Creating an Effective Risk and Compliance Culture

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Making a practice of praising people— even for just doing their jobs, acknowledging them in appropriate ways and looking for what they are doing right— at all levels of management helps increase corporate profitability by around 20%. It pays to look for what is right even in failures, and build on peoples' strengths.

Most discussions of risk and compliance in organizations focus on processes and procedures to prevent undue risk and to ensure compliance. But to get a culture which supports the overall aim needs more than just processes and procedures. It needs overall commitment, sustainability, engagement and a focus on relationships.

In the course of this paper, I want to look at all of these, but first I would like to give you an example of where a seemingly robust risk and compliance strategy was adopted by the executive of a large multinational organization only to find it nearly going disastrously wrong. Financers Ltd. (obviously not its real name) is based in the UK and is in the financial services industry.

When my colleagues at Fortinberry Murray and I were called in, Financers Ltd. had been having trouble because their risk procedures were not being generally followed. Yet, it was clear to all what those procedures were. The company had published them, they had sent out reminder e-mails, they had posted details on their intranet, they had put up posters and they had held workshops attended by all, or at least most, of the relevant staff.

Rebecca, the Head of Risk Management, had a weekly meeting with all her people during which they went over all the relevant materials; the charts of risk statistics ,the grids of the risk-sensitive parts of the firm, and the maps showing where the procedures were not followed.

"What more can I do?" she complained to me. "We're in danger of losing a lot of money; our actuaries are telling me that they can't really do accurate forecasts. The worst of it is that we only find out about serious breaches by accident!" Although she was only relatively new to the firm, she was already thinking that her job might be in danger.

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My firm undertook a series of anonymous interviews around the issue of risk. We talked to people in all areas where risk might be an issue, from telemarketing up to the C-suite. We found a number of problems which directly affected how people related to the procedures they were supposed to follow. Chief among these were:

- A lack of trust at almost all levels.
- Too much emphasis on financial reward and short-term profits.
- An official culture which allowed for no mistakes (in fact called the 'zero defect' policy) and left little or no autonomy for personal judgment or engagement. It was hard for Rebecca, or her colleagues, to understand that it was not the procedures that were at fault, or even the people who were expected to carry them out, rather it was the overall culture of the firm that was the problem, and the network of relationships that went to make up that culture.

What Is Culture?

It is a sobering fact: 90% of all change and strategy initiatives fail.[1] There are a number of reasons for this abysmally low success rate: a lack of continuous interest in the initiative on the part of top management, lack of real consultation between management and the rest of the workforce, a high level of job security, and unclear and inconsistent communications. Underlying all of these are the kinds of cultural issues we saw above.

How can the culture of a firm get in the way of change initiatives? Perhaps, it would be best first to ask a more basic question: What is culture?

There have been many definitions of organizational culture but the best is also the simplest: culture is the way people interact with each other on a day-to-day basis. This has its roots in the history of the organization, its official and unofficial values (which, as we will see, can be quite different) and the overall societal culture in which the organizations operate. The fundamental reason for a culture is that it allows people to surround themselves with a nexus of what they feel are, or potentially could be, supportive relationships. We are relationship-driven animals. In a hunter-gatherer band, exclusion meant almost certain death. And despite all our so-called progress, ranging from the Internet to the 70-hour workweek, our genes are still those of our ancestors. That is why we fear exclusion more than anything else.[2]

Most of our neurobiology as well as our genetics (about 80% in both cases)[3] is geared towards encouraging us to make decisions that we feel will strengthen relationships that we believe do or could support us, or that we care about. This comprises a built-in neurochemical reward system far more intrinsic and powerful than any management incentive scheme. We humans are not driven to any great extent to achieve goals for their own sake or outcomes but rather by our need to activate this reward system, which releases two very powerful neurochemicals: dopamine (sometimes called the 'happiness chemical') and oxytocin, the 'trust' and bonding neurochemical. Monetary rewards may seem to work but they are transient and often self-defeating, since they are quickly

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[1] According to many studies, the success rate is between 10% and 30%.

[2] J M Twenge, R F Baumeister, C N DeWall, N J Ciarocco and J M Bartels (2007), "Social Exclusion Decreases Prosocial Behavior", Journal of Personality and Social Psychology, Vol. 92, pp. 56-66.

[3] For more on this, see: B Grinde (2002), Darwinian Happiness— Evolution as a Guide for Living and Understanding Human Behavior, The Darwin Press, Princeton; and A Stevens and J Price (2000), Evolutionary Psychiatry: A New Beginning, 2nd Edition, Routledge, London.

normalized and set up expectations for ever-increasing amounts.[4] One of the most powerful and longest lasting ways to get these whizzy chemicals flowing to the key decision areas of the brain is through relationship reward— praise, ritual, trust, acknowledgment, respect, cooperation, empathy, commonality and support.[5] Research has shown that these are the key human motivators.[6] Not every organizational culture is based on all of these equally and in some cultures one or two may be missing, but in a good, mutually supportive culture, all will be present.[7]

Often there are a number of cultures in a firm: the official culture with its set of management-endorsed values, procedures and norms and what I call the 'counterculture'. This is the way people really relate to each other and the way people actually work together as opposed to the way management would like them to relate or work together. It is "the way things are done around here." The way that people interact with each other has a lot to do with shared experiences, values, and assumptions about the world, and the number of other things that they have in common from the trivial to the important.

Executives often feel that their word is, or should be, law. They exist in a bubble of their own assumptions and beliefs about what is happening in their organizations and they rarely come into contact with the real culture, especially in large organizations such as Financers Ltd.[8] Not long ago, I worked with a major multinational law firm and I noticed the radically different cultures of the partners on one side and the rest of the firm (especially the support services and the younger lawyers) on the other. On closer inspection, it turned out that almost all the partners had been to a small number of select schools, were mostly male, white and had very similar childhood experiences. The rest of the firm was far more diverse and had little in common with the partners. The firm was like two quite different cultures sharing real estate. The two sides of the firm simply did not understand each other and did not communicate with each other effectively.

Most organizations' engagement surveys show disappointing results, with positive engagement as low as 15-20%.[9] It is not really surprising and to a large extent, it is the result of a clash of cultures. Why would anyone feel committed to an organization where there is a wide cultural divide? As the gap— not just in income, but also status, perks, exclusive lunch rooms and autonomy— between the executives of a company and the workforce gets wider, commonality gets less and the sense of detachment and separateness, grows. Hence, the strong counterculture.

Why Culture Is Important

As I said earlier, culture is, essentially, the way people relate to each other. We are relationship-forming creatures and we make decisions based primarily on emotions and relationships rather than facts or logic.[10] The prime difference between

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[4]   M Dewhurst, M Guthridge and E Mohr (2009), "Motivating People: Getting Beyond Money", McKinsey Quarterly, November.

[5]   C Blaukoph et al. (2007), "Reward, Context and Human Behavior", Scientific World, Vol. 7, pp. 626-640.

[6]   Ibid.

[7]   M Alvesson (2002), Understanding Organizational Culture, Sage Publications, London.

[8]   C Bohan et al. (2011), "Sex, Lies and the Reckless Choices of the Powerful", Reuters, May 15.

[9]   S Cook (2008), The Essential Guide to Employee Engagement: Better Business Performance Through Staff Satisfaction, Kogan Page Publishers.

[10]   B Shiv (2007), "Emotions, Decisions and the Brain", Journal of Consumer Psychology, Vol. 17, pp. 174-178.

a human being and a computer is that a computer makes logical, rational decisions; we do not. Only a very small part of the brain (the much-vaunted prefrontal cortex) is even interested in logic and information. We now know that the PFC only ratifies decisions already made by other, unconscious, areas of the brain. Yet risk and compliance managers usually only stress the logical reasons to comply with the procedures and protocols. Their arguments and exhortations may be correct, and help people justify the decisions they make, but they do not affect the parts of the brain involved in actually making up our minds about following the rules and taking action.

For example, management of a construction firm says you ought to wear a protective helmet on the worksite since if you do you are less likely to be injured. On the other hand, your mate Kenny does not and pokes fun at those that do. You admire Kenny for a number of reasons, and so do a number of your fellow workers. You feel that you will have a better relationship with Kenny if you do not wear the helmet, so you do not wear it. By doing so you feel you are now part of the 'in-crowd' around Kenny. This small gesture of defiance is part of the many actions— good and bad— that collectively go to make up culture.

Financers had a similar, but more disastrous example to tell: one of their most active brokers made a killing by fixing a widely-used interest rate benchmark. He was praised by top management for his skill and his fellow brokers began to copy him. Those around him formed a counterculture of rate fixing where normal ethical standards ceased to matter. The risk managers of the firm were petrified but powerless.

Another aspect of counterculture may well be a "this-too-will pass" attitude towards all new initiatives. It is remarkable to me how soon management loses interest in the risk and compliance initiatives that they declared wholehearted support for just a short time before. The counterculture quickly picks up this lack of interest. Once again Kenny and his mates, and the brokers in Financers, have been proven right. The workforce has no commitment to the new regulations and the best that risk managers can expect is a pro forma tick-the-boxes attitude on the part of the staff. In Financers, this was certainly the case.

Yet, although culture can be your enemy in installing an efficient risk and compliance regime, it can also be your friend if you know how to work with it. Look at some of the things Kenny had done to become a culture-driver:

- He had made himself an effective role-model.
- He had demonstrated a sense purpose— even if that was to be negative towards risk reduction procedures and maybe be anti-management (good role modeling and having a purpose are two major aspects of inspiration and respect).[11]
- His jokes about risk and management had become a ritual.
- He had probably demonstrated that he would stand by his fellow employees.
- He understood his mates and took time to listen to them. His talk was about things that interested them, not just about the job.
- He stressed what they had in common.
- He made people feel that they could trust him (commonality, communication, and being ready to show support, are key elements in trust).[12]

In short, he got his mates invested in the relationship with him.

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[11] R Boyatsis (2011), "Neuroscience and Leadership: The Promise of Insights", Ivy Business Journal, February.

[12] R F Hurley (2006), "Decision to Trust", Harvard Business Review, September 1.

The Kenny culture may well be one of many in a large firm, and there may be many Kennys. To have a culture that supports what you are doing, and to increase the level of engagement with the procedures that you want to put in place (and engagement with the firm generally), you have to take a leaf from the Kenny manual of culture creation. You have to inspire, give and earn respect and build trust. If you get these right you get genuine cooperation around your risk and compliance procedures and systems.

And you do not achieve this by merely co-opting the Kennys of the firm. In my experience, many organizations have tried this and nearly all have failed. A promoted Kenny will most likely feel he has to make a choice between the old tribe and the new, and he will lose the culture-influence that he had.

One other point to bear in mind: humans are limited in the maximum number of people that they can adequately relate to. According to Professor Robin Dunbar of Oxford University, that number is 150.[13] Personally, I think that the real number may be somewhat smaller— between 50 and 100. A unified culture therefore probably only really pertains to a relatively small number of people.

How to Create a Culture

Before you set out to create a culture of compliance or adequate risk awareness, there are five factors to bear in mind from what I have already said:

- Humans are relationship-forming animals,
- Change happens through commitment to a real or potential relationship,
- The most powerful reward is always a relationship (including status) reward,
- A culture is essentially the way people relate to each other— it is about specific behaviors,

things people do to demonstrate they belong to the tribe (like not wearing the hard hat),
- In a large firm, you are not perhaps setting out to create an organization-wide cultural shift but to create a number of smaller cultures with a number of key factors in common.

The key aspects of creating a culture which will successfully support your risk or compliance initiative are:

1. Deciding on the overall values that will underlie the culture. These might be "a safe workplace" or "an ethical workplace."
2. Allowing the workforce to come up with the specific behaviors which will give meaning to these values.
3. Making sure that there is a chain of relationship commitment all the way from management or risk and compliance managers to the shop floor.
4. Having the ongoing and obvious support of top management for the initiative.
5. Embedding the new culture— an active program to reinforce the new behaviors spaced over at least 12-18 months and focusing on relational reward.

We at, Fortinberry Murray, have been involved in organizational culture change for the last 20 years and we have successfully taken many firms, corporations and not-for-profits through these steps. The important thing about this process is that it works in line with human genetics and neurobiology, not, as so many other culture change programs do, against it.

Organization-Wide Benefits

One of the interesting things that we have found in leading these culture programs— even when they are targeted at specific areas such as risk and compliance— is that they have much wider benefits than just a greater awareness and

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[13] R Dunbar (2010), How Many Friends Does One Person Need? Faber and Faber, London.

acceptance of the importance of risk control or compliance. By getting overall commitment to a set of values (almost any values), specific behaviors flowing from these values and, above all, a nexus of supportive relationships at all levels you are converting the organization from something that people go to work for in order to support their families, their lifestyle or whatever they value outside of work into a tribe, worthy of being supported for itself. This is the key to what gives a company sustained profitability.

In particular, by making a practice of praising people— even for just doing their jobs, acknowledging them in appropriate ways and looking for what they are doing right— at all levels of management, you will increase corporate profitability by around 20%.[14] Look for what is right even in failures, and build on peoples' strengths.

By using this approach to culture change and giving the staff of your organization more autonomy as far as the behaviors which govern membership of the 'tribe', you will significantly increase the level of engagement in your organization.[15]

Finally, through the relationship safety you create, you will enable flexibility and an openness to change which is necessary for all organizations in these uncertain times.

I am pleased to say that, guided by us, Financers undertook a culture change initiative aimed at risk containment that was very successful and that Rebecca is seen as a rising star in the company.

"What I discovered," she said after the process was completed, "was that the problems didn't lie in our processes, or in our people. Rather it was the culture which we as a firm had allowed to flourish which made us vulnerable. Once we changed that by really engaging with our people and creating trust at all levels, then that vulnerability evaporated." ⇌

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[14] J Robison (2009), "Despite the Downturn, Employees Remain Engaged", *Gallup Management Journal*, February 19.

[15] J A Gruman and A M Saks (2011), "Performance Management and Employee Engagement", *Human Resource Management Review*, Vol. 21, No. 2, pp. 123-136+.