

## The rights and wrongs of Compliance: Is it a burden or an asset?

Compliance literally means adherence to an agreed rule or standard. Today, an organisation has to comply with both external laws and regulations and internal rules and standards - choices that it makes about how to operate. People may see compliance as an increasing burden on their business.

Many organisations have tried to encapsulate laws, regulations, rules and standards that apply generally across their operations in 'Code of Conduct' or 'Code of Business Ethics' documents which attempt to define the minimum standards and expected behaviours for all employees.

However, are these codes assuring effective compliance in an organisation? The evidence suggests not. Consider the following:

In a 2007 survey, 99% of General Counsel respondents to a European corporate compliance survey<sup>1</sup> said they had codes of conduct, but:

- Only 50% had ensured that employees were aware of them
- Only 56% had the necessary policies in place to counter ethics and compliance risks.

More worryingly, a survey<sup>2</sup> of the Academy of Management Executive Panel suggests that 70% of all executives 'bend the ethical rules' because of:

- Performance based judgement calls
- Faulty rules
- Socially embedded norms.

So why is it that organisations go to the trouble of documenting how they want their employees to behave only for them to use the document as a book end? The fact is, writing the document is the easy part, embedding it is far more difficult.

Recently a major industrial conglomerate was prosecuted by the US Department of Justice for a major compliance breach. In their own self evaluation of the causes they state that they 'had policies in place but... they were not lived, the corporate values were not incorporated (and) leadership has failed'. So far this has cost them €1.6 billion in fees and fines. It is not only in the US that cases like these are being brought against companies. This year the FSA (the UK Financial Services Authority) fined an insurance company £5.25m for failing to establish and maintain effective systems and controls to counter bribery and corruption.

We believe that unless you take steps to ensure the code of conduct is actually translated into employee behaviour you may as well not have one. And we see many companies spend a lot of time defining processes, standards and policies and too little time making these work consistently across their operations.

In response we have developed a 'DNA-Model' to help embed effective Compliance measures. The model is drawn from current thinking in Compliance and incorporates critical insights we have learned from our work in Compliance in leading companies.

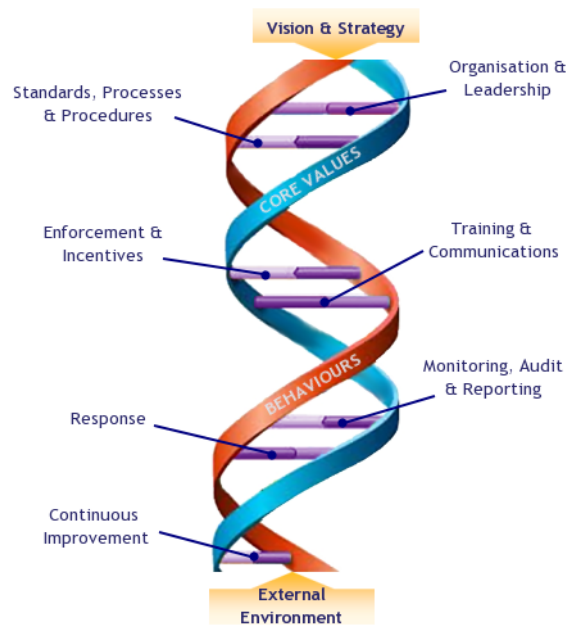
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<sup>1</sup> Dry A. (2007) Survey Reveals Poor Ethics and Compliance Adherence: The Lawyer, 26 February 2007

<sup>2</sup> Veiga J.F., Golden T.D. and Dechant K. (2004). Why Managers Bend Company Rules. Academy of Management Executive, 18(2), 84-90

**Core values are key.** They provide a common sense of purpose and inform the application of standards across the organisation. They should make or imply choices about the way an organisation operates and be the basis on which responsible decisions are made, going beyond basic compliance with laws and regulations. If they do not exist, are poorly articulated, or not widely understood, they can not effectively guide people's behaviours.

**Behaviours are what really matters.** Employee behaviour should reflect the organisation's values. For employees to be able to make this link they need to understand the values and their relevance to them personally, be motivated to uphold and promote them and be provided with the capabilities to implement them. The 'DNA-Model' illustrates how we link values with behaviours and how values and behaviours are intertwined and linked by leadership, processes and other common organisational components.



**Context matters.** The DNA exists in the context of a vision and strategy and the external environment in which the organisation is operating. Once embedded the core values don't change, but how these become linked to behaviours does. Consider the influences in an embryonic market, with high growth and rapid change, compared to those in a stable, mature market, with low growth (or possibly in decline). We see only a few organisations that effectively recognise different contexts.

**The model is holistic.** In order to create the DNA, the component parts must work together to link values through to behaviours. Many companies have all of the processes/functions described by the horizontal bars, but few of them ensure these components work together in ways that encourage the desired behaviours. In the worse cases, components work in conflict against each other.

We know that compliance doesn't have the best reputation - we still meet many people who think it "gets in the way" of doing business. However, it is an essential component of modern business. Anyone who thinks that compliance will diminish in importance in the future is probably living with their head in the sand.

And many companies are rightly fearful of the costs of getting it wrong. The financial cost of fixing the problem is often just the tip of the iceberg. In an age of connectivity, if an organisation slips up there is nowhere to hide from becoming the latest headline. Even then, after riding out the media interest, repairing the damage to reputation with both customers and authorities often takes much more work.

But Compliance also provides a great opportunity. It enhances brand and reputation and is rewarded by increased loyalty and commitment from customers and employees. It helps gain the support of communities and government bodies. It encourages the positive news stories, rather than the bad. And increasingly, the evidence is that it attracts investors and partners who see good compliance as a critical indicator of good business. Compliance is therefore an asset, not a burden - especially when it's part of who you are.

#### *About i2a Consulting*

*i2a consulting helps clients improve performance through good business. Good business means meeting regulatory requirements and making responsible choices. Good business is about developing the right leadership and culture; using processes, metrics and systems to influence how people behave; and being operationally effective in getting the right things done.*

*We focus on issues related to corporate responsibility, compliance and business ethics. We combine expertise in key risk areas with proven delivery capability to embed effective solutions. Our approach brings people together enabling knowledge, skills and experience to be used effectively to achieve positive results.*

*We approach compliance from a background of business consulting and improving performance. We combine deep expertise in critical areas with a proven ability to deliver behavioural change. Our clients get the right solutions working in the right ways.*

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**Good Business**