

Compliance Program Development: Choosing Your Metrics

Due to the higher frequency of regulatory action and resulting fines, compliance policy and procedural effectiveness warrants more attention. Though not as traditional as day-to-day credit or collections tracking methods, the credit professional's skill set, including experience with metrics and benchmarking, can significantly help their companies ascertain what's currently in their compliance policy or help develop one if it does not exist or is badly out of date. By helping to bring your company in line with current compliance regulations, you might even save it a lot of money as the number and amount of fines are escalating. The following are some potentially helpful suggestions to get started:

The Basics

Research by Deloitte and Compliance Week indicates that the most popular metrics used by those statistically tracking the effectiveness of their compliance programs include:

1. Analysis of internal audit findings;
2. Completion rates for workforce training;
3. Volume of calls to internal hotlines; and
4. Ethics surveys.

These are considered good jumping-off points, but, importantly, not the only ones to consider. Deloitte noted the above metrics as somewhat rudimentary, which make them easy to implement. Other items you can consider are visiting government websites dedicated to compliance issues (like www.bis.doc.gov) for information to use to help develop export management systems or for ideas in setting policies and metrics and establishing a recurring audit calendar to screen each procedure.

Customize

After choosing the metrics that best fit your company, it is also critical to design the right program for your company. A program, software or basic set of metrics that come "off the shelf" can be a good start, but customization based on a company's situation is much more effective in the long term. This may vary based on the industry, the size and staffing levels of a business and the regions in which it does business and so on. The latter point can be particularly important, as some governments can have draconian or intentionally vague mandates and enforcement can be more likely when a US-company is involved in the business dealings. Examples of such governments include Russia, Argentina and volatile countries.

More advanced metrics come from responding to what your company finds most important, such as evolving metrics used to track credit-granting or collection functions. It could be helpful to add a metric to track denied or delayed sales because of a compliance red flag discovered by the credit department. Tracking what did not happen can be a great way for credit to show upper management their best work and value by saving the company from regulatory headaches or fines. A metric that tracks changes in payment behavior before and after terms were altered because of good or poor payment performance or a major industry change might also be a good choice to develop.

Constant Tweaking

Policies on metrics that track compliance issues should be considered living documents. Though there shouldn't be massive changes to every metric once they are shown to be working, a company must work to get the right balance and the proper areas of focus being tracked. This can take time, especially during initial development. The purpose of compliance metrics is not entirely different from the more traditional credit and collection metrics, which are also adapted at times based on what kind of information the

company deems most useful. A credit professional or CFO does not simply set metrics and never investigate if a change here or there would paint a clearer, more helpful picture.

Most experts agree that one of the worst things to do when setting up a compliance program and base-level metrics is not monitoring them properly or making the appropriate changes as the needs arise. Additionally, letting a program and its tracking methods get woefully out of date can be just as bad as not having one at all, as a policy found to be inadequate—to a negligent level—can be held against the company if investigated by the federal government. Showing that the compliance program was continually monitored and adjusted is considered a good-faith effort and goes a long way in many compliance-related cases.

The good news is that most regard the setup of compliance metrics as the difficult stage of the process, but once that's done, making changes to the tracking categories in the months down the road is a much smoother process.

Source: NACM-National