



Ounce of prevention

Using compliance analytics to unearth the precursors of workplace misconduct

Who on your team is following all the rules today, but has a latent propensity to bend them tomorrow? To mis-serve a customer, take undue advantage, or precipitate poor morale? Or, who has already started down that slippery slope, but has been working undetected?

What if the answers were lying unseen in front of you – in the patterns that emerge when scores of otherwise innocuous data points come together? What if inappropriate behavior, or worse, had a “DNA” whose markers were ripe for detection?

The answer is more than academic. It may spell the difference between prevention and remedy – between setting an employee on a better path today or having to dismiss that same employee tomorrow amid loss and scandal with potentially damaging effects to your brand, reputation, and market capital.

There are few organizations that remain to be convinced of the value of analytics. The use of new tools to extract useful insights from big data has helped transform financial modeling, marketing, and other critical functions. And in industries that face complex regulatory requirements, analytics has made inroads within the compliance function as well.

Compliance is about more than monitoring adherence to rules and regulations outside the organization. True compliance starts on the inside – with the attitudes and actions of the people who conduct business every day and those who supervise and manage them. The risk inherent in giving employees decision-making autonomy is inseparable from the performance the company demands from them.

Because stamping out that risk would hobble performance, companies must recognize and manage it instead. An organization with a strong ethical culture with leadership from the top may still be drifting if employees in the middle do not align with the organization cultural values.

Looking ahead by looking inside

Now, a new approach to predictive analytics can more effectively direct the compliance spotlight inward. It can help foresee likely avenues of disruption and focus efforts to head them off with positive steps. But to benefit from this new approach, organizations first need to be open to the possibility. They need to be willing to embrace the positive and appropriate opportunities inherent in a practice that might strike some people, at first blush, as a big brother-style overreach.

Many organizations are already looking at ways to implement a targeted, risk-based approach to identify behavioral indicators among their employees that create a propensity for ethical misconduct – and to identify individuals or groups who could ultimately harm an organization’s culture or cause severe reputational risk.

Having the ability to predict risks or negative events could save millions of dollars in regulatory and civil penalties, protect the brand image, prevent operational and strategic disruptions, stem financial losses, or simply improve culture. Predictive analytics can help enhance an organization’s ability to keep valuable employees in the fold for the long term.

For many organizations, evaluating employees this way will require an enhanced reliance on existing data-gathering systems and analytical

“Philosophically, risk assessments are not designed to see what’s coming around the corner. You’re definitionally looking backwards.”

– A financial services industry chief compliance officer

tools. For some, it will require the development of new capabilities.

According to the 2016 Compliance Trends Survey that Deloitte carried jointly with *Compliance Week*, fewer than one-third of Chief Compliance Officers (CCOs) were “confident” or “extremely confident” in the ability of their organizations’ IT systems to fulfill their ethics and compliance responsibilities and reporting requirements. Asked if their organizations were leveraging technology to analyze big data (beyond hotline analysis) across the enterprise to identify emerging risks, 56 percent said no. Bear in mind that those answers refer to the traditional scope of compliance responsibilities, not the enhancements described here. One telling comment from the 2015 version of the same study was that “many CCOs are keenly interested in advanced predictive analytics that can aid in predicting future risks before they erupt into a catastrophe,” but few have tools that can do that job today without major customization.

Using insight to prevent, not punish

The patterns that connect behaviors may be specific to an industry or an organization. But for the sake of illustration, consider a few examples. In one setting, the person who has a large number of informal personality conflicts may also be more likely to falsify an expense report. In a second example, a person who is chronically late filing required paperwork may be an incipient morale problem. Lastly, someone whose frequency of travel and level of expenses outstrips his or her peers may have a greater propensity to commit expense fraud.

The individual cases are less important than the principle. Like disease, professional misbehavior has a DNA. As with disease, that DNA reveals a propensity, not a prediction – the future is yet unwritten. And as in medicine, the advance of science can help map that DNA, identify the risks inherent in it, and use that knowledge to prevent trouble before it requires treatment.

How can this data manifest?

One way is for compliance departments, perhaps in conjunction with HR, to develop aggregate scores for each employee, and then leverage the same process to score teams or departments. Or the output of analysis might be focused on behavior clusters rather than on people. In any event, it will be data-based, empirical, and objective. The process must be programmatic and handled responsibly, judiciously, and confidentially, because any probabilistic methodology will also produce false positives that must be resolved via non-accusatory methods.

An advanced analytic solution based on this concept can help organizations to enhance their compliance and ethics programs by: Uncovering potential fraudulent behavior patterns and possible incidents sooner, by real time Spotting trends, anomalies, proximities, networks, suspicious activities, and connections that may indicate possible 'risky' behaviors – and communicate those connections to leadership allowing for efficient escalation and action

Quickly identifying business processes, procedures, and associated controls that will require targeted remediation in response to predictive data insights Establishing numerical and descriptive indicators that reflect organizational norms and benchmarks, as well as risk propensity

This kind of behavioral analytics can be a "learning" system. Over time, the data an individual employer amasses and the experience using it can fine-tune what the compliance engine looks for and how it processes that information. Reaching beyond its four walls, an organization can benefit from similar lessons that peers have learned – applying blinded information in a manner analogous to performance benchmarking. Over time, "experience models" for specific industries can give employers a head start on developing the solutions that apply to their needs.

What can organization do with this knowledge?

They can alert managers to tighten certain controls or add emphasis to certain policies. They can adjust incentive-based compensation rules or reexamine performance quotas. They can design new training protocols. They can target communications to at-risk populations. Or they can guide individuals or groups of employees away from their latent propensities using "nudges" that employees are unaware of, but that end up steering them to choose the correct path on their own.

As Harvard University¹ Professor Cass Sunstein observed in the study *Nudging: A Very Short Guide*, organizations that hold authority over people have more tools at their disposal than absolute measures such as mandates and bans. He identifies "nudges" as "liberty-preserving approaches that steer people in particular directions, but that also allow them to go their own way." And he provides examples: a smartphone app that counts calories, or the nutrition information panels on food packaging.

Employees aren't the only ones who can benefit from nudges. Their supervisors and managers can as well. The compliance leader of a financial services organization, speaking at Deloitte's 2015 Cross-Industry Compliance Summit, said, "We've built an entire series of questions that are designed to tease out employees' sense of integrity within their units. In terms of employee behavior, I'm watching this integrity score. [And] when you see bad scores on the integrity side, you're seeing bad scores on the management side. They go together." Along the same lines, it is well understood by compliance and ethics officers that employees who appear on one exception report are often the same people who appear on one or many other "radar screens."

A positive approach

Predictive analytic technology is more effective if it is matched to the specific organization that uses it. An analytics solution that lets compliance "see around the corner" and head off wrongful behavior must be able to: Determine false versus true positives and proactively identify employees who may require additional coaching, monitoring, or support

Proactively identify groups or sub-teams who for various reasons potentially share sub-optimal behavioral traits and, as a result, require additional or targeted training Strengthen internal processes and controls relative to the areas where predictive data indicators have been identified

As with any compliance protocol, the use of analytics to detect and address likely future misconduct should be carried out with an appropriate degree of transparency. However, in a large workplace, some people may interpret with suspicion processes like those described here. This is less likely in highly regulated industries such as banking, insurance, healthcare, pharmaceuticals, and consumer products, where team members are used to scrutiny

¹https://dash.harvard.edu/bitstream/handle/1/16205305/shortguide9_22.pdf?sequence=4

In settings that are traditionally less rigid, employers may have to work for acceptance. There are certain points, common to any organization, which can help allay those fears: You are not “spying on people” but taking a fresh look at information that is already out in the open. You are not “branding” people, but seeking to help them before it is too late. And no part of this plan calls for summary firings.

Indeed, the core message behind an analytics-based compliance approach is that it benefits everyone. At one level, the organization can gain better partnership among the compliance, HR, and business functions. At another level, the organization will likely enjoy better adherence, higher morale, and increased employee engagement.

Because the company is managing risk, it can harness the potential for greater performance. Individuals who may have been on a path to trouble

are instead kept within the fold – in a manner that demonstrates the organization values them. And the larger mass of employees whose behavior was never in question can see that the organization’s embrace of a “zero-defect” culture is more than just talk.

Toward predictive transparency

The use of predictive analytics to identify behavioral precursors, “score” the latent propensities of employees, and steer positive steps that prevent trouble before it starts, is a complex undertaking. Implementing it will require changes in philosophy, governance, and technology, and may call for a new level of cooperation between compliance and HR, the business, and other functions.

Even organizations that have the component parts in place – such as data surveillance, employee surveys, enterprise information management, and advanced IT – may find that

putting them all together is a significant undertaking. In the future, comprehensive solutions may be available that deliver these benefits by design. If those solutions originate from third parties, they may carry the added advantage of data aggregation across multiple employers and the blinded, but effective, “benchmarking” that leads to more effective conclusions. Until such holistic solutions exist, organizations can still realize substantial benefit and return on investment through enhanced targeted compliance monitoring for the detection of potential workplace misconduct.

Whatever the path toward this new level of self-awareness, organizations need only look at the headlines to know that “if only we had seen this coming” is a familiar refrain. It used to be a vain one. Now, there is a way.

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