

# COMPLIANCE WEEK

THE LEADING INFORMATION SERVICE ON CORPORATE GOVERNANCE, RISK AND COMPLIANCE

## Global Integrity Survey: Measuring Integrity Effectiveness

By Melissa Klein Aguilar — September 15, 2009

For all the time and money corporations spend designing and building a compliance program that fits their needs, after that comes the equally important follow-up question: How do you determine whether your carefully crafted program actually works?

The *2009 Global Integrity Survey*, a joint research project of Compliance Week and compliance service provider Integrity Interactive, polled more than 150 ethics and compliance executives at global companies worldwide on that point. Respondents said they use numerous tools to measure the effectiveness of their compliance programs, but that old standby—the employee hotline—was paramount, cited by 76 percent of those polled. (A complete copy of the *2009 Global Integrity Survey* can be downloaded in the box at right.)

Still, while most companies measure hotline activity because it's easy to track, that does not necessarily mean it's the best yardstick of effectiveness; absent any larger context, the statistics aren't terribly informative. Receiving no hotline complaints at all, for example, might simply mean your hotline isn't being used.

"Metrics in our space are quite difficult to capture due to the qualitative nature of ethics," notes Jon Hoak, chief compliance officer of Hewlett-Packard.

For that reason, experts say compliance executives should supplement hotline metrics with anecdotal evidence, interviews, internal surveys, and litigation and training metrics. Altogether, those analyses can help set the critical "tone at the top" about ethics and integrity.

Other common techniques respondents reported using:

- 62 percent measure "reporting and resolution" metrics;
- 61 percent measure training metrics, such as enrollment rates, completion rates, and testing scores;
- 54 percent measure employee disclosures such as conflict-of-interest reporting, gifts, and related-party transactions;
- 51 percent track data related to enforcement and material weaknesses;

- 16 percent of compliance executives say they use “lag time” metrics, such as measuring the number of days to detect, disclose, or respond to key issues.

(Respondents could give more than one answer, often leading to results that total more than 100 percent.)

On a somewhat alarming note, 12 percent confessed that they don’t regularly gauge the effectiveness of their corporate integrity programs. That’s a major misstep, says Scott Mitchell of the Open Compliance and Ethics Group, since the ability to demonstrate that a program is effective is crucial when a problem arises with regulators.

“When something goes terribly wrong, regulators will ask the company to go back in time and prove that they had an effective compliance or risk program in place at that point in time,” Mitchell says. “Without rigorous, documented assurance at least every year, it is difficult for a company to prove that point.”

Companies also use and report the data they collect in numerous ways, the survey shows. Most respondents (59 percent) say the information is shared with the CEO, executive management, or business units to compare performance; nearly half (49 percent) say it’s passed along to the board of directors on a regular basis.

Forty-seven percent of respondents say the data they track is used within the ethics and compliance function to analyze performance. The same number say the information is disclosed to shareholders, investors, or employees.

Chad Fentress, associate general counsel for compliance at Accenture, says his firm shares information about its integrity programs with its employees, leadership, and the board of directors on a regular basis via a variety of vehicles, ranging from an internal ethics newsletter to formal board of director reports. “We leverage our local ethics and compliance leaders, to share this information,” he says.

### **Enter the Internal Auditors**

Internal audit departments apparently play a primary role in ensuring the effectiveness of the company’s integrity function. Overall, nearly 80 percent of respondents said they use the internal audit function to some extent.

That’s not surprising, given that the internal auditing profession itself says internal auditors should help to shape and measure corporate integrity efforts. Guidance from the Institute of Internal Auditors says internal auditors should “evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.”

Almost half called internal audit’s role “essential,” auditing the effectiveness of, and adherence to, financial, legal, and ethical standards. Another third said internal audit is “tangential,” focusing on integrity issues some of the time. Only 21 percent said internal audit generally isn’t involved in auditing the integrity function or programs.

Holly Kidder, the IIA's technical director of guidance, says her group has seen the C-suite increasingly lean on internal audit departments for guidance on risk management, internal control, and governance, including ethics.

Kidder says strong ethical practices and "an authentic tone at the top" are fundamental to an organization's success. The ability to provide resources, including knowledge and training, in those areas "is a valuable role that internal auditors can play."

Nearly two-thirds (64 percent) of respondents said they use risk assessments specifically to review their integrity risks and to modify their programs as necessary. Another 57 percent said their internal audit periodically audits their integrity programs and function. Experts say those are wise ideas, since enterprise-wide risk assessments might not focus on integrity risks among the myriad other risks companies have to address.

Eighteen percent of respondents said they don't regularly gauge the effectiveness of their integrity programs. As previously noted, that's a risky move, since regulators place strong value on program effectiveness.

### **Measuring ROI**

Interestingly, 63 percent of the group doesn't calculate the return on their investment in ethics and integrity training programs. Responses suggest that that may be because the value of training is tough to measure.

"The problem with calculating an ROI on something as 'soft' as integrity and compliance is that it becomes too subjective to have any real credibility," noted one survey respondent, the general counsel at a large manufacturing business who asked to remain anonymous.

That being said, some standard benchmarks have emerged. Companies can check whether employees remember ethics messages by testing them immediately after training, and then a second time weeks or months later. Employee surveys and focus groups can help gauge changes in attitudes or perceptions about integrity issues. Data such as changes in the number of hotline calls or complaints can also indicate whether the ethics message is heard and understood.

Among those who do track the ROI of their training, 16 percent measure changes in participant behavior after training is done; roughly 17 percent analyze hard data, such as grievances, lawsuits, turnover, and injuries, over time. Another 17 percent analyze soft data, such as increased communication, job satisfaction, or teamwork. Less than 3 percent use true ROI calculations, comparing "fully loaded" training costs with savings from lawsuits and fines.

**INTEGRITY PROGRAM EFFECTIVENESS**

**To gauge the effectiveness of their integrity programs, the Chief Compliance Officers in this survey track:**

<b>CCOs Track:</b>	<b>Percent of Respondents:</b>
<b>Hotline Metrics</b> , including call volume, anonymous call volume, etc.	75.8%
<b>Reporting &amp; Resolution Metrics</b> , particularly related to sensitive issues	61.8%
<b>Training Metrics</b> , including enrollment rates, completion rates, scores, feedback, etc.	61.1%
<b>Employee Disclosures</b> , such as conflict-of-interest reporting, gifts, related-party transactions, etc.	54.1%
<b>Enforcement</b> , such as aging and disposition of internal matters, disciplinary outcomes, etc.	51.0%
<b>Material Weaknesses</b> , including remediation developments and other substantiated issues	51.0%
<b>Internal Surveys</b> , such as employee questionnaires on tone, fraud, etc.	47.1%
<b>Litigation</b> , such as the aging and disposition of governmental proceedings, claims, etc.	34.4%
<b>Mitigation Activities</b> , such as the percentage of key risks covered by scenario activities (i.e., exercises)	22.3%
<b>Lag Time Metrics</b> , such as the number of days it	15.9%

takes to detect, disclose, or respond to key issues		
<b>NA:</b> We do not regularly gauge the effectiveness of our integrity programs	12.1%	
<b>Other</b>	2.5%	

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

#### INTEGRITY DATA

### What data do these Chief Compliance Officers use to gauge the effectiveness of their integrity programs?

Usage:	Percent of Respondents:
<b>Shared</b> , with the CEO, executive management, and/or business units to compare performance	59.2%
<b>Elevated</b> , to the board of directors on a regular basis	49.0%
<b>Disclosed</b> , to shareholders, investors, and/or employees	47.1%
<b>Utilized</b> , within the integrity function to analyze performance	47.1%
<b>NA:</b> We do not utilize data related to our integrity programs	14.6%

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

#### INTERNAL AUDIT TRACKING

**According to Chief Compliance Officers in the integrity survey, internal audit's role in gauging program effectiveness is:**

<b>IA's Role Is:</b>	<b>Percent of Respondents:</b>
<b>Essential</b> , as they audit effectiveness of (and adherence to) global, financial, legal, and ethical standards	45.5%
<b>Tangential</b> , as they focus primarily on reliable financial reporting; only sometimes on integrity issues	33.3%
<b>Peripheral</b> , as they are generally not involved in auditing the integrity function or its programs	21.2%

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

#### IA PROGRAM ANALYSIS

**To gauge the effectiveness of their IA programs, the surveyed Chief Compliance Officers use:**

<b>Metric Used:</b>	<b>Percent of Respondents:</b>
<b>Risk Assessments</b> , to periodically assess our integrity risks and modify our programs	64.3%

<b>Internal Audit</b> , to periodically audit our programs and the integrity function generally	57.3%
<b>Internal Analysis</b> , such as the degree of integration of integrity processes into business processes	35.7%
<b>Reports, Surveys, and Data</b> , to conduct “peer analysis” comparisons	34.4%
<b>Independent Third Parties</b> , who analyze or benchmark our programs on a regular basis	21.7%
<b>NA</b> : We do not regularly gauge the effectiveness of our integrity programs	17.8%
<b>Business Unit Leaders</b> , who track critical business metrics, such as customer complaint patterns	16.6%
<b>Stakeholder Perception Studies</b> , such as treatment in governance ratings, media coverage, etc.	7.0%
<b>Other</b>	1.9%

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

**ROI FOR TRAINING**

**The surveyed Chief Compliance Officers said they measure the “return on investment” of their ethics and integrity functions by utilizing the following metrics:**

Metric Used:	Percent of Respondents:

<b>NA:</b> Return on investment of training programs are not calculated	63.1%
<b>Analyzing Soft Data</b> , such as increased communication, job satisfaction, teamwork, etc.	17.2%
<b>Analyzing Hard Data</b> over time, such as grievances, lawsuits, turnover, injuries, etc.	16.6%
<b>Measuring Changes</b> , in participant behavior post-training (i.e., complaints pre- and post-training)	15.9%
<b>True ROI Calculations</b> , comparing “fully loaded” training costs with savings from lawsuits, fines, etc.	2.5%
<b>Other</b>	2.5%

*Percentage totals may not equal 100%.*

**Source:** [2009 Global Integrity Survey](#) (Sept. 9, 2009).

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