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The Critical Role of Corporate Culture in Fostering Compliance

Conference Call Recap
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SPEAKERS

Thomas Kim, Chief Compliance Officer and General Counsel, Global Growth & Operations, Thomson Reuters

As the CCO of Thomson Reuters, Thomas Kim leads enterprise-wide compliance efforts across all of the company's businesses around the world, including anti-bribery, privacy, business ethics, and trade control issues. In addition, as the GGO General Counsel, Kim oversees a diverse global legal department that supports all Thomson Reuters businesses in 100+ emerging market countries, as well as overseeing Thomson Reuters operational centers around the world.

Carmen Medina, Founder, MedinAnalaytics and former CIA Senior Executive

Carmen Medina, a retired Senior Federal Executive with 32 years of experience in the Intelligence Community, is a recognized national and international expert on intelligence analysis, strategic thinking, and innovation and entrepreneurs in the public sector. She is the co-author of the book: Rebels at Work: A Handbook for Leading Change From Within, which she describes as an effort to "help people who have ideas different from the prevailing orthodoxy in an organization discover a productive ways to help the organization." In her last assignment before retiring, Medina began the CIA's Lessons Learned program and led the Agency's first effort to address the challenges posed by social networks, digital ubiquity, and the emerging culture of collaboration.

Alexander Stein, PhD, Founder & Managing Principal, Dolus Counter-Fraud Advisors LLC

Alexander Stein is Founder and Managing Principal of Dolus Counter-Fraud Advisors, a New York-based consultancy specializing in complex human factors and psychodynamic intelligence analysis in institutional fraud, strategic risk, and multinational fraud investigation and asset recovery. Dolus' proprietary assessment, defense, deterrence, redress, and reconstitution programs employ sophisticated methods for decoding and leveraging the underpinnings of motivation and behavior, before, during, or after a crisis, to help companies manage risk and strengthen ethical culture.

MODERATOR

Steve Roycroft, Chief Executive Officer, RANE

The recent revelation that Volkswagen had incorporated software into its vehicles to cheat on U.S. emissions tests, potentially creating civil and criminal liabilities around the globe that could reach into the tens of billions of dollars, is just the latest incident highlighting the key role corporate culture plays in fostering compliance. It also serves to illustrate the challenges

of the global economy, where the pressure of hitting short-term targets in an environment with increasing regulation puts enormous pressure on organizations of all shapes and sizes. To gain a better understanding of how companies can build and sustain a successful culture, RANE recently spoke to three leading experts in the field, each with a unique perspective. Selected highlights from the conference call discussion are featured below:

THE COMPLIANCE COMPETITIVE (DIS)ADVANTAGE

- While some companies aim to "do the very minimum that they're required to do under law," **Kim** noted that the most evolved organizations really think about how they can use their approach to compliance "to actually get a competitive advantage against other people in the marketplace and really drive their own business strategy behavior to what is an increasingly complex, regulatory, and legal landscapes."

- Key to that, **Medina** pointed out, is a compliance strategy that takes into account the workforce; "Employees who believe that they are operating in the culture of integrity and truth are more likely to contribute or alert you when they see a problem." Medina called "very disturbing" the results of a Gallup poll in which 38.4 percent of managers said they felt actively engaged at work, "which tells us that almost two-thirds of managers, who are sort of in the cockpit on this compliance issue, don't feel particularly engaged. The discretionary energy of the workforce needs to be around compliance," ending the "spiral of silence that naturally occurs in too many organizations."

- For his part, **Stein** stressed that at too many organizations the people who think about culture and those who think about compliance rarely work together towards a common goal. "In my experience, many institutions have qualified experts who are devoted to designing great guard rails or mousetraps and others who are devoted sometimes to thinking about culture, but rarely are the two teams truly collaborating, much less with the understanding that, one, they actually have a common project and, two, both need to take serious account of all the psychodynamic variables."

COMPLIANCE BUILDING BLOCKS

- **Medina** said that her perspective is informed by the work she's done with "organizational rebels" for her second book, Rebels in Groups, and studying "what it takes for people to speak up in a group, in a non-conforming way. And really your worst-case scenario in a compliance situation is for there to be employees who knew that there was a problem and you had a culture that did not allow them to speak effectively."

- Getting people to speak up is no easy task, and there's no one-size-fits-all approach for every kind of organization, **Kim** stated. Still, regardless of the organization, much will depend on whether employees "really believe that management is behind what we're trying to do as a corporation." It is critical, he noted, that "anyone who's going to try to effect culture change ... really needs to understand what is driving people's behavior, and then speak to that specifically."

- As **Stein** put it, companies need to look at what happens in group dynamics "that could inhibit or contribute to someone doing the right thing for him or herself and also doing

the right thing for the organization — and then find methods that are actually workable for everyone, not just for one."

- Messaging plays a role, too, as company leaders try "to identify the best parts of that organization that you want to highlight and not necessarily the parts that you want to improve or manage," said **Kim**. "It's terribly important to make sure that you're honest with yourself as you're putting together your programs and any communications to actually ask yourself very honestly, 'Will this resonate, and if not, how can I make it do so?'" He added: "If there is skepticism, get to the root skepticism and address that head-on."

- Compliance issues must be dealt with all the time in a specific but natural manner; it's not enough to have the once-a-year meeting on compliance or the once-a-year training on compliance." A more useful approach, **Medina** said, is for a manager to say, "OK, where are we going wrong? What decisions are we taking that might lead in a bad direction?" In other words, as she put it succinctly: "Listen more and talk less." "You need to have a structure in your organization that has been stressed tested that runs in such a way that employees always know that their honest views are appreciated. A lot of organizations think they have the structure, but it's a whistle blowing program or some extraordinary method that you need to take, and research shows most employees view this as too much of a personal risk to their career for them to engage it."

COMPLIANCE STUMBLING BLOCKS

- **Stein** looked to the challenges facing Volkswagen. The tendency, he said, is for upper management in similar compliance failure crisis situations "to try and lead back up on their feet and flex their muscles and demonstrate how much they know and what they can do, which is really a recipe for falling over again — and it takes a fairer bit of temperance from the top to be able to manage all of the different dynamics." That includes understanding how and why went things went wrong, as well as how to make them right, "which itself involves a rather massive cultural overhaul."

- Leaving compliance issues "simply as a training matter" is a mistake, **Medina** cautioned. She criticized the approach of a multiple-choice exam in favor of a more free-form statement that requires employees to come up with a way to implement compliance objectives. "Now, in a smart organization they would harvest that data" and use it to identify problems, she added. "What I've seen in many organizations is managers set cynical tones around issues of compliance; managers come back from a meeting, and report to their workers about the latest diversity initiative, and employees can see that the manager considers this a sham."

- **Kim** said organizations have a tendency "to assign relatively simple answers" for what motivates its employees, whether it's greed, opportunism or ambitions; "But of course people are vastly more complex than that, and it really does take a lot of work and a fair bit of specialization to really shine a light on the complexity of what's going on for any individual."

OTHER COMPLIANCE CHALLENGES

- TRANSACTION CULTURE CLASH: The trouble when combining different organizations that aren't used to working with each other is that you often ignore the contribution that the other secondary culture has to offer, **Medina** noted. That sets up "a dangerous situation because when you're made to feel like a second-class citizen in an organization, you begin to act like one, which means that you are no longer engaged in providing that organization discretionary energy." **Kim** said too often people don't appreciate how difficult integration is. "You really can't underestimate how important is to understand the impact of what it means to bring a new culture into your own … and there's a lot of missteps that can happen from making assumptions that isn't significant."

- DAMAGE CONTROL: After an organization becomes embroiled in a crisis brought on by a compliance failure, "one of the first things that I recommend is that it really has to be completely confronted head-on," said **Stein**. "You can't just put a bandage on it or turn around and say, 'you know, it didn't work in that direction. Let's go in another direction.' There are so many facets that will be involved in terms of culture and operations and system construction and reputational rehabilitation, and all of it needs to be really integrated in series of interlocking and often extremely challenging conversations at the highest levels of the organization."

  Medina agreed, saying "One of the things that's true, absolutely, is that you cannot build something good on broken, so one of the first things that any organization has to do when they encounter this experience is they have to figure out exactly what was broken — and if they do a superficial or even a cynical job in identifying the root causes in whatever they build on top of that is going to fall apart again." Medina also suggests reaching out to the organization's "outliers," such as employees in admin or IT, "or whoever it is, might really have a perspective that you need to hear about the culture. They experience the culture in a different way than the people who hold power in the culture."

- EXPORTING COMPLIANCE: "The conventional logic is there's always a little bit of a whisper campaign or a presumption that somehow folks away from the corporate center are by nature or by culture less ethical or less likely to sort of buy into what we perceive as being, you know, the acceptable standards of compliance" in a U.S. or EU company, said **Kim**. Yet a common corporate culture plays an important role, he added. "What we've done is we specifically moved decision-making authority away from the corporate center and empowered executives out in the emerging markets regions to run their businesses." Kim said that he put a chief counsel in each region and on the executive leadership team of each region's managing director, working "to make sure that what we're trying to do from a compliance program perspective is baked in to the overall success of that business."

RELATED READING

Culture Clash Gives Clue to Volkswagen Scandal, *Financial Times*, October 7, 2015
What VW Needs To Do To Survive Its Biggest Scandal, *WNYC (NPR),* October 7, 2015
The Real Meaning of Corporate Culture, *New York Times,* May 21, 2013
Six Components of a Great Corporate Culture, *Harvard Business Review,* May 6, 2013
3 Ways to Create the Company Culture You Want, *Entrepreneur,* October 6, 2015

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