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TO: Executive Addressed

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Mary Ann N. Cotton**

RE: Institutionalizing Corporate Compliance Practices: Seven Critical Steps

Effective compliance programs and practices help organizations diligently prevent unlawful, even criminal behavior. They also help an organization capably take action and defend itself when unwanted behavior is detected. Further, compliance has become a very useful standard against which the government assesses a company's integrity, judges its business practices, and questions management's ability to lead. Getting compliance right prevents executive career-defining moments. These seven steps are adapted from the due diligence process contained in the 1991 Federal Sentencing Guidelines.

- Step 1: **Establish a centralized compliance function.** This corporate function and department are mandated by the Board of Directors, with access to the resources of the Chief Executive Officer, Chief Operating Officer, and Chief Legal Counsel. This function oversees compliance and adherence to standards for the entire organization.
- Step 2: **Appoint a senior-level manager as Senior Vice President, Compliance.** As a member of the company's top management team, this individual has overall responsibility for establishing an effective compliance program; developing working standards; annual training on compliance principles and standards; and establishing reporting processes to detect and disclose violations.
- Step 3: Train all employees, agents, vendors, and customers. Conduct mandatory annual seminars, prepare and distribute written guidelines, produce videotapes that demonstrate the right way and the wrong way, and require compliance agreements from agents, vendors, and customers.
- Step 4: **Establish a reporting process.** Set up an 800 telephone number, confidential e-mail system, or direct contact mechanism with the senior compliance officer through which employees, agents, vendors, and customers can anonymously report compliance violations or inappropriate behavior.
- Step 5: **When violations are found, take appropriate, consistent, prompt disciplinary action.** Standards without enforcement do not work. Non-enforcement looks like complicity or the condoning of non-compliance.
- Step 6: **Communicate immediately and conclusively about compliance violations.** Employees, agents, vendors, and customers need to know when compliance standards have been violated. Public acknowledgement is a powerful deterrent. No one wants his or her name in a violation report document.
- Step 7: **Commit to constant improvement.** Expect to detect incidents of non-compliance; good compliance programs will detect occasional non-compliance. While embarrassing, these situations are opportunities to review standards and procedures, to eradicate weaknesses in the organization's ethics and compliance processes, and to educate.

Measure the effectiveness of your ethics program against these seven steps. If you don't have a program already in place, use these seven steps as a foundation. Should you have any questions about the process, please call me at (914) 681-0000.

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