Past company performance

Companies measure the current status of their programs as a starting point, or baseline, to use for comparison. The baseline can then be used over the following years to provide comparative historical data, enabling the organization to track its progress.

Performance of other companies

Companies can set goals by benchmarking performance against peer companies with recognized ethics programs. This comparison allows companies to see the range of measurements in similar firms, which can help them determine meaningful goals for themselves. Superior achievements in other companies can inspire managers to set higher goals for themselves and overcome complacency.

Performance among business units

Realistic goals can then be set using the results of the highest performing unit as the target.

Finally, the expectations of the marketplace may also influence the level of goals created. Customers and stakeholders hold the bar high today for ethical behavior. They are less tolerant of shortfalls and give greater rewards to high-performing companies with sterling reputations.

Once goals are established, it is important to chart progress. Measurements should be made at appropriate intervals to ensure the program is on track and to trigger corrective action if necessary. To provide real-time visibility into key metrics, many companies use dashboards to display data being generated by their ethics and compliance program initiatives, such as education, certification, helpline and incident management.

Enlist an executive leader and get employee buy-in.

Enlisting the support of the entire organization is vital to a successful measurement process. To do this, assign responsibility for the measurement to a highly visible senior executive who has the network and authority to direct other senior managers to devote their time to the project.

The company should assemble a cross-functional team, comprising members from many departments and functions,

including strategic planning, risk management, internal audit, information technology, corporate communication, line management and human resources, and finance and accounting functions. A cross-functional team with members from each of these groups ensures that multiple voices are heard and that measures are built across business functions.

Once employees see the ethics and compliance program as a genuine organization priority, with an executive in charge and a multidepartmental or multifunctional team in place, they are more likely to support the initiative. Publicizing the program and making performance dashboards visible throughout the organization can further achieve buy-in of frontline employees. Many companies post data in employee break rooms, on the shop floor and in newsletters to enlist and inspire employees. Results can also be reported at company meetings. In addition to communicating program results and progress toward goals, this visibility sends a message to employees that the company is paying attention and cares.

Review and refine measures for continuous improvement.

To remain effective, a company's set of metrics must undergo continual refinement and improvement. Changes in market conditions or the regulatory landscape can open or close market opportunities and

shift a company's strategy. As a result, a company's choice of measures should reflect these changes.

Performance measures must also be viewed in the context of a cycle of continuous improvement. Each time data is collected, management has an opportunity not only to assess the organization's health, but to learn about what works and what doesn't. As companies analyze performance over time, they can determine which actions lessen risk and promote compliance. This feedback allows managers to review and revise program elements that are shown to be ineffective or less effective than desired.

It is vital that the organization maintain a continuous program of measurement, even in the face of initial setbacks. When an ethics and compliance program first launches, the organization is not likely to see startling changes in the first few measurement periods. In fact, the number of noncompliant events being reported often increases initially, as employees become more aware of laws and company policies and become more engaged in reporting incidents. Weathering these early periods of the program will ultimately pay off and help the company learn valuable lessons about its performance.

Similarly, a snapshot of metrics taken just once or twice is not sufficient to reveal much about patterns of behavior in the organization. Data must be collected over a period of years to accurately understand if

a company's compliance is changing – and in what ways. Improvements usually take time to occur, as employees and managers begin recognizing that their actions make a difference and thus begin shifting their attitudes and behavior.

The exact metrics used may change over time, as the organization gains experience. This is normal and reflects the maturity of the process. As business conditions change, the company may find other measures that better inform management and help them make decisions. To be effective, a company's set of metrics must be allowed to undergo continual improvement and refinement.

Gathering metrics is a vital step in implementing an effective ethics and compliance program. Measuring how programs reinforce positive behavior and affect employee actions and decision-making is a necessary building block to fostering an ethical culture. A rigorous program of effective performance measurement communicates ethical behavior upward to senior management, downward to all levels of the organization, and outward to outside stakeholders, in a consistent and repeatable framework.

Ethics and compliance measurement is an emerging discipline, and companies can reap substantial benefits by joining with peers undergoing the same journey, as well as with industry organizations who seek industry-standard metrics.



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