

CULTURE AND COMPLIANCE ARE INEXTRICABLY LINKED

Influencing culture could
provide long-term compliance
benefits and help protect value



The growing complexity of corporate conduct and compliance have pushed the role of culture to the top of the C-suite agenda. Companies can no longer think about misconduct and noncompliance issues as the sole domain of the legal and compliance department. In today's regulatory landscape, companies need to build a corporate culture that is rooted in compliance, and that comes from the top.

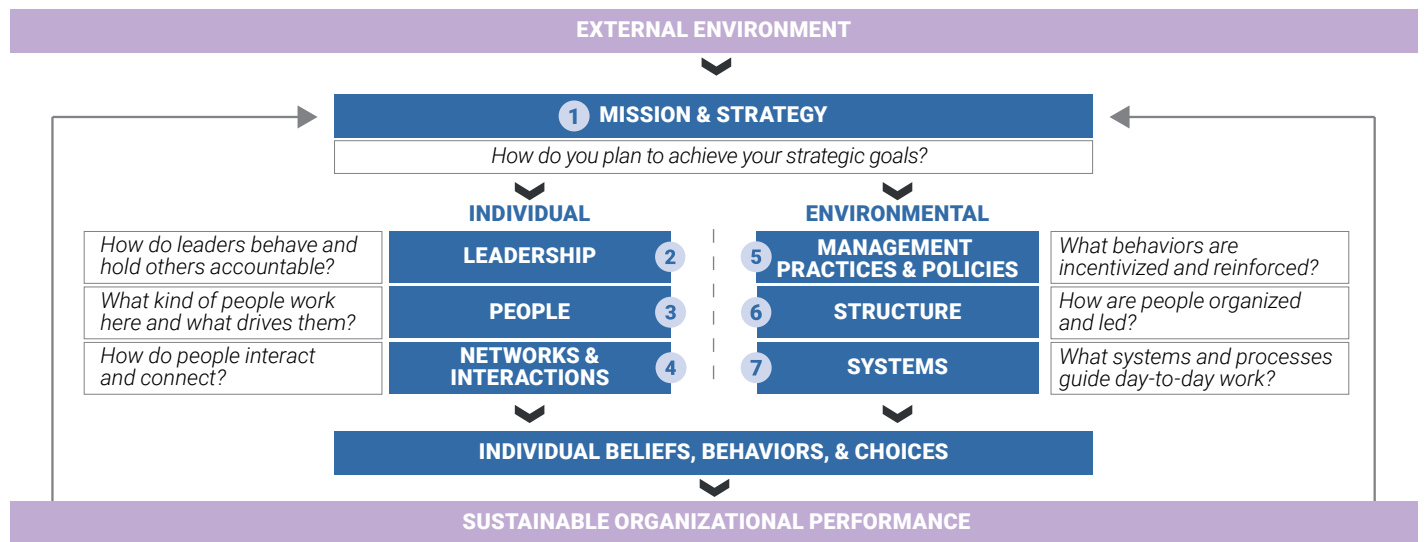
To avoid the problems that a weak culture of compliance can lead to, such as reputational damage, loss of market share, and punitive fines imposed by regulators and law enforcement, companies need to demonstrate that their compliance program is more than words on paper. They need to live it through their culture. As the U.S. Department of Justice states in its guidance on corporate compliance programs, a company needs to, "create and foster a culture of ethics and compliance with the law at all levels of the company," which requires a "high-level commitment by company leadership to implement a culture of compliance from the middle and the top."¹

UNDERPINNINGS OF A COMPLIANCE CULTURE

Employees look to leadership to set the norm. And it's easy for leaders to fall into the trap of trying to address culture without doing the difficult work of realigning their own mindsets about compliance, or really investigating what influences culture and the decisions that employees make. Without understanding these factors, it's possible for leaders to inadvertently set up systems that work at cross purposes with compliance. Or worse, cause them to be seen as paying lip service to the goal of compliance. We have found that understanding seven key organizational culture drivers can help leaders succeed in nudging their corporate culture to better managing regulatory risk.

1. <https://www.justice.gov/criminal-fraud/page/file/937501/download>

SEVEN DRIVERS OF ORGANIZATIONAL CULTURE



1 STRATEGIC DIRECTION: Clarify the mission and strategy of your company, establish clear design principles to guide future decision making, and align them with the priorities you're trying to achieve around ethics and compliance. Identify the trade-offs you're willing to make and create a plan to manage associated risks. At times, this can mean sacrificing revenue in favor of moving in a more ethical direction. These decisions are the moments of truth that show colleagues what the firm really values, regardless of mission statements and corporate values.

2 LEADERSHIP: CEOs need to work with their executive teams to set and follow clear decision rights and key accountabilities linked to compliance and ethics in order to drive accountability and avoid the perception of saying one thing and doing another. Even just a small amount of negative role modeling by a senior leader can neutralize great communications.

3 PEOPLE: In partnership with the CEO, HR plays a core role in shaping an ethical culture. Careful and consistent assessment of talent should be done using a steady rubric of competencies that are aligned to the corporate mission and strategy. Managers need to be deliberate in assessing the motivations of the people they hire and promote.

4 NETWORKS & INTERACTIONS: Evaluate how information is shared, both formally and informally, across your company and identify potential vulnerabilities. Informal social networks and collaborative workspaces can fuel creativity and innovation, but can also allow employees to feel like they can lower their guard and heighten chances of mishandling sensitive information.

5 MANAGEMENT PRACTICES & POLICIES: As organizations push to become more agile and digital, inadvertently setting up systems or incentives that work against compliance is easy. Objectively evaluating the behaviors that lead to promotion and the mistakes that result in punishment helps surface such contradictions.

6 STRUCTURE AND DESIGN: Understand how your organizational design might expose you to risk. For example, is your operating model more centralized or distributed? How might layers of management impact your ability to keep people connected to your ethical principles allow the escalation of potential risks. How does it impact your ability to manage risk proactively? For example, how can you design an organization that doesn't just allow challenge and scrutiny of decisions, but guarantees it?

7 SYSTEMS AND PROCESSES: Ensure you have appropriate tools and training processes in place to promote ethical decisions and flag potential risks. Do your systems inadvertently make it difficult for employees to make the right choices on a day-to-day basis? And how do you ensure you learn from every mistake, and embed a "debrief culture"?

HOW TO START BUILDING A CULTURE OF COMPLIANCE

Using these drivers of culture as guardrails, corporate leaders looking to move their company's culture to better managing regulatory risk need to approach it like any other type of change, and lead via partnerships among functional leaders.

Develop a baseline understanding of your current culture. Embarking on culture change requires first looking in the mirror. Where does your company fall on the spectrum of high-risk to conservative decision making? Does your incentive structure reinforce individualistic or collaborative idea generation? What are the friction points and vulnerabilities that get in the way of productivity? What is the root cause of these issues and what are the implications of addressing them proactively?

Identify the gaps between where you are and your aspiration. Which culture drivers should you engage to direct employees into thinking about their day-to-day choices in a compliance-minded way? If you're replacing the leader of your risk and compliance function, for example, make sure you understand why the previous

leader was unsuccessful, and whether you have a problem with your governance structure or KPIs. Prioritize your change initiatives carefully and consider the potential adverse effects of changing elements of your culture.

Initiate a robust change-management program. Culture change requires a deliberate, multidimensional intervention rooted in clear design principles, executive alignment around the why and the how, and a well-structured program to penetrate all levels of your organization.

Choose the right team. Influencing the culture of compliance in an organization is a complex process that requires a diverse set of skills. In addition to senior-level sponsorship, stakeholders from senior management, compliance, human resources, and communications, among others need to participate.

Given the rising risk that corporations face in today's increasing regulatory environment, CEOs who devote the time and up-front cost to actively work to understand and shape their company's compliance culture will more than offset the cost of inaction.

FOR MORE INFORMATION CONTACT:

Rich Kando

Managing
Director
+1 347 237 6090
rkando@alixpartners.com

Clark Perry

Transformative Leadership
Director
+1 646 918 4357
cperry@alixpartners.com

Tim Roberts

Managing
Director
+44 7768 424 095
troberts@alixpartners.com

Pippa Ross

Transformative Leadership
Senior Vice President
+1 917 714 0202
pross@alixpartners.com

ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article Culture and compliance are inextricably linked ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.