Chartered Accountants Worldwide | Network USA

Welcome to our Webinar:

Benchmark Drives Behavior

Featuring:

Nancy Chakabuda – Moderator

Guido van Drunen– Presenter

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Our Moderator

NANCY CHAKABUDA CA (SA) CPA MBA CFE
Senior Internal Controls Director – International, Cummins Inc.

A self-motivated and transformational leader, with a passion for positively influencing organizational change, coaching and people development. A demonstrated background in effective leadership and development of diverse teams. She is a SAICA 35 under 35 Finalist.

Nancy qualified as a CA when working for RSM in South Africa. She has been with Cummins for 8 years and relocated to their offices in Indianapolis in 2022. Nancy is Vice President of Chartered Accountants Worldwide Network USA.

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Our Speaker

Mr. van Drunen is a Retired KPMG Partner having worked within the KPMG LLP Forensics group for 14 years, He is currently located in Silicon Valley where is teaching forensic accounting at two Universities and working as an independent consultant. Mr. van Drunen has over 40 years of experience providing forensic and investigative accounting dispute advisory, fraud and misconduct, physical security and investigations advice, along with financial and investigative advisory services to clients. He has worked in law enforcement in two countries and in the private sector where among other things he set up a Special Investigations Unit for a fortune 50 Company. He has broad investigative experience including reconstructive accounting, investigations of complex kickback and fraud schemes, security assessments, investigation of international bribery and corruptions schemes and other asset misappropriation arrangements. He has worked closely with legal counsel to address cross functional fraud, waste and abuse issues at various organizations. He has lectured on fraud and investigation methodologies on several occasions in the South Pacific and has instructed at the Royal NZ Police College. He is a Chartered Accountant (NZ) a Certified Fraud Examiner (CFE) a Certified Internal Auditor (CIA) and a Certified Anti Money Laundering Specialist (CAMS). He is also a graduate of the Netherlands Customs Academy and a former officer with that Agency.

Learning Objectives

After attending this session, attendees will be able to answer the following questions:

- How do you identify both what a benchmark is trying to achieve and what risks exist in a benchmark that might drive aberrant behavior?
- How does one determine what steps to take to ensure benchmarks are properly developed?
- How does one enable the consideration of the monitoring of benchmarks and ensuring that the actual benchmark objective(s) is/are being met and identifying if there are unintended consequences?
- How can I apply lessons learned from real-life examples and case studies to scenarios at my organization as part of continuous improvement and risk management?

Polling question 1

The Benchmarks at my organization are well thought out, hard to game, and well monitored

.Answer Yes or No

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Benchmark Drives behavior

an anecdotal look at how behavior follows what we measure and how this can lead to aberrant and/or potentially fraudulent outcomes

You get what you measure and that may lead to fraud or other aberrant behavior

Objectives

- Before we get into the agenda and what we are going to cover I want to ask a question………..

  Why are you here?

- Who is here for continuing education?
- What are some other reasons?
- One of my objectives for doing this presentation is to have us think both, a little bit more and differently about the benchmarks we deal with in our functions.
- We are not going to be able to change certain things, but we do need to be aware of them.
- From a risk perspective I want to walk away from this session and be able to say I have provided an additional tool that may, in certain cases, be utilized by professionals to improve their organizations.

Often, we get what we measure…….why does this matter?

- What started years ago as a discussion between colleagues where we were talking about measurements, performance appraisals, and anecdotal examples. It became apparent that while we need measurements and performance indicators, we do not always take the time to think through what the unintended consequences of benchmarks are as we strive towards our objectives.
- Measurements can create stress, stress equates to pressure, and pressure can lead to perverse or aberrant outcomes.
- While I admit to being a recovering accountant, who better to talk about measurements than a person who has for years been tasked to investigate, measure and assess various outcomes and performance measures.

Why Should I care about Benchmarks in general?

Here's why you should care generally:

- Doing this right will make or save my organization money
- Doing this right will save my organization time
- I plan on leaving the place better than when I found it
- It is part of "Just doing my job" and finally,
- It helps in getting satisfaction out of my work

Like I said maybe the CPE has something to do with it too

As a manager, business owner, investigator, auditor, etc. why should I care?

From a risk management perspective benchmarks have some unique characteristics that can help us with our jobs and help us better protect our organizations.

Firstly, lets look at identifying risk. If we truly understand the benchmarks that are being applied to individuals, and that means both on paper and how they are executed, then we are better able to determine where potential risks might lie.

Secondly, if we are involved as accounting professionals in the creation or assessment of benchmarks, we bring a unique viewpoint to the table and may identify risks that have not even been considered during the creation of the benchmarks.

Thirdly, if we are investigating potential failures then we can enhance our effectiveness if we have insights into why things might have occurred. This is particularly helpful in project post mortems.

I want to clarify; this is not about getting rid of benchmarks or KPI's

<u>We need Benchmarks and KPI's</u>

- Benchmarks and KPIs are an integral part of business, sports, education, healthcare, and life and we need them.
- It is not the position that we should not have (performance) or incentive programs as benchmarks simply that there needs to be adequate thought given to what we are measuring. Some initial areas for consideration are,
  - why we are measuring it,
  - what behaviors it will drive, (all of them)
  - how they will be implemented and monitored,
  - what we do with the results and
  - how we measure success and monitor programs/benchmarks
- We should apply the SOX principle of WCGW (What Could Go Wrong) when developing and implementing and using Benchmarks

Some Basic fraud risks and Benchmarks

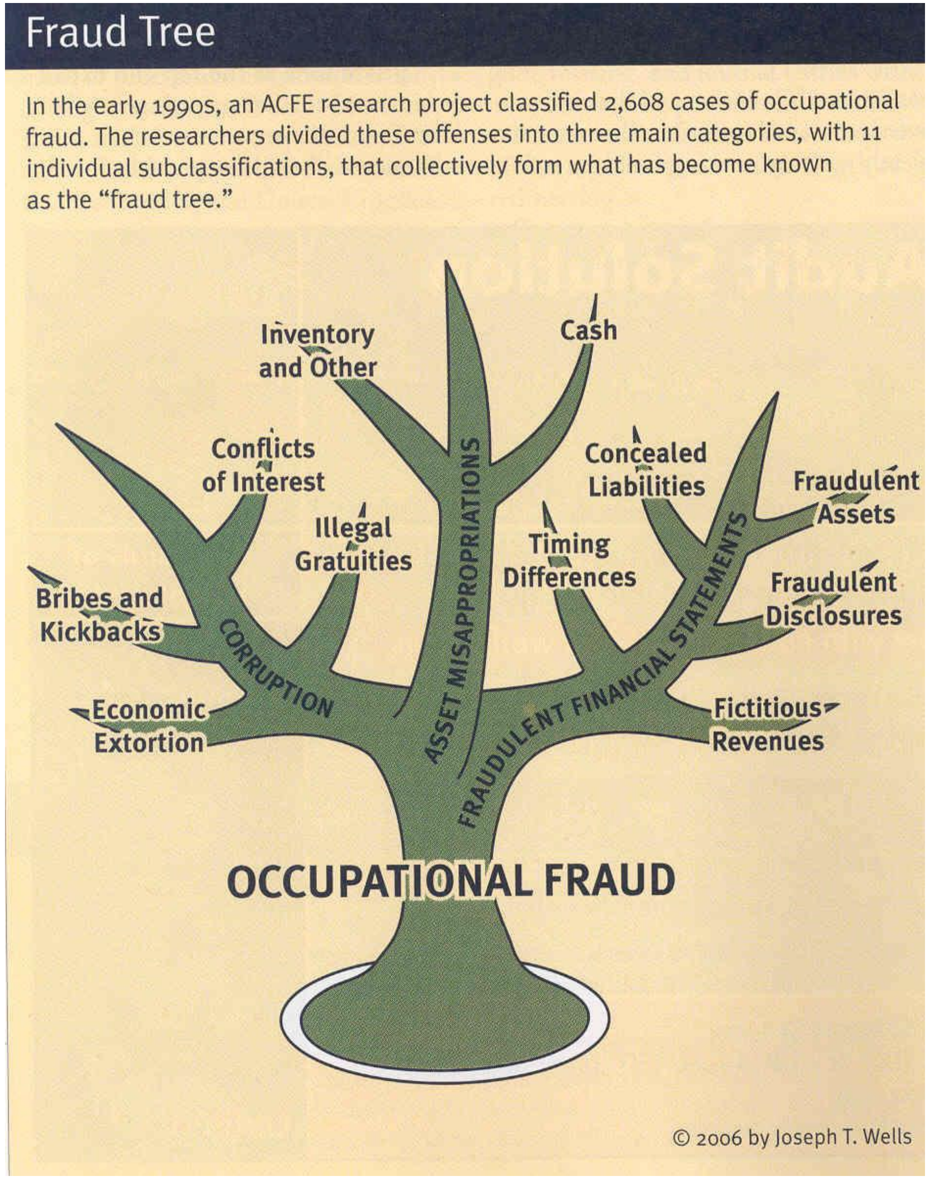
- I would postulate that poorly designed benchmarks have significant impact on the corruption and fraudulent financial statements branches of the fraud tree.

- Consider the development and evolution of SAS 99 and AS 2401. These were driven by the frauds of the early 2000s many of which could be tied back to benchmarks such as revenue, EPS, merger activity etc.

- Any risk assessment without considering benchmarks and reward structures could be considered potentially lacking.

- Benchmarks are not bad, we need them, but they need to be designed and monitored appropriately.

- Can you answer the question what is driving the behavior of my team, my leaders, my colleagues?



Let's start at the beginning what is a Benchmark

Be aware there is a nuanced distinction between a **benchmark** and **benchmarking**

A **Benchmark** is ***a standard or point of reference against which things may be compared or assessed.***[1]

Benchmarking is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, aka "best in class." The point of **benchmarking** is to identify internal opportunities for improvement not to see how we can make ourselves all look good.

For the purpose of this presentation a benchmark is loosely defined as ***a measure or target against which performance is gauged and the achievement or failure to achieve the measure or target has consequences, perceived or real which are either positive or negative.***

We need to also cover another term, KPI's

- **KPI's = Key Performance Indicators**
- **Key performance indicators** (**KPIs**)can be defined as quantifiable measures that gauge a company's performance against a set of targets, objectives, or industry peers.
- There is a nexus between benchmarks and KPI's and while the two are similar there are some differences.
- Now that we have the mundane stuff out of the way let's get into the details.

Polling question 2

My Company's Benchmark setting process is clearly defined. Benchmarks are reviewed to ensure they achieve the desired results

Answer Yes or No

Bad Benchmarks, how can they hurt us?!

- Where can benchmarks have an impact on the fraud triangle?
- Can you think of a benchmark that might drive a potential fraud and how it touches all sides of the fraud triangle?
- What is a key benchmark that is used to judge the performance of the C –Suite of a Public Company?
- A benchmark can create pressure, frankly it does create pressure for many.
- A poorly designed benchmark also creates opportunity through allowing for the gaming of the system this could also be as a result of poor controls surrounding the benchmark.
- Finally, if the benchmark is not widely accepted it facilitates the ability to rationalize gaming it.

Insights to Benchmarks that went Awry

To paraphrase Daniel Ariely (1), do funky benchmarks cause people to behave in a way that would result in an improper outcome, or is it the environment that is created by the benchmark that cause people to act in this way.

By their very nature benchmarks are created to track performance and ultimately attempt to get people to behave in a certain way.

Regrettably, sometimes poor benchmarks force people to act in a manner to make someone believe (the person gauging performance) that they acted in a certain manner or did certain things to get to the number/benchmark ***<u>you</u>*** wanted.

This then in turn enables them to achieve the number they wanted. By the number “they wanted” I mean the following: incentives, bonuses, additional budget, the ability to hire new team members, recognition that they are the leader in their field, not losing their job, being promoted etc.

In short, I hit my benchmark so give me what I am due.

Safety culture (example)

An organization I had the opportunity to observe had an ingrained focus on a culture of safety and was rightfully proud of it.

- We have all seen the signs “X number of days without a safety incident.” Clearly the focus on safety resulted in reduced incidents and I am sure much of this reduction was because of the training and other programs introduced.
- However, the tracking mechanism also made it so that having a safety incident was a big deal and safety incidents resulted in lower bonuses, impacts to promotion etc.
- We learned that at some sites, as a result of the reporting requirements, people falling off a ladder and getting hurt, but not “seriously hurt”, were told to take the rest of the week off and the incidents were not reported.
- In short, the program resulted in improved reported safety, but also caused people to do certain things which meant ***<u>some</u>*** of the safety gains were illusory due to the ramifications of not hitting the benchmarks.
- What went wrong?
- What potential issues do you think this raises?
- How do you view this under an ESG lens?

Regulatory Benchmarks can cause a dilution of value of *Financial Statements and MD&A*

I am aware of the pressures and concerns that are in place that makes the challenging of the status quo extremely difficult.

Take for example the filing requirements for an SEC registrant. Is this information truly key for investors? The Management Discussion and Analysis ("MD&A") portion of financial statements have become so all-encompassing that only analysts have the time to wade through them in detail.

They must be filed, but what portion of these filings is utilized for investment decisions?

In short, often, the content of these filings is to meet certain "legal or statutory" requirements but they have become so bland and general in nature that they have significantly diluted their informational purpose other than being able to point to a certain paragraph and say "see we disclosed it" even if only in a general sense.

Benchmark met? Yes. Value added? We can debate it. This will not change and probably should not change, but we need to be aware of it.

Now for a solid example; ***Sales Metrics and Commission Calculations***

- Bringing this back to the financial realm, another example is sales. Nothing helps a stock price like sales growth, leaving aside the Gamestop events.
- As we seek sales growth, we incentivize behavior that helps us achieve that goal. This can be reflected at all levels of the organization, including for example low-level sales professionals entering into undisclosed side agreements whilst simultaneously benefitting from commissions which are not truly earned.
- At the opposite end of the spectrum are the two early 2000's frauds at World Com and Enron where revenues were overstated as part of improper accounting schemes with a view to achieving benchmarks/expectations and simultaneously making certain individuals wealthy, albeit in the short term as a result of an EPS focus.
- What are the benchmarks here that resulted in the improper behavior and what was the limiting factor even if the benchmarks had been properly set?

Some More real-life examples **Example 1: In 1992 They went to Sears Automotive and got "Roebucked"(2)**

- In 1991, Sears unveiled a new "productivity incentive" plan with as its goal or objective to increase profits in their auto centers, a valid and appropriate business goal. As part of their lifecycle organizations need to consistently evaluate and update programs and systems to stay competitive.

- Before 1992 Sears Automotive, was known for quality and value, the auto mechanics were paid hourly wages and were expected to meet certain production quotas. Again, these quotas are part of normal operations.

- Then in 1991, decisions appear to have been made to change the compensation structure to now include a commission component.

- Apparently, it was considered that this would better align the interests of the organization and the mechanics resulting in a win-win for both. On the face of it a noble objective, but looking back one must ask was the customer considered?

- Under the "new program", the mechanics were going to be paid a base salary augmented by an additional fixed dollar amount if the mechanics also met predetermined hourly production quotas. Additionally, the "Auto Service Advisors" the individuals taking the orders from customers and functioning as the interface between the mechanics and the customers were moved from a pure salary-based compensation model to a program designed to increase sales. This was to result in commissions and product-specific sales quotas being introduced for the advisors as well. In short, the advisors would be compensated for upselling customers for additional services. This is a great program ……….if the customer needs the service. The program was rolled out in 1991 and apparently, it did not take long for issues to arise.

Some real life examples
Example 1: In 1992 They went to Sears Automotive and got "Roebucked" continued

- In June 1992, Sears was accused of violating the State's Auto Repair Act by the California Department of Consumer Affairs which wanted to revoke the licenses of all Sears's auto centers in California. The company acknowledged problems but denied fraud and/or wrongdoing.

  > *"Conversely, the California Department of Consumer Affairs alleged that "Sears* ***enforces a quota system*** *that requires employees to ''sell a certain number of repairs and/or services during every 8-hour work shift,'' resulting in overcharges that averaged $233 a car. The charges grew out of an 18-month undercover investigation."*

- The regulatory response was purportedly the result of a significant increase in the number of consumer complaints and was supported by an undercover operation related to brake repairs.

- It appears that the new compensation scheme designed to improve sales for Sears Automotive and compensation for the employees resulted in the employees conducting work that was not warranted nor required and selling products that were of no value to the customer.

- When this all finally came out, as we often see in such cases, other states piled on and made similar assertions against Sears Automotive. Many publications and government organizations stated that Sears Automotive centers had been systematically misleading customers.

- The California Department of Consumer Protection went so far as to say that the misleading actions could be tied directly back to Sears Auto Centers' compensation system.43, system.43 was the new compensation program. For our purposes compensation system.43 is also known as the benchmark.

- The Sears CEO at the time denied the charges and claimed no fraud had occurred. The CEO admitted to isolated errors, accepted personal responsibility for creating an environment where "mistakes" had occurred and outlined the actions the company planned to take to resolve the issue, including $46 million in customer coupons. The benchmarks were redesigned post an event that caused significant reputational damage to the organization. If the benchmark had been better thought out and designed, effectively rolled out, and properly controlled and monitored this would have saved costs, goodwill, legal fees, frustration, reputational impacts, and subsequent losses of revenue.

Lessons learned

So, what can we glean from the Sears example?(3)

- It seems when the benchmarks were set, not all stakeholders and effectively the most important stakeholder for a retailer, the customer, were not adequately considered.
- Sears Automotive seems to have focused on the top line, more sales, and how this could be achieved, not considering what other behaviors the new benchmarks might drive.
- I am going to go out on a limb here, but it does not feel like this new benchmark/compensation scheme was piloted properly or piloted at all.
- The risks that the new program created were not properly identified nor were any controls created to mitigate those risks.
- If the overcharges were truly $233 per car as alleged by the State of California, it begs the question, how many dangerous issues did the mechanics fail to discover before the introduction of this new system.
- The $233 number is significant in that there would have been tracking mechanisms in place to see how the program was working. No one bothered to ask how is this possible? Were we that bad previously?
- It appears to have been an example of things are going great do not question it. Regrettably, we saw a similar type of situation in the independent director’s report related to Wells Fargo, referencing that eight is great. It resulted from the pressures placed on staff to “incentivize” them to encourage banking customers to have a minimum of 8 accounts. We know how that ended.

Polling question 3

I have been confronted and judged on benchmarks that added no value and did not help to move the organization forward

Answer Yes or No

Example 2 The EPA and the measurement of particulate matter-you can breathe easy now(4)

The next example is more recent and is quite timely considering the current intense focus on Environmental Sustainability and Governance (ESG) initiatives and ESG Fraud. The issue was raised in the Economist in an Article titled *"We Were Expecting You"* by Eric Zou.

Here we face a poorly designed regulation (for our purposes Regulation = Benchmark. The regulation set the minimum standards allowed for the possible gaming of behavior that was supposed to help curtail harmful emissions/pollution. Fortunately, Zou also describes how advancements in measuring technologies have reduced the impact on the gaming of the system that may have been occurring related to these measurements in the past.

Based on research conducted by Eric Zou, the EPA would historically publish, in advance, a list of dates, at six-day intervals on which it required state and local agencies to be measuring for certain harmful particulate matter. In other words, they pre-informed /pre-announced the areas when and where these monitoring tests would be conducted. In a nutshell "hey everybody on these dates we are going to be testing you for compliance".

This forewarnings was considered analogous to the police announcing surprise raids or World Anti-Doping Agency (WADA) announcing who and when athletes will be tested for doping violations. I would add from a CFE perspective it is similar to letting auditees know you are coming to conduct a surprise cash count.

The benchmark which set the levels of harmful allowable particulate matter may have been a good one, the way the overall process was designed or worked allowed for gaming and achievement of the benchmark because of the forewarning.

The research found that on the days that the particulate matter was measured the actual levels of particulate matter were lower than on those days when potential polluters knew they would not be measured. The study found that pollution was generally higher on those days when monitoring did not take place and lower on those days when it did.

The results of being out of compliance (i.e. particulate matter was too high) could result in potential fines for local governments and the requirement for certain factories to install expensive clean technology solutions.

Those being benchmarked or measured learned quickly that adhering to the requirements of the pre-published dates would ensure benchmark achievement and enable them to continue operating in a potentially less environmentally friendly manner on all other dates when measurements were not mandated.

Lessons Learned from breathing easier

So, what went wrong?............

- It appears a part of the regulation, a preannouncement clause, was created or simply provided by the EPA. Once people knew they were not being observed on certain dates the resulting behavior appears to have changed.

- This allowed for increased harmful particulate matter on certain dates with no adverse consequences for those responsible. Without knowing how the measurement process/timeframe was negotiated or agreed to it is not clear where and how this resulted in the documented anomalies.

- The data developed by the research of Mr. Zou supported that pollution increased when measurement did not take place. Accordingly, a benchmark was rolled out that while optically demonstrating action, did not fully reflect the reality of particulate matter emissions.

- In short, a good benchmark potentially poorly administrated and controlled.

- As a result of technological improvements and continuous monitoring in more and more locations, this gaming of the benchmark may be coming to an end.

- In fairness, I am not familiar with what it takes to have rules such as this enacted and approved. It may very well be that from a political perspective there may have been some horse-trading resulting in the system and its flaws until these issues could be continuously monitored, as opposed to spot checks as is now more commonplace.

Initial Observations Breathe easier

- The above examples are not just a benchmarking problem, but also the fault of improper monitoring, however, it is a confluence of factors starting with the benchmark that results in these behaviors and the subsequent related outcomes.

- The impacts of this go beyond the transactions alone and can be pernicious/damaging in eroding the culture of an organization and causing disproportionate focus on short-term numbers as opposed to the longer-term goals of the organization.

- I have observed where benchmarks that were designed with the best of intentions (i.e., to drive and measure certain outcomes with a view to conscious improvement) resulted in things going off the rails.

- In part due to the poor design process of the benchmark, the complexity of the benchmark, playing or gaming of the benchmark and finally a lack of monitoring and questioning of benchmarking results and components. In short, having a benchmark and not properly monitoring it can create a separate problems.

- This is where oversight and internal controls come in, a willingness to speak out and not compromise, or "go along to get along." It also brings into the picture the need to hold those individuals that develop the benchmarks accountable for what they have developed.

- This could potentially be an area where input from an organization's compliance function would be useful. I suggest that a few useful exercises in an organization would be to (1) scrutinize the benchmarks that are in place as part of the annual risk assessment; then (2) to determine what the risks related to those benchmarks are; and (3) to conduct compliance audits related to the identified benchmark risks.

- Public company auditors already do some of this with their fraud brainstorming sessions as required by the AICPA to address fraud risks, but this is limited to the financial statements. That still leaves a lot of the benchmarks uncovered by the external auditors. One needs to ask what is the organizational approach to addressing this risk?

- For example, we have seen a proliferation of alternative measures used to assess company performance such as "adjusted EBITDA or EBIT," "closed deals," "customer churn," etc. These metrics are non-GAAP measures and are not generally part of what gets audited, although there is an enhanced focus by regulators on non-GAAP measures.

So how do we fix these various shortcomings?

Steps that can be taken to further enhance the efficacy of benchmarks and their use.

Several thought leaders and writers have dedicated time and effort to creating effective benchmarks. I have listed a few below. There are many more approaches available, but I wanted to demonstrate the level of thought that has already gone into creating effective benchmarks. Examples are;

- The Lucid chart and the Lucid content team have a document referred to as the 8 steps of the(6) benchmarking process,
- Pradeep Kumar Mahalik IXSIGMA talks about a 10-step benchmarking approach, (7)
- Jeffery Berk of workforce.com talks about a 6-step approach and (8)
- Mercy Harper talks about a 4-step model. (9)

All these approaches have a solid base for creating an effective benchmark, they each have things to commend them and are a great starting point for a benchmarking exercise.

Addressing shortcomings continued

- The benchmarking frameworks identified above set out leading practices on how to develop benchmarks, but their focus is not on the “what could go wrong” (WCGW) risks and ultimately fraud and abuse risks
- A suggested enhancement to the process, from my point of view, is a greater focus on the inherent risks resulting from the WCGW factors that organizations and individuals potentially face with respect to setting benchmarks
- This can be achieved with some enhancements to the process that are minor in nature and are already indirectly alluded to in the models but execution and what is on paper is often different.

Addressing shortcomings continued

There are potential additional steps that could be taken focusing more on the fraud risk component while simultaneously addressing more of the downside risk of the benchmarking exercises.

- Some of the suggestions may already be covered at least in part by the frameworks I provided as examples implicitly and for some even explicitly,
- There should be more focus on what could go wrong (WCGW) when developing new or assessing existing benchmarks.
- The suggested enhancements to the process may result in a greater focus on the inherent risks and WCGW scenarios organizations potentially face with respect to setting benchmarks which are meant to drive their success.
- These additional or enhanced steps are not intended to reinvent the wheel but rather to augment the process

Addressing shortcomings continued

- A novel approach, pre-mortems. A pre-mortem is working from the assumption or position where one imagines that the patient has died, or things have already gone wrong with a view to building better safeguards. (10 & 11) It can supplement the WCGW methodology.

- Benefits that can be obtained by considering benchmarks in the context of the raison de etre' of the organization and linking them back to mission statements etc. This will also help to ensure that benchmark creators are aware of the bigger picture.

- So, what are some suggestions on how to minimize some the risks that are inherent in benchmarking? A critical question to achieving desired outcomes.

- Remember in dynamic environments there is a need to constantly reassess benchmarks to ensure that they are still achieving what they were intended to achieve when they were first implemented.

Addressing shortcomings continued

My suggestion is to use one of the developed frameworks for creating benchmarks as outlined above and that you also consider the steps bulleted below as part of that process to ensure the integrity and validity of the benchmarks being used. A few suggestions:

- There needs to be a clear objective of what the benchmark is supposed to achieve. This should be distilled to writing. It should also be provided to all the groups and parties that will be impacted by the benchmark, along with the explicit question as to how can this benchmark be manipulated?

- Linking the benchmarks back to the Corporate Mission Statement and Corporate Code of Conduct so that there is a clear line of sight between those key documents and the benchmarks proposed.

- Conducting an inventory of the stakeholders or people may be impacted by the benchmark. Then ensuring that those individuals have input into the process. That input should include sessions to, at a minimum, determine how it will impact those individuals, risks for gaming the benchmarks, the ability for future adjustments, etc.

Addressing shortcomings continued

The things to consider:

- Ensure that a proper tracking, monitoring, and measurement system is in place to ensure the system is being utilized as intended and to minimize gaming. (Gaming should result in consequences.)
- If possible, pilot the benchmark somewhere in the organization that will enable an adequate representation to iron-out the difficult areas and facilitate acceptance upon full implementation.
- Consider an independent review of the benchmark by internal audit with a focus on the controls surrounding the benchmark and the downside risks. This should be done prior to roll out and post the roll out.
- Have compliance review the benchmark for the risks that it might drive from a compliance perspective.
- Conduct a premortem of the benchmark to facilitate the identification of the downside risks.
- Create a schedule for the regular review of the benchmarks in place to determine if they are still adequate for achieving the objectives of the organization or if they need updating.
- Determining if, because of changes in the operating environment, new downside risks relating to exiting benchmarks have emerged.
- Ensure that the metrics and ability to track the metrics produced by the benchmarks are driving the desired outcomes and are transparent and equitable.
- Ensure controls around the benchmarks are robust and properly monitored.

A final word on the process

It is acknowledged that some of these steps may not be practical for certain organizations or entities, but at a minimum a version of the WCGW process should be implemented. There should be robust controls surrounding the benchmarks and their efficacy.

These controls should be related not just to creating the benchmarks but also to monitoring, reassessing, and tracking the existing benchmarks.

It is not being asserted that this this process must be utilized for each tracking mechanism an organization has in place. However, it should be considered for those benchmarks that are key for the long-term organizational objectives and those that are being utilized to incentivize behaviors related to what is considered long term success for the organization simultaneously creating potentially enhanced fraud risks.

Polling question 4

During my career, I have gamed benchmarks to ensure I stayed off the radar or to achieve certain objectives

Answer Yes or No

So where does that leave us? Some concluding thoughts

- Let’s come back to the question of “what is the objective?” Why are we creating this benchmark and is it consistent with our corporate values and Code of Ethics? This should be followed by a re-evaluation of “does the benchmark help us to achieve the objective?” Ideally, a pilot of the benchmark in certain instances is more than appropriate, if possible.
- Benchmarks should not be developed in isolation or in a vacuum by one group.
- We must utilize the skills and strengths that are available through the insights of multidisciplinary teams including fraud professionals to develop benchmarks.
- Systems and requirements have become ever more complex and while this presents opportunities for continued advancement and progress it also creates risk.
- Those to be gauged by benchmarks need to be involved in the process as does HR, compliance, finance, and any other potentially impacted group. Since
- There is a need for controls and monitoring surrounding benchmarks, it is probably useful to have the controllers’ function and compliance and internal audit providing input to proposed benchmarks.
- Furthermore, with the recent focus on ESG, it might pay to have the leaders of that initiative involved with the setting of benchmarks that might impact the areas they are concerned with. This could head off any allegations of greenwashing in the future.
- Benchmarks created in a vacuum , are alas, sometimes the reason things go south.

Conclusions

There is, and will always be, a requirement to benchmark. It is not just a part of business but standard in everyday life.

- Einstein is purported to have said (there is debate on the attribution) **"Not everything that counts can be counted, and not everything that can be counted counts."(12)** Something we must keep in mind when creating benchmarks. The flip side is Drucker is purported to have stated **(** "**you can't manage what you cannot measure."** (13)
- This reinforces the need to make sure that what we are measuring is driving the organization forward in accordance with its mission statement, the expectations of its' stakeholders, and that benchmarks are not driving aberrant outcomes.
- It is my opinion that whilst we have a solid benchmark creation process, when benchmarks fail and/or cause aberrant behavior it is generally attributable to these factors:
  - A failure to recognize the downside risks of what could go wrong in the development stage,
  - A failure to properly monitor the benchmarks that are being utilized,
  - A failure to regularly reevaluate the benchmarks as the world changes,
  - A failure on the part of individuals to understand the purpose of the benchmark,
  - A risk that those being benchmarked see their benchmark as being to the exclusion of all else.
- I hope that this presentation has helped identify some of the potential fraud risks that individuals and organizations face when they are measured or are being measured against a benchmark.
- All of us collectively have an obligation to question and consistently ask what could go wrong with a benchmark whilst simultaneously using benchmarks to help drive our organizations to the next level.

Select Attributions/references

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QUESTIONS COMMENTS AND PERSONAL EXPERIENCES

THANK YOU FOR YOUR ATTENTION

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For more information, please contact our chief executive David Powell, chiefexecutive@cawnetworkusa.com

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Thank You