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Calculating the Value of a Compliance Program

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The list below appears in the Society of Corporate Compliance and Ethics' *The Complete Compliance and Ethics Manual 2024*.^[1]

Calculating the Value of Your Corporate Compliance Program

The value of an effective compliance program extends far beyond simple dollars and cents. It is a crucial part of building a culture where organizational justice is present, psychological safety is paramount, and speaking up is encouraged and rewarded.

It also can be very valuable to provide senior management and the board of directors with an estimate of the financial value of your compliance program. This can be especially effective in supporting a business case for adding compliance systems or resources.

It can be difficult to prove the value of your program in financial terms as most often you are measuring cost avoidance. Measuring the absence or reduction of something can be challenging, but it is possible. An effective compliance program will prevent, or at least reduce, violations of both your Code of Conduct and the law and will also prevent/reduce the fines and costs that would have resulted from such violations. The avoidance of these fines, penalties, and costs has real financial value to your organization.

The itemized list below can be used periodically—perhaps on a quarterly basis—to calculate an estimate of your compliance program value. A good starting point might be calculating the value of the larger, material matters your program detected and resolved during the prior quarter. You can do it by looking at the type of issue involved and the financial impact that would likely have resulted from a failure to detect and resolve the matter. An estimate of financial impact can often be created using information from public disclosures and filings, government press releases, news articles, and data from enforcement cases against similarly sized companies in similar subject matter areas. You can also estimate what an ongoing loss would have cost if the matter had not been resolved and mitigated.

For example, if your program detected and resolved a potential bribery and corruption issue, you could look to enforcement cases against similarly sized companies to gather financial data to create an estimate of the value of having done so. If your compliance program detected an instance of fraud, you could use the cost of such fraud over time to help estimate the value of having eliminated it. The list below provides suggested categories of costs that may potentially be avoided by an effective compliance program:

- Value of criminal fines avoided or reduced;
 - Value of criminal charges avoided or reduced;
 - Value of punitive damages avoided or reduced;
 - Value of civil liability avoided or reduced;
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- Value of avoidance/reduction in outside legal counsel fees incurred to defend charges;
- Value of continued government sales for the period (avoiding suspension/debarment/disqualification from public tenders);
- Value of exports for the period (avoiding loss of export privileges);
- Value of avoiding reputational damage/loss of goodwill/loss of share value;
- Value of increased market share/competitive advantage over competitors who are disqualified from public tender participation and/or who lose export privileges;
- Value of lower recruiting costs for employees and board members;
- Value of preventing/reducing money lost to waste, fraud, and abuse;
- Value of avoiding loss of employee morale and productivity and resulting turnover costs;
- Value of protected brand reputation and maintaining current sales volumes;
- Value of avoiding a consumer boycott and resulting loss in sales;
- Value of avoiding/reducing staffing costs that would be required to manage consumer complaints (e.g., phone calls, letters, emails);
- Value of avoiding insurance claims resulting in rate increases;
- Value of avoiding/reducing shareholder derivative litigation defense costs and legal fees;
- Value of avoiding/reducing litigation defense costs and legal fees for cases brought against board members;
- Value of avoiding imposition of adversaries' counsel fees (e.g., in antitrust cases);
- Value of avoiding/reducing costs of defense for government investigations or enforcement crises;
- Value of avoiding costs of government mandated settlement agreements, including legal fees, compliance monitor costs, and third-party auditor fees;
- Value of avoiding/reducing costs resulting from loss of company's proprietary and trade secret information (through intellectual property compliance program);
- Value of avoiding loss of company's own intellectual property (i.e., trademarks, copyrighted materials, and patents);
- Value of reduced costs and litigation resulting from generation, storage, and retention of excess records (through records compliance program);
- Value of avoiding/reducing litigation and regulatory fines resulting from loss of life and property, as well as downtime from unsafe facilities/activities and accidents; and
- Value of avoiding/reducing lost value due to cybersecurity/ransomware attack (through cybersecurity compliance program).

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