



When Change is Good: Turning Risk into Reward

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Summary: The most successful compliance managers are also the most forward-thinking.

Rules are meant to be broken - unless you're a compliance manager. By definition, compliance means following an industry's unique rules, regulations and guidelines, be it from the Securities Exchange Commission (SEC) or Financial Services Authority (FSA). Doing so is intended to mitigate the risk of punitive action.

Yet maintaining compliance is difficult, especially when applied to complex organizations. It requires constant communication, not to mention efficiency, timeliness and vigilance.

That's why the most successful compliance managers are also the most forward-thinking. They see compliance's dark underbelly - risk - and make its management and mitigation part of their regular business strategy.

The trick to achieving compliance is to change the company culture, one tier at a time, to accept new responsibilities and roles. Compliance officers must then support this growth through proper education and tools. This endeavor requires significant investments of time and energy. But with best practices for risk and compliance management in mind, compliance managers can optimize their resources, make a smooth transition and increase their rate of success.

Top-Down Change

The first challenge to instituting compliance culture change is selling top-level executives on the idea. Responsibility for risk falls to different roles in different organizations and could involve a C-level executive, a committee or the board of directors, among others.

Determine the main decision-maker in your organization. It's important to justify the resource investment necessary for risk and compliance monitoring. Avoid vague generalities; instead, translate your argument into ROI, and talk in terms of the bottom line.

Here, concrete and specific terms work best. What does it look like in terms of ensuring that you avoid risks to anything monetary? Has the company been paying penalties related to compliance and regulation, and can it avoid them with the proper training and on-time deliverables?

One example of compliance ROI is significant savings, particularly through software. The right technology, properly implemented, can facilitate any repeatable transparent auditable process, while substantially eliminating audit expenses, too.

Software technology achieves this in two ways. It simplifies the overall processes, making them highly cost-effective and time efficient. And by ensuring compliance, it helps businesses avoid the fines, penalties and revenue loss that often result from noncompliance. It also cuts costs by eliminating additional staff needs. Firms can rely on the software tools to monitor and manage the compliance efforts, rather than hiring new personnel to oversee it. It can also sidestep the need for in-house development and hosting, and avoid consulting fees for repetitive processes.

In addition, companies with competent risk and compliance management systems often have the opportunity to reduce their insurance premiums. When subject to shareholder, investor or insurance scrutiny, businesses can demonstrate their firm grasp on risk management and deliver proof of best practices for reduced rates.

Finally, software refocuses employees from manual spreadsheets to higher value, more strategic functions - essentially, all the functions that can't be managed by software. This not only makes better use of people, but it ultimately benefits the business too, by giving employees the freedom to grow and innovate.

Success at this step ultimately depends on knowing your audience - in this case, senior-level executives - and their focus. Make them believers and users in new compliance methods and get their buy-in upfront. Then, leverage their company-wide influence for a trickle-down effect.

Communicate and Educate

This will usher in the next important phase: bringing the rest of the organization on board with compliance efforts, the parameters for which will differ from company to company, industry to industry, based on distinct regulatory environments and organizational policies.

That said, there are still several best practices for smoothly transitioning all employees to a culture of compliance. Chief among these is communication and education, which ensures consistent views of what exactly the risks are, and what role everyone plays in mitigating them.

One strategy is to be inclusive and get cross-functional input. Operating in a silo can leave people feeling shut out and disregarded. Instead, make compliance management part of the objectives and responsibilities for all team members, from the CEO to the intern.

This will directly impact cross-team communication, while highlighting interdependence. Risk rarely exists in a vacuum; as a result, one team might put a new process in place to manage their risk, yet make tasks for another team more onerous, or worse, more risky.

Such ripple effects, a given for any organization, make connection all the more critical to avoid confusion and duplicated efforts.

Effective culture change also requires thorough understanding of a company's risk appetite. Risk appetite is defined by how much risk the company can tolerate, and what priorities they set, such as profits, company reputation or customer relationships. Managers must know what is tolerable or not so they can measure the right things and set the benchmarks appropriately.

In addition, compliance officers must understand their organization's varying needs, which could encompass anything from workflow requirements, to local language capabilities, to data collection from multiple geographies.

Managers must choose software tools that meet and address most needs. And the more requirements the technology addresses, the greater its adoption rate across the organization.

The final step is sharing a common risk language, where the entire organization grasps all terms, concepts and objectives relating to compliance. Customizable software supports this effort with agreed-upon, preset terms that eliminate multiple interpretations and encourages collaboration and consistent measurement.

At the end of the day, everyone at the company should feel empowered as a risk manager. This means knowing their role within compliance efforts, and understanding the links between their actions and risk consequences. Only then can compliance officers claim successful culture change.

Success: The Only Option

The final step is making these changes ongoing, long-term and productive - in short, not failing. By knowing common pitfalls and the best ways to overcome them, compliance officers can maintain a smooth, uninterrupted workflow.

One common HR mistake is linking employees' compliance efforts to penalties for mistakes or missteps. Such negative reinforcement makes employees hesitant to move forward and try new procedures, and more fearful

they'll get in trouble.

The solution: Overcome employee fear of punishment by encouraging trial and error, and offering positive incentives for participation. One technique ties company performance to employee bonuses and other compensation. This reinforces everyone's interdependent role in risk management and demonstrates how their work impacts the progress, performance and perception of the firm. Moreover, use the compliance terms and vocabulary established during the cultural shift to communicate your positive messages. For example, frame the organization's progress in terms of company performance and benchmarking. By properly managing risk, and staying ahead of the regulatory curve, perhaps the company avoided expensive fines, and experienced significant savings. This is the type of news to share with the entire company.

Another frequent management mistake is assuming more work at the beginning than the compliance officer (or the company) can handle. In fact, starting small can prove more effective and productive later. Manage only one compliance process, or identify three key risks across several departments for tracking. This ensures the project is done right from the outset and achieves success early on, without overwhelming managers or employees.

The software is the final piece of the equation that, when handled properly, sidesteps additional stumbling blocks that might derail the compliance process. The first feature is scalability, which complements modest starting goals.

Comprehensive technology should not prohibit compliance processes from expanding to include more steps and people. That's why it's important to choose scalable software that supports gradual growth and ultimately global implementation (if the organization requires such a wide reach).

However, any company, global or not, can be well-served by customizable Web-based software solutions. Customized features include language settings, common terminology, branded risk management programs and access rules. This accommodates the widest possible swath of contributors in any management level, department or geography without compromising data security and integrity.

The right software also avoids duplicating efforts by seamlessly aggregating the data across the enterprise and eliminating the need to rekey data into shared spreadsheets. This makes reporting easier and more efficient for the managers who track compliance and risk management activities.

In the end, software is the perfect complement to an organization's risk culture change. It manages the heavy lifting by supporting all repeatable, transparent and auditable processes and maintaining pertinent data in one easy-to-access location. This significantly decreases the time and legwork associated with audits, while also keeping regulatory compliance efforts clear and aboveboard.

Recognizing Compliance

Organizations will know they have achieved risk and compliance success when the following elements are in place:

Consistent view of materiality. All employees understand the risk tolerance of each department and the overall organization. Moreover, they tie it back to appropriate metrics, such as certain dollar amounts for losses or fines, number of times a deadline is missed or the number of customer complaints.

Agreement on key exposures. The entire organization knows the risks they will measure and track with their new compliance programs. By evaluating the impact, manageability and frequency of the many risks an organization might face, compliance officers can focus the leadership on the most important exposures and communicate that company-wide so that everyone is working on the same page.

Known total cost of risk. Companies take into account not only the costs of the actual risk occurrences, but also the costs of mitigating risk, which include software, new hires, and mitigation programs. They also evaluate opportunity costs, strive for cost-effectiveness and leverage this information to make better business decisions.

Elevation of risk position. The view of risk and compliance is seen more strategically and becomes part of the

decision-making process. Responsibility falls across the board - from senior-level executives and chief compliance officers to committees and employees - and includes cross-functional teams and matrixed C-level tasks.

Ironically, there are no hard and fast rules about implementing compliance - only ones about staying compliant. This leaves plenty of creative headroom for organizations to write their own playbook, with methods that best fit their style and outlook.

As your company undergoes its transformation, remember that making everyone a risk manager is a proven, practiced approach to building a compliant culture. And in this case, playing by that one rule will help you fulfill all the others, too.

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