

How to build a compliance culture

Building a compliance culture relies on a key set of diverse skills, writes **Mario Menz**



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Culture is one of the buzzwords of our time. Ever since the Financial Services Authority (FSA) identified culture as a major contributor towards – if not the cause for – the 2008 financial crisis,¹ dozens of speeches and publications by the FSA and its successor the Financial Conduct Authority (FCA) have aimed to define what culture is, why it should be changed, and how.

The concept of culture initially gained popularity in the business world in the 1950s, following the publication of Elliott Jaques' *The Changing Culture of a Factory*. In it, Jaques describes culture as a collection of factors that can be adjusted to improve productivity and profitability. In the decades that followed, innumerable definitions of culture have emerged from this basic description. Academics have debated how culture should be assessed, classified, measured and, if necessary, adjusted. But consensus on any of these issues has so far not been reached.² The academic literature alone contains over 300 definitions, and if we ask 10 people how they would define culture, we are likely to get 12 different answers. It is no surprise, then, that the debate about culture continues.

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Defining culture

But complex concepts don't always need complex definitions. Edgar Schein,³ one of the most influential voices in the organisational culture debate, described culture as the habitual behaviours and assumptions that organisations develop when dealing with internal and external factors. Schein points out that when organisations deal with different issues, they tend to develop different norms and behaviours. With this in mind we could say that a compliance culture is the habits and mindsets organisations have developed when dealing with regulation and compliance. While the emphasis of this definition is on the act of compliance as opposed to the actual compliance department, the way people deal with the latter also reveals how they perceive, think and feel about complying.

While we have seen the emergence of various culture measurements over the years, it is important to acknowledge that culture is subjective: each and every one of us perceives it differently. We all intuitively know how to assess whether the culture of an organisation suits us, because we can measure it against our own values, beliefs and attitudes. As compliance professionals, we often know from the start whether the organisation we work for has a good, bad or somewhere-in-between culture.

When we want to understand the culture of an organisation, we tend to intuitively ask certain questions: what's it like working there? What are the people like? Do they take compliance seriously? Is there a good work-life balance? Answers to questions like these can give us an idea

about the culture of an organisation, and whether we would enjoy working within that firm.

Culture building

Building a strong compliance culture means creating a work environment where employees understand and follow rules and regulations, and where management sets an example and actively monitors compliance. A strong compliance culture can help prevent and detect misconduct, and can assist organisations in avoiding legal, regulatory, financial and reputational risks. There are several key areas that must be addressed for a strong culture to flourish.

- **Leadership** – Management at all levels must set an example and actively promote compliance. They should communicate the importance of compliance and ensure that it is integrated into their organisation's overall strategy and operations.
- **Communication** – Organisations should clearly communicate their compliance policies and procedures to all employees and make sure that they understand their roles and responsibilities.
- **Training and education** – Employees should receive regular training on compliance-related issues and be educated about the potential consequences of non-compliance.
- **Reporting and incident management** – Organisations should have a system in place for employees to report compliance violations and potential incidents, and should investigate and respond to any reports in a timely and appropriate manner.
- **Monitoring and assurance** – Regular monitoring and auditing of the content and operational effectiveness of their compliance programmes is key, so as to identify any areas of weakness and take corrective action where necessary.
- **Encouraging and rewarding of integrity and ethics** – Organisations should actively promote integrity and ethics, where employees are encouraged to speak up when they see something wrong, and where ethical behaviour is appreciated and rewarded.
- **Aligning compliance with company culture** – Compliance must be aligned with company culture and values. It should be integrated into the company's overall strategy and operations so that it becomes a natural part of the way the company operates, rather than being seen as an external requirement.

Not specifically compliance-related, but nevertheless crucial to a robust corporate culture, is allowing employees to be involved in setting a company's values. This gives employees an emotional connection/buy-in to their company, and, because they have been empowered to have a say, they are more likely to see themselves as invested in a company's culture and success. Culture is then not seen as something imposed on all employees by senior management. This is perhaps easier to implement in younger companies like start-ups compared to older firms where customs are more deeply rooted.

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helping the organisation for which we work to build a strong compliance culture. In addressing the points outlined above, though, we may have to adjust our own habits and mindsets to make it work.

- **Be accessible and approachable** – To build a strong compliance culture, we have to actively engage with other stakeholders, and be seen and heard. Compliance officers (at all levels) who regularly engage with the business can play a significant part in raising the profile of their teams as being approachable, reliable and helpful.
- **Communicate effectively** – People who understand what they are supposed to do are more likely to do it. Clear, concise policies and procedures written in plain English – with little ambiguity – can support compliance standards, reduce anxiety and leave little room for ‘creative interpretations’. Likewise, advice and guidance provided by compliance has to be practical and specific to the circumstances of the organisation.
- **Lead by example** – People may not always listen to what we say, but they will always watch what we do. As compliance officers we must always show our commitment to ethical behaviour and integrity by following the organisation’s policies and procedures. Particularly in the area of compliance assurance and testing, we have to hold ourselves to the same standards we expect from others. In addition, the role of internal audit is vital in assuring that compliance officers are also subject to oversight and challenge.
- **Collaborate with other departments** – We have to work closely with other departments within the organisation to ensure that compliance is integrated into the firm’s overall strategy and operations. Close cooperation with HR in particular is important to ensure culture and conduct are aligned to the appraisal process, and that the FCA’s Conduct Rules are actively taken into consideration.
- **Be proactive** – Regulation and compliance is a constantly evolving. We have to be proactive in identifying and addressing potential compliance risks, and in implementing policies and procedures to mitigate those risks. We have to actively engage in horizon scanning and keep employees informed about any changes to laws or regulations that may affect the organisation.
- **Be competent** – Just like any other occupation, compliance officers have to be competent to be taken

seriously. This not only includes a thorough understanding of laws, regulations and regulatory expectations, but also of the risks associated with financial products and the organisation’s strategy and business model – not to mention soft skills. Benchmarking against the *National Occupational Standards*⁴ and providing training and development opportunities for our teams to build competence can further support a healthy compliance culture.

By applying these principles, we can create mutual trust and respect between compliance and other functions, and influence the habits and mindsets of our organisations. We all start from different perspectives and circumstances. Throughout my career in the industry, I have found that some organisations will be more receptive to these approaches, while others may struggle to see compliance as a valuable function. How long it will take, or how successful it will be, is likely to differ by firm – but we must in any case make sure we are doing playing our part. ●



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Culture is subjective: each and every one of us perceives it differently

1. Hector Sants (2010). *Do regulators have a role to play in judging culture and ethics?* Speech to Chartered Institute of Securities and Investments Conference, London, UK.
2. Benjamin Schneider and Karen Barbera (2014) *The Oxford Handbook of Organizational Climate and Culture*. OUP
3. Edgar H. Schein (1986). What You Need to Know About Organizational Culture. *Training & Development Journal*, 40(1), 30-33.
4. <https://www.int-comp.org/membership/national-occupational-standards>