

Measuring (and Demonstrating) Your Firm's Compliance Culture: Yes It Can Be Done

Speakers

Louis Dempsey, Founder & President, Renaissance Regulatory Services

Louis Dempsey has over 25 years of public/private sector regulatory, compliance and operations experience, which includes a varied background in advising and auditing broker-dealers, investment advisors and bank holding companies about federal, state, and self-regulatory rules and regulations. As a regulator, Dempsey has over 10 years of combined experience with the Securities and Exchange Commission and State of Florida Division of Securities. While at the SEC, he was responsible for planning, conducting, and supervising complex financial, operational and sales practice examinations of broker-dealers and investment advisers.

Culture risk assessment is now an important component of ongoing risk management. Because an unhealthy culture can directly translate into human capital issues, reputational damage, and compliance risk, the ability of corporate leadership to set a vision for company culture that is adhered to on all levels is paramount.

Daniel Forrester, Founder and CEO, THRUUE Inc.

Daniel Forrester is an author, speaker, and strategist with more than 20 years of top-level management consulting experience. He has helped dozens of for-profit and not-for-profit organizations reimagine their mission and reshape their company cultures and become high performance. Today, THRUUE's core values directly reflect the ideas of Daniel's book, "Consider: Harnessing the Power of Reflective Thinking in Your Organization," which is informed by decades of reflective thinking and strategy consulting with organizations.

Dr. Jennifer Goldman-Wetzler, Founding Principal, Alignment Strategies Group

For two decades, Jennifer Goldman-Wetzler has consulted to senior leaders at global corporations in a wide range of industries as well as at large nonprofit and governmental institutions. In the corporate arena, Goldman-Wetzler helps senior executives and their teams lead change, specializing in four sectors: technology, pharmaceutical, and financial and professional services. An organizational psychologist, Goldman-Wetzler also serves as Adjunct Professor in the Department of Organization and Leadership at Teachers College, Columbia University, where she teaches the popular course Transforming Conflict from Within.

Carmen Medina, Founder, MedinAnalytics

Carmen Medina, a retired Senior Federal Executive with 32 years' experience in the Intelligence Community, is a recognized national and international expert on intelligence analysis, strategic thinking, diversity of thought, and innovation and entrepreneurs in the public sector. She is the co-author of the new book, "Rebels At Work: A Handbook for Leading Change from Within."

Co-Moderators

Greg Radner, Chief Marketing Officer, RANE

David Lawrence, Founder and Chief Collaborative Officer, RANE

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Gaining visibility into your culture and how to measure it are relevant goals for any regulated company, but particularly for financial services firms in light of FINRA's 2016 Regulatory and Examination Priorities. In the face of increasing regulatory scrutiny, firms need a programmatic approach to measuring and managing culture risk proactively to drive cost-effective actions.

While most companies appreciate the overall importance of a healthy company culture, fewer understand how to evaluate and improve it. Recently 92 percent of CEOs said culture is important, but only 15 percent said their culture is where they want it to be.

Research and real-world experience suggest culture can be leveraged as a tangible risk management tool to help firms spend smarter on compliance and be more responsive to growing regulatory trends, as well as increase their ability to retain and hire high quality employees.

"Leaders have to model what compliance looks like on a daily, even moment-to-moment basis." – Jennifer Goldman-Wetzler

Culture-Check

- To assess a firm's culture, Daniel Forrester stated, you need to look at the values and behaviors of its employees. THRUUE Inc. asks employees to identify words they associate with the corporate culture, which in aggregate highlight cultural themes, values, and behaviors that increase risk (competitiveness, short-term focus, blame) and those that decrease risk (hierarchy, bureaucracy, openness, open communication).
- Employee engagement surveys that only give a limited, superficial view of an organization's mindset, by contrast, are less effective in assessing corporate culture. A third-party study showed that only two percent of CEOs look twice at the surveys, according to Forrester. Additionally, he noted, employee cynicism may arise in the event of inaction after surveys are conducted.
- It is critical to identify discrepancies between employee perceptions and those of management. Poor performance is correlated with poor culture, Forrester said, and leaders need to understand what is happening at the ground level in order to affect change.
- Social media can be a useful tool for helping to understand how a company's culture is perceived externally. "Firms could be able to mine that information to get a gauge of what people are saying about the organization, how the organization is viewed by the general public," said Louis Dempsey.

Lead (By Example) from the Top

- “Leaders have to model what compliance looks like on a daily, even moment-to-moment basis,” Jennifer Goldman-Wetzler argued. “People take cues from managers’ behavior, actions and inaction, from how you speak at happy hour drinks to who you keep and let go from the team. These are all indicators of how a leader upholds values.”
- Leaders should communicate clearly and regularly with their subordinates, as corporate culture is most often tainted by strained relationships and poor communication, Forrester said.
- Management must ensure employees feel safe and incentivized to speak up about issues, and should create opportunities that encourage such discussions. Rank and file employees are much more likely than management to know first about compliance or cultural issues that need to be addressed. “Most organizations expect heroic behavior from [those] individuals, that they will put their individual interest aside and do something for the good for the firm,” said Medina. “But if that’s the [kind of] process you have for a whistle blower, you’re making it too hard.”

A Culture of Compliance

- As Goldman-Wetzler stated, “Compliance isn’t just the responsibility of the compliance department; it resides within all parts of the organization.” IT systems and human resource incentives, rewards, hiring, and firing policies should all reflect the intended compliance culture.
- Dempsey asserted that it is critical to determine how firms define their culture, including what is included in the policies and procedures, and who is responsible for creating them.
- Forrester noted the danger of overemphasizing formal compliance, which creates a punitive culture and risks stifling creativity; “A certain level of risk is needed to drive innovation and collaboration.”

Corrosive Culture

- Medina warned that hierarchy, group think, and careerism restrict individuals’ views and suggest they may only express themselves in certain ways, sometimes only after reaching a certain status. This is detrimental to organizations’ culture and performance.
- Inconsistencies in how rules are applied (i.e. accounting procedures that stress detail but have loopholes for larger compliance issues) can erode a culture of compliance.
- Leadership that addresses compliance in a cynical or boring way disincentivizes staff from complying with regulations and from bringing issues to the attention of management, according to Medina.
- Senior leaders who discourage employees from surfacing issues to which they themselves don’t have answers or solutions inhibit a culture of compliance and effective communication.

“A certain level of risk is needed to drive innovation and collaboration.” – Daniel Forrester

Combating Corrosive Culture

- According to Forrester, CEOs and leadership teams need to lean into culture conversations, asking "What is our vision? What are the values and behaviors in our culture? What is happening in various departments? What should our values be? What do our employees want?"
- Leaders need to make cohesive decisions, in tandem, throughout the organization. Goldman-Wetzler cautioned against leaving all decisions to the head of the compliance department.
- Management should take a more humble approach to leadership. Medina suggested ending conference calls by asking, "What did I get wrong?" or "What am I missing?"

Regulator Focus

- Regulators focus on how policies and procedures are communicated, and whether this communication transcends to affiliates, across business lines, and to support services.
- Regulators such as FINRA and the SEC have published articles highlighting key regulatory issues, specifically addressing the importance of corporate culture, how compliance is communicated, and how culture has impacted penalties assessed on firms. Regulators also measure the impacts of established policies and procedures, Dempsey noted. Measurements for broker-dealers, for instance, often include an assessment of trends, complaints, litigation, and losses.
- Firms are assessed on their response to breaches of policies and procedures, including how complaints are escalated to various levels of management, whether management responds appropriately, whether the firm is able to identify gaps in policy, and whether it can then adapt and test new policies.
- Regulators also examine how compensation plans are developed, whether they reflect the culture of the firm, and whether they encourage behaviors of compliance. Some firms establish penalty structures (i.e. monetary fines or remedial training) to enforce compliance with regulations, while others have compensation incentives for those who are following the compliance culture.

"Firms could be able to mine that information to get a gauge of what people are saying about the organization, how the organization is viewed by the general public," – Louis Dempsey

Working with Regulators

- Goldman-Wetzler noted that when regulators come onsite, the resulting anxiety can cause difficulties in the firm's ability to work well with those officials (and also invite even greater scrutiny). Leadership should acknowledge that regulatory exams can be uncomfortable, and management should communicate that employees are not alone, and provide access to available resources.
- What you don't want, she continued, is a "culture where people are demonizing or even just making fun [of outsiders like regulators] or of one another whom they don't understand; that doesn't really make for a great office culture."

- Dempsey recommended putting a member of senior management in the room with the regulators, particularly someone with regulatory experience, if possible. If a compliance manager is not available, then he suggested preparing someone for the role by giving him or her an overview of the firm's compliance structure, culture, types of questions the regulators will ask, and how he or she should communicate the firm's message.

"Most organizations expect heroic behavior from [those] individuals, that they will put their individual interest aside and do something for the good for the firm," - Carmen Medina

RELATED READING

- [FINRA: Establishing, Communicating and Implementing Cultural Values](#), FINRA, February 2016
- [FINRA: Remarks From the 2016 FINRA Annual Conference](#), FINRA, May 23, 2016
- [Corporate Culture Key to Sustainable Growth](#), UK Financial Reporting Council, July 20, 2016
- [RANE Interview: The Keys \(and Need\) to Measure Corporate Culture](#), RANE, June 2015
- [The Morning Risk Report - COSO's Risk Framework Gets Makeover](#), The Wall Street Journal, June 20, 2016
- [Nuns With Guns: The Strange Day-to-Day Struggles Between Bankers and Regulators](#), The Wall Street Journal, May 30, 2016
- [Here's What Investigators Concluded About Mitsubishi's Cheating Scandal](#), Fortune, August 2, 2016
- [Special Report on Business Ethics: Enhancing Corporate Governance](#), Knowledge@Wharton, University of Pennsylvania, February 25, 2016

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