The Best Compliance KPIs to Track: Benchmarking and Metrics



Digital disruption has shifted global economic priorities and fundamentally altered the ways in which companies approach everything from strategic decision-making to business process optimization to risk management.

The need to capture, organize, and analyze Big Data in order to obtain actionable insights has made the use of tools such as key performance indicators (KPIs) an essential part of every proactive and successful business management plan.

One of the most important areas where KPIs are used is compliance management.

Compliance KPIs help companies develop effective compliance programs supported by intelligent risk assessment.

By carefully monitoring these KPIs, compliance officers can avoid the costly headaches that come with non-compliance, identify the root causes of compliance issues, and better insulate their organizations against potential risks.

Compliance KPIs and Why They Matter

Doing business in the modern global economy isn’t exactly a walk in the park.

Internal and external stakeholders expect (and demand) optimal performance, profitability, and compliance—all backed by absolute transparency.

Companies regularly find themselves adapting to unpredictable changes in government and industry regulations related to risk and compliance.

New risks to profitability, reputation, and compliance appear with frequent (and frightening) regularity, and the costs that come with assessing and managing these risks can be daunting.

Data-driven, forward-minded, and dedicated to optimization across all business processes using continuous improvement, today's business leaders need effective risk assessment and risk management tools if they want to stay ahead of the competition.

A specific set of metrics designed to measure how well an organization's compliance department is maintaining that same organization's compliance with internal and external policies, along with industry and government regulations, compliance KPIs are essential to protecting your business *and* helping it expand beyond its current capabilities.

Tracking these KPIs and adjusting compliance policies and workflows accordingly helps compliance officers manage risk more effectively through the use of internal audits, policy enforcement, and compliance training at all levels of their organizations.

Compliance KPIs can be used to measure:

- Governance, Risk Management, and Compliance (GRC) standards for operational excellence.
- Financial compliance, including internal and external audit management.
- Data storage and management compliance.
- Purchasing compliance.

Compliance KPIs can be considered "watchdogs" or "early warning systems" for potential risk exposure. The term *key risk indicators* (KRIs) is also used for some compliance metrics.

No two organizations will share identical priorities with regard to risk mitigation, but businesses of all sizes can benefit from a compliance program built around

measuring, evaluating, and adjusting workflows and policies with the help of compliance KPIs.

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Benefits of Monitoring Compliance KPIs

Much like their counterparts in the procurement and accounts payable (AP) functions, compliance professionals rely on clear, accurate, and complete data to perform their jobs effectively.

They rely on this same data to evaluate the overall success of their efforts, and to guide the organization away from potential problems before they become actual disasters.

In procurement, rogue spend, lack of training, and non-compliance with procurement policies can obscure the data essential to effective spend management and financial planning, making it difficult to maintain adequate cash flow, capture value and savings through strategic spend, or build a resilient supply chain to protect business continuity.

The same is true for compliance, where a poorly executed compliance program can leave organizations at risk of reputational damage, costly fines and fees, or potential litigation and regulatory intervention.

Toward that goal, best-in-class companies are increasingly choosing to implement digital tools designed to streamline and optimize compliance management—including tracking compliance KPIs.

A compliance management solution such as PLANERGY, for example, provides intuitive and flexible tools that support the creation, monitoring, and refinement of your most important compliance KPIs through:

- Comprehensive, audit-friendly budgeting tools.

- Guided buying and flexible approval controls for transparent control over spend.
- Automatic three-way matching and contract compliance tools.
- GRC-friendly automation and workflow management.
- Centralized, cloud-based data collection and management.
- Best-in-class data security compliance to minimize cybersecurity-related risks.
- Vendor relationship management tools to track and evaluate vendor performance and compliance.

When companies track and refine their compliance KPIs effectively, they can expect:

- Lower costs and greater value.
- Greater operational efficiency and productivity.
- Complete, high quality information on business processes, gathered more quickly.
- Greater consistency and compliance across the entire organization.
- Stronger competitive performance through reduced risk and optimized workflows.

Best Practices for Using Compliance KPIs

To address compliance issues effectively, senior management needs a compliance program that not only identifies potential risks, but helps ferret out and correct their root causes.

Following a few best practices will strengthen your compliance policies and ensure you're making optimal use of the compliance metrics you're tracking.

1. Develop and Implement a Performance Rating System Using Needs Analysis.

Before you can get your compliance program up and running, you need to know where your organization currently stands with regard to compliance.

Using needs analysis and risk assessment, you can identify your current compliance program effectiveness and then build your program based on the

business objectives you'd like to achieve.

When evaluating your current compliance ecosystem, your ranking system might look something like this:

1. **Needs Improvement:** Risk assessment reveals excess risk that is inadequately mitigated or completely uncontrolled. Internal controls and compliance policies are inconsistently applied, inefficient, or subject to frequent failure.
2. **Functional:** Compliance protocols are effectively and consistently mitigating identified risks.
3. **Uses Best Practices:** Compliance policies and protocols effectively and consistently mitigate identified risks and provide tools for identifying, assessing, and mitigating potential risks.
4. **Transformational:** Protocols and policies require modification/refresh due to changes to the company's risk profile or as part of a continuous improvement effort to mitigate stagnation.

2. Formalize Your Compliance Program in Writing.

Having everything in black and white not only makes it easier to train your team to follow your new compliance policies and protocols, but also provides a concrete, audit-friendly record for internal and external review.

3. Invest in Compliance Education and Training.

Compliance performance superstars are made, not born. Ensure everyone across your organization has access to thorough training in your compliance programs, with updates and refreshers as needed.

When everyone's on the same page (so to speak), financial, operational, and regulatory compliance are greatly improved. This compliance ensures senior management has the complete and accurate data needed to harvest insights effectively when reviewing compliance KPIs.

4. Start with Broad Compliance KPIs and Narrow Your Focus.

When you're using key performance indicators to manage risk, it's important to have measurability, consistency, *and* adaptability built into your compliance program.

Start with tracking and evaluating your most business-critical compliance KPIs, and then adapt your workflows to develop a more nuanced approach as needed.

Essential Compliance KPIs You Should Be Tracking

Depending on your industry and the type of business you're operating, you could conceivably build hundreds or even thousands of KPIs to track the myriad compliance issues that affect every organization.

From avoiding corruption to ensuring food safety, government agencies offer their own sets of often complex compliance requirements companies must follow to stay on the right side of the law.

Add in industry regulations, internal controls and compliance policies, and the need to comply with third-party requirements such as green business certifications or Energy Star regulations, and the average compliance team can find itself lost in wave after wave of data pouring in from countless sources.

But an effective compliance program isn't built from minutiae. It starts with establishing, measuring, and refining the compliance-related key performance indicators with the biggest impact on operational performance.

Identifying and codifying these KPIs provides a compliance paradigm that guides all subsequent controls and policies.

Ideally, your compliance team will use KPIs that are:

- Drawn from practices and benchmarks informed by needs analysis.
- Developed and implemented consistently across the organization.
- Clear and concise with regard to related risks and their mitigation.

- Readily measurable across within a given period and across business units.
- Designed to assess accountability and performance for risk owners.
- Designed to consume resources with maximum efficiency.

Every business is different, but most organizations can begin to improve their general compliance (and create a paradigm for monitoring more granular KPIs moving forward) by tracking some core compliance KPIs such as:

General Compliance

- Total Number of Compliance Issues Currently Open
- Total Number of Open Employee Relations/Human Resources Issues
- Percentage of Post-Audit Issues Outstanding: Total issues still outstanding after completion of an audit, expressed as a percentage.
- Average Compliance Investigation Cycle Time by Type
- Percentage of Internal Audits Completed On Time

Operational and Systems Compliance

- Mean Time between Failure (MTBF): The total number of minutes (or hours, or days, etc.) since a system or equipment failure.
- Percentage Difference in MBTF: Comparison of failure rates across different systems or units of equipment, expressed as a percentage.
- Mean Time to Repair (MTTR): Average time required to repair issues and return equipment or systems to normal operations. May be referred to as "downtime."
- Percentage Difference in MTTR: A measure of changes to MTTR as an indicator of relative efficiency, expressed as a percentage.
- System Availability: The total number of minutes (or days, hours, etc.) systems or equipment were actually available divided by the total number of minutes they should have been available.

Procurement Compliance

- Ratio of Disputed Invoices to Total Invoices
- Percentage of Invoices Automatically Matched
- Average Invoice Cycle Time

- Average Purchase Order Cycle Time
- Supplier Defect and Compliance Rates: Ratios of accurate and contract-compliant orders completed, respectively.

Effective Compliance Management Reduces Risk Exposure

An ounce of proactive prevention is worth a pound of compliance cure.

Invest in the tools and techniques you need to build a robust, flexible compliance program using targeted KPIs, and your organization will gain competitive strength through more effective risk management and business strategies.

What's your goal today?

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