

Making a Culture of Compliance Pay Off

Featured Experts

Richard Cromwell, Chief Executive Officer, AlphaRhythmics LLC

Jennifer Goldman-Wetzler, Founding Principal, Alignment Strategies Group

Jim Lord, Partner, Inman Flynn, P.C.; Consultant to Dow Jones

Cultivating and maintaining a company's culture of compliance is becoming more and more crucial to its success. Yet this understandably comes with a cost. Companies need to invest in both staff and technology to help implement this culture. The cost of not making such investments, however, is becoming more and more apparent.

RANE spoke to three experts about how companies can build the right foundation for a culture of compliance and why it's so important to a company's bottom line for them to do so.

Investing in Compliance Culture: How Does It Help the Bottom Line?

- **Jennifer Goldman-Wetzler** gave the prominent example of Volkswagen to help illustrate how a deficient culture of compliance can damage a company's bottom line. "What's coming out more and more is how non-compliant the company was with environmental regulation and that this was covered up. There's the amount of money they had to pay because of their non-compliance and their cover up and it's the immeasurable money that they lost from their brand actually tanking as a result of being found out. This can be measured in market share loss that they've experienced. Looking at those numbers, imagine if the company would have had a culture of compliance," she said.
- **Richard Cromwell** stated that compliance has evolved significantly over the last 10 years and a number of surveys and technical observations performed by industry associations have found that companies with strong governance and compliance cultures perform better, while also enjoying a boost in brand recognition and client trust. "It's been shown organizations that are able to integrate compliance and business risks with their strategic plans are more likely to achieve better profit margin growth." Some examples, he pointed out, can be found in many organizations with above average or cutting edge technology governance focus [i.e., effective processes, procedures, reporting, and controls associated with how their technology infrastructure, personnel, data and security systems, and client applications comply with privacy and security regulations].
- **Jim Lord** agreed that it is all about risk integrity and protecting a brand. "It's a worthwhile investment to devote resources so that the necessary personnel are

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Jim Lord

in place to promote a culture of compliance and to avoid incidents that would tarnish a company's reputation," he said. An example would be companies that do not follow the Foreign Corrupt Practices Act (FCPA) effectively. They suffer serious reputational risk and as a result, at least for a period of time, may have a harder time winning additional business and contracts, not to mention that they will be operating under a regulatory microscope until they have a robust compliance program in place.

- In terms of a simple operational application, **Cromwell** gave the example of a financial services organization's customer service call center. There are very specific regulations and company protocols about "communications with the public," he stated. As a first line of defense, if a representative from the call center doesn't follow compliance policies/procedures about a customer's inquiry, it can easily blossom into a full-blown complaint and take on a life of its own. "Reputation matters: Gaining a reputation as an organization that fails to meet its compliance obligations will and has ruined customer trust and loyalty," he continued. "Reputational risk is so important that being transparent — even about your faults — will improve customer and regulatory agency perceptions. That's the ideal way to run a company. It's not easy, but it pays off in shareholder value. I call it ROCIC or 'Return on Controls Investment Capital.'"

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Jennifer Goldman-Wetzler

The Keys to Building an Effective Compliance Culture

- **Goldman-Wetzler** argued that the senior leadership team has to look at the policies and procedures that are in place and if they have been sufficiently and clearly communicated to the rank and file. "This is important so that it becomes clear throughout the organization what is expected of employees and it becomes part of an organization's official system," she said. But it's equally important for organizations to take advantage of technology in order to make compliance training a more dynamic, ongoing exercise. In that respect, Goldman-Wetzler recounted how a compliance head at a global healthcare company she once worked with noticed how his CEO was using a weekly webcast to speak to employees and then went about making his own engaging compliance video presentation. Likewise, HR should have a system in place of making a habit of soliciting job applicants' views on compliance to see if they would be a good fit for the company.
- Additionally, **Lord** suggested that one way to find out whether a company is doing things right is to have a third party come in and conduct a risk assessment of its overall compliance program. "Part of what I do when I conduct risk assessments for companies is to try to ascertain what the culture is by speaking not only with C-suite individuals, but also to mid-level and regional compliance managers, and also to the head of the various business units including sales. Doing this enables me to ascertain the current culture within the company in terms of complying with their policies, laws, and regulations," he said. "If you don't have the buy-in from the middle managers (as well as from the top), the message is not going to get conveyed or disseminated throughout the entire company."
- A culture of openness, particularly concerning criticism, should also be encouraged. **Cromwell** said that the tenor of the organization has to be receptive if employees want to do the right thing. "How does management feel about hearing from employees that they are not right? The culture of the company has to be one of transparency where employees can feel free to say, for instance, that the

new technologies in place are not working.” Transparency, accountability and frank communication is essential, he added. The processes need to be transparent and reflect the collective input of all stakeholders. “Everyone is a “compliance person” and a culture that practices open and candid communication is always ahead of the game,” Cromwell concluded.

What’s the Role of the CEO, Board, and Top Management?

- **Goldman-Wetzler** stressed that while having a C-Suite level head of compliance is an absolutely essential first step, all the titles in the world won’t make enough difference without the right tone being set at the top. “What matters is in the nitty-gritty day in and day out actions and behaviors that leaders in the organization embody or use. Nine times out of ten what’s so important about leadership is the modeling of the behavior that is expected from employees and that includes everything from the formal ways that company leaders act when they get up on stage and give a presentation, but even more important is the leaders’ informal behavior when they’re out for drinks with colleagues, partners or clients,” she said. “What did you say when you were in the elevator, what’s the thing that you just whispered and joked about with your colleague? That’s where the rubber meets the road. That’s where your behavior really counts.”
- **Cromwell** believes that human resources should play one of the “big heavies at a table in a risk committee that could speak to the nuance of the culture.” He added that a company’s human resources should have a way to convey what they are hearing from employees and to know whether these employees understand the culture. He added that, aside from human resources, the risk and compliance committee should include the company’s CFO, Chief Risk Officer, Chief Compliance Officer, and any C-level executive that is involved in the operational aspect of the company.
- **Lord** added that the role of the CEO, board of directors, and management is to model a culture of compliance themselves. The CEO should be sending periodic communications within the company while putting in place adequate resources to manage the program and sufficiently support the Chief Compliance Officer’s role. CCOs should be given autonomy and an escalation path to have a direct line of reporting to the board of directors if they have to address issues involving an executive, for example. “Top management should also be thinking about the incentives that they have in place in terms of compensation for their employees and their third parties so these are aligned with the compliance goals they are trying to promote. Misaligned incentives can turn into violations of policy and a culture of non-compliance,” he said. An effective compliance program would include such things as anti-corruption policies, a whistleblower hotline so that people can report complaints, and an investigative protocol. “Resources should also be dedicated to following up on and responding to complaints as well as to technology to help manage the overall compliance process, including the management of third party risk.” he said.

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Richard Cromwell

ABOUT THE EXPERTS

Richard N. Cromwell, CEO, [AlphaRhythms LLC](#)

Richard Cromwell is currently CEO of AlphaRhythms LLC, an integrated risk management C-level strategic advisory consulting growth company he founded to provide corporate boards & committees, senior executive management and key business line executives with the essential, next generation risk governance and operational control support capabilities that will enable their organizations to achieve transformative and sustainable advantage. Cromwell has been a Partner at Deloitte in their Capital Markets / Enterprise & Operational Risk Practice, Global Compliance Officer / Sales Practices for Goldman, Sachs & Co., and Enterprise-Wide Risk Manager at both a leading reinsurance organization and at a leading NYSE Specialist Firm. Cromwell is also a noted strategic enterprise and operational risk subject matter expert across a broad range of public and private investment entities with global operations and a trusted executive management advisor.

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 non-profit 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. She 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 on how leaders can successfully face even the most challenging long-term conflicts. She is also an executive coach at the Executive Education Program at Columbia Business School.

Jim Lord, Partner, Inman Flynn, P.C.; Consultant to Dow Jones

As a partner at the Denver-based law firm Inman Flynn, Jim Lord's practice largely focuses on regulatory compliance issues, including anti-corruption, anti-money laundering, and anti-human trafficking programs, as well as managing global due diligence investigations for organizations. Lord previously served as a federal prosecutor for over 20 years, including serving as Chief of the Corporate Fraud Task Force for the Western District of Washington. Lord also consults with Dow Jones around RiskAverter, a third-party risk management solution offered by Dow Jones.

ABOUT DOW JONES RISK & COMPLIANCE

Dow Jones Risk and Compliance provides unique data for monitoring a range of risks associated with third-parties. Committed to excellence and quality, we help financial institutions and businesses meet regulatory requirements on anti-money laundering, anti-bribery and corruption, economic sanctions, third party due diligence and commercial risk operations.

ABOUT RANE

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