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# ***How to Measure the Effectiveness (or Lack Thereof!) of Your Compliance and Ethics Program***

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### ***Presenter***



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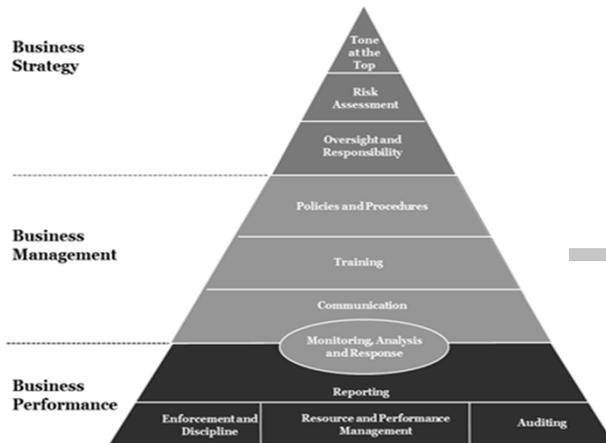
## **Agenda**

- 1** Elements of an effective compliance and ethics program
- 2** Measuring program effectiveness
- 3** Case studies
- 4** Effectiveness characteristics and indicators
- 5** Questions

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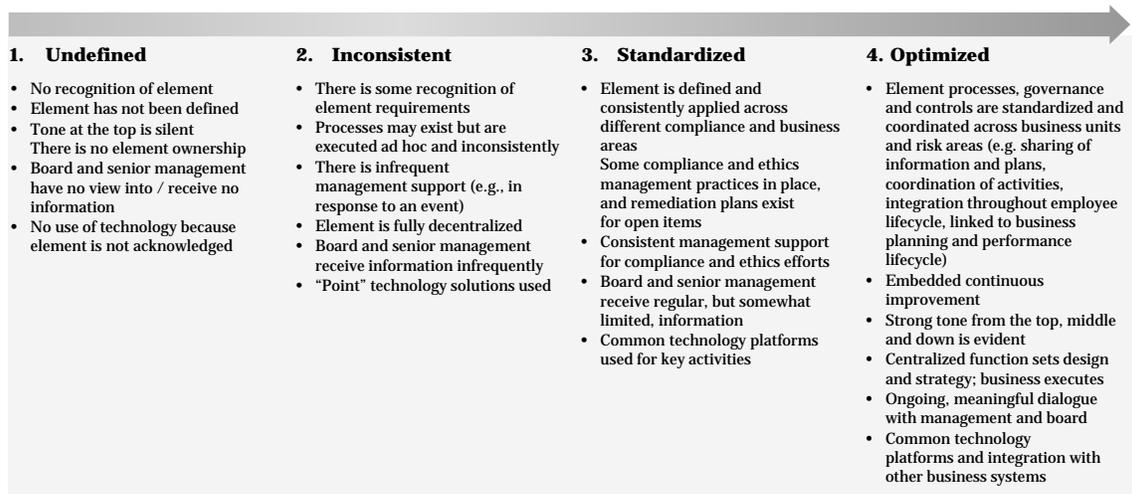
## ***Elements of an effective compliance and ethics program***

**An effective compliance and ethics program incorporates every element of PwC's Compliance and Ethics Program Framework**



The PwC Compliance and Ethics Program Framework consists of 11 key elements and their associated attributes, each of which aligns to the U.S. Federal Sentencing Guidelines for Organizations.

**PwC's Compliance and Ethics Program Maturity Scale**



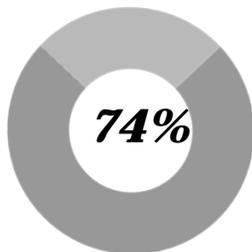
## Measuring program effectiveness

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## State of Compliance 2015 program effectiveness data

Do you regularly assess the effectiveness of your compliance program?



**74%**  
of respondents regularly assess the effectiveness of their compliance program



Base: (1,049)

Please indicate whether you use each of the following when evaluating the effectiveness of your compliance program.

	2015
Compliance audit results	77%
Risk assessment results	71%
Training completion rates	59%
Hotline/helpline metrics	55%
Compliance self-assessment results	50%
Results from a regulatory visit	49%
Customer & other third party feedback/complaints (not reported through hotline/helpline)	45%
Employee questionnaires or culture surveys	39%
Employee disclosures (e.g. conflicts of interest and gift reporting)	36%
External benchmarking results	34%
Internal benchmarking results	34%
Business metrics related to compliance activities	28%
Cost of non-compliance (penalties, litigation and other consequences of non-compliance incidents)	27%
Training competency tests	26%
Cost of compliance program activities	21%
Aging and disposition of litigation and enforcement actions	21%
Input from business partners/ satisfaction surveys	19%
Exit interview responses	18%
Training trend analysis	18%
Internal customer Compliance Service Level Agreement metrics	10%
Volume and content of press and public statements	7%

Base: (779)

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### ***Key questions to ask***

**1** Are you doing what you're supposed to be doing?

**2** What are you trying to accomplish?

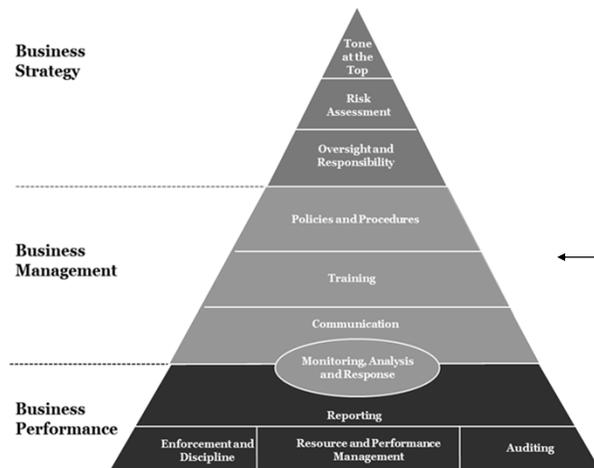
**3** Is what you're doing actually working?

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### ***Elements of effectiveness and associated metrics***

- When assessing the effectiveness of a compliance and ethics program, remember there are three areas to measure:
    - 1. Design:** Does the program encompass what it should (i.e., FSGs, industry-specific elements, risk-specific elements)?
    - 2. Implementation:** Was the program implemented as designed?
    - 3. Impact:** Is each element, as designed and implemented, working the way it should?
  - It is critical that measurement of effectiveness encapsulate both the overall program, as well as each individual component of the program.
  - Measuring effectiveness is both a qualitative and quantitative task – each metric or component measures a different aspect, and each is valuable in its own right.
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### ***Example: Measuring the effectiveness of a training program***



*“The organization shall take reasonable steps to communicate periodically and in a practical manner its standards and procedures, and other aspects of the compliance and ethics program...by conducting effective training programs and otherwise disseminating information appropriate to such individuals' respective roles and responsibilities.”*

**Training Framework Element / FSG: §8B2.1(b)(4)**

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### ***Example: Measuring the effectiveness of a training program (continued)***

- Apply the three forms of measurement to an Anti-Bribery/Anti-Corruption (ABAC) Training:
  - 1. Design:** Does it include the relevant information employees need to know? Is it comprehensive, but also comprehensible? Is it targeted to the right audience? Is it engaging? Is it in the appropriate languages? Is it culturally relevant? Is it tailored to different roles within the organization?
  - 2. Implementation:** Who is actually being trained? How is it delivered? Is the training updated as rules, policies, regulations change? Does the company address changing language needs?
  - 3. Impact:** Do people understand the training? Do they retain what they've learned? Has their behavior changed as a result?
- Possible qualitative metrics:
  - Audience profiling; delayed assessment results; learner satisfaction survey results; ABAC policy hits/inquiries/reports following training; ABAC violation trends
- Possible quantitative metrics:
  - Course completion rates; test scores/answer analysis

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## ***Case studies***

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## ***Case study #1***

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- **An expanding international e-commerce retailer / manufacturer with over \$8 billion in annual revenues is eager to maintain its position as an industry leader:**

- Leadership was unclear about the full universe of increasingly complex regulatory obligations and, therefore, did not feel they 'had their arms around' all of their compliance obligations
  - Growing domestic compliance function (e.g., some prioritized trainings on 'most important topics') beginning to track attendance and completion of trainings by key employees, could not decide which employees needed what trainings
  - Although employees were generally encouraged to not cheat and to 'do good,' there were few organization-wide messages explicitly about compliance
  - No designated compliance resources (e.g., no CCO or compliance support staff, no separate budget, no unfettered compliance access or reporting to the Board)
  - Business unit leaders: disavowed their role / responsibility for compliance, did not communicate compliance expectations to staff, did not track regulations / laws relevant to their business (assumed that Legal was monitoring and would pass it along), did not consider ethics or compliance in hiring, bonuses or promotions
  - Immature and inconsistent international compliance function (e.g., little ownership / acknowledgement of compliance needs by international leadership)
  - Organization planning to rapidly expand into potentially high-risk markets
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## ***Case study #2***

- **A global technology trailblazer with \$9.4 billion in annual revenue is pursuing new business strategies and recently made several key international acquisitions:**
  - Senior domestic leadership wants to ensure a strong organizational culture that encourages employees to 'do the ethical thing' and wishes to conduct a 'health check' of their compliance and ethics program
  - Rapidly growing domestic compliance and ethics program with well documented, prominently advertised, and multi-lingual Code of Conduct, non-retaliation and other policies and procedures
  - Engaging and award-winning on-line trainings with pre and post-testing and automatic reporting to domestic compliance and ethics program being rolled out internationally
  - Variation in new international acquisitions' commitment to compliance and ethics (e.g., some do not require trainings, do not track training completion rates, and appear to have approved extravagant purchases for politically-connected business contacts)
  - International compliance and ethics resources cover huge geographic regions (e.g., one person is responsible for EMEA, one person for Asia); staffing and other resources did not increase despite thousands of new employees
  - International compliance and ethics resources are not aligned with domestic program (e.g., time difference often makes it hard to facilitate connections, few communications / only occur when there's a problem)
  - Face-to-face international trainings are long, infrequent and not well attended

## ***How would you go about measuring the effectiveness of these programs?***

- In both cases, use a Compliance and Ethics Program Framework to conduct a compliance program assessment and evaluate the program along a Compliance and Ethics Program Maturity Scale
- Determine where the organizations wish to be on the Program Maturity Scale
- Provide recommendations for improving the effectiveness of domestic and international compliance programs and moving the programs to the desired maturity levels
- Develop implementation roadmaps
- In **case study #1**, delay impact assessment due to the nascent-nature of the organization's current compliance and ethics efforts
- In **case study #2**, assess impact of various specific efforts, including training

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## ***Program maturity matters***

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**Remember:** Measures of success are going to vary depending on the maturity of your program! In year one, a company necessarily must focus on design and structure. In years two and three, implementation is key. In years five and beyond, measuring impact becomes imperative.

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## ***Discussion questions***

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- 1** How do you measure the effectiveness of your compliance and ethics programs?
- 2** How can you ensure that your methods help to determine and manage future risks instead of simply auditing past performance?
- 3** How have you used independent third parties in measuring effectiveness?

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## ***Effectiveness characteristics and indicators***

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## ***Overall indicators of program effectiveness***

- Management support of/buy-in to initiatives and other meaningful involvement by management in the program
  - Adequate staffing and other resources
  - Authority within the organization
  - Independence from business units, traditional reporting lines
  - Focus on ethics and proactively shaping organization's culture – not just on procedural compliance
  - Embeddedness within organization's processes
  - Alignment with growth objectives and strategic plans
  - Coordination with other assurance functions (e.g., Risk Management, Legal, Internal Audit)
  - Quality of implemented practices – leading versus standard versus sub-standard
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\*Adapted from Sheryl Vacca's November 2015 Presentation at SCCE's Audit & Compliance Committee Conference

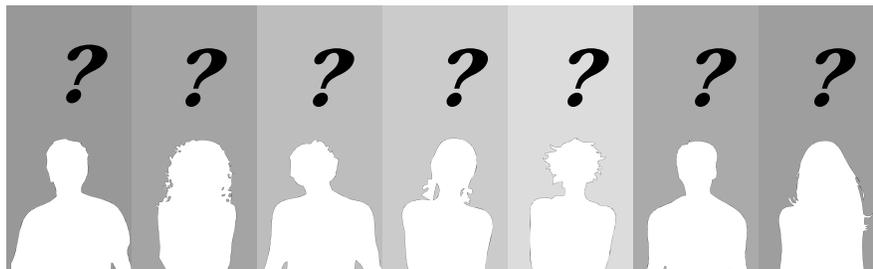
## ***Characteristics of an effective Chief Ethics & Compliance Officer***

- An effective CECE has to:
  - Have strong management skills
  - Have great relationship skills
  - Have executive presence
  - Promote and build organizational culture
  - Be an influencer
  - Deeply understand the company and its business
  - Garner respect from above and below
  - Be fearless and bold
  - Be entrepreneurial and a good salesperson
  - Be independent but team oriented

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## ***Questions?***



***Thank you!***

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