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## The Mizen Compliance Culture Diagnostic.

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Widespread misconduct in multiple sectors from financial services to the motor vehicle industry has resulted in fines running into \$billions arising from breaches of OFAC regulations in New York, to LIBOR rigging by European banks, to the distortion of emissions results by global automakers.

Ineffective compliance programs and a weak compliance culture have been causative factors in all cases, prompting regulators to pay increased attention to cultural issues related to compliance.

The conventional approach to assessing compliance culture relies heavily on individual metrics such as regulatory findings, the number of training courses attended, the number of calls to hotlines, the number of issues identified in internal audit reports, employee turnover rates for compliance staff etc. While this approach provides some insights into the operation of the organization's compliance program, the focus is more on the consequences than the causes of poor compliance. The Mizen approach focuses on cause and effect. It is based on the success of perception-based surveys, particularly in the safety industry, to assessing domain climates, driving remediation programs and improving domain outcomes. In addition to examining compliance climate dimensions that impact compliance outcomes, the Mizen approach sets out to measure the deeper-level values and beliefs that influence compliance culture and drive behavior, not just surface-level artifacts such as processes and structures that support compliance. Underlying values and beliefs are cultural drivers that are extremely difficult to decipher. Traditionally, they are identified through extensive interviews with employees at

different levels of the organization in an attempt to ascertain the core values and beliefs that drive behavior; it is a time-consuming exercise that requires experienced interviewers but remains open to subjective interpretation. The challenge is to find an effective and efficient way to assess the underlying values and beliefs that determine culture and not just the surface level processes and structures that support it.

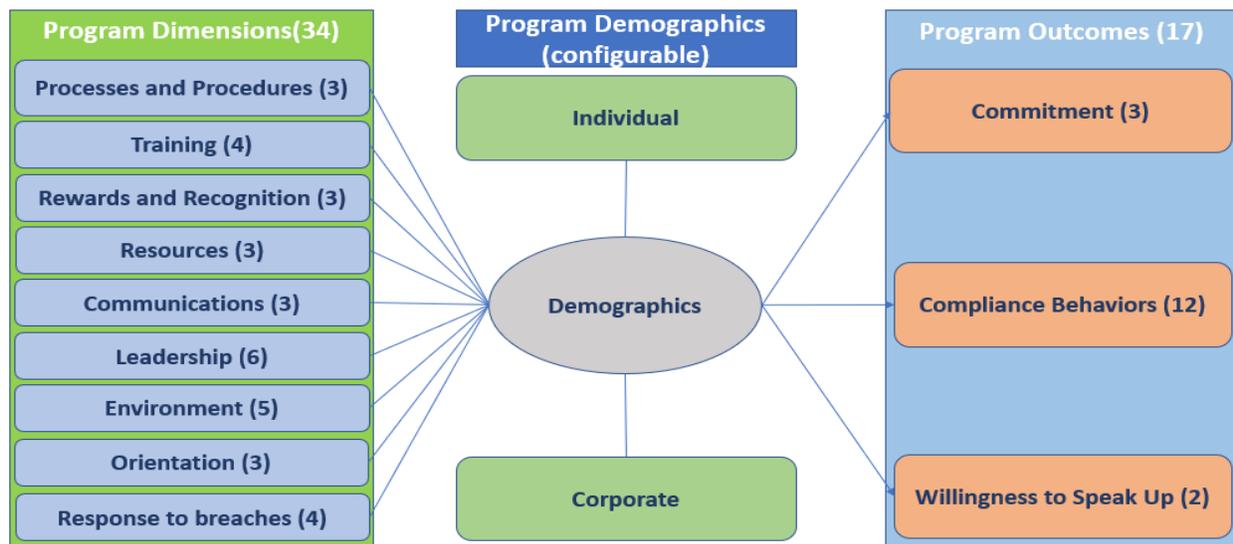
Mizen uses a four-pronged approach to address the challenge. Firstly, it measures the surface level artifacts that support compliance, such as training communications etc. Secondly, it assesses manifestations of the underlying values and beliefs and uses the resulting scores as a proxy for these values and beliefs. Thirdly, it obtains valuable insights from anonymous open-ended comments that are an integral feature of the diagnostic. Finally, it triangulates the results with issues identified in a corresponding Process Diagnostic for the same domain, interviews with senior management and metrics generated by internal management information systems, all of which can enhance and reinforce the results. This approach provides a rapid, cost-effective and relatively non-intrusive way of obtaining a measure of the organization's compliance culture. It is a repeatable exercise that gives senior management and the Board visibility of the current status of the organization's compliance culture.

**Diagnostic Structure**

The Mizen CCD asks employees to rate fifty positive statements that individually reflect an ideal outcome in a compliant scenario using a five-point Likert agreement scale, covering nine compliance program dimensions and three related outcomes. The more the respondent agrees with the statement, the higher the score

and the stronger the compliance culture. At the end of the survey, respondents can comment on rated or unrated elements and make suggestions for potential improvements to the program. These comments provide contextually rich insights into the operation of the compliance program and are invaluable when it comes to developing a compliance improvement program.

Figure 1 – Schematic of Mizen Compliance Culture Diagnostic



**Regulatory Expectations**

The following expectations have influenced the dimensions assessed by the statement ratings:

- Factors identified in guidance from the US Department of Justice that demonstrate a commitment to compliance as required under the US Federal Sentencing Guidelines;
- Levers the Financial Conduct Authority in the UK expects to see in place for assurance that management is in charge of managing its culture;
- Principles identified by FinCEN to illustrate how financial institutions and their leadership might improve and strengthen organizational compliance.

Using statements that incorporate these dimensions, we ask employees to rate the quality, adequacy, suitability, and effectiveness of the following program components: training, resources, rewards and recognition, and communication. A separate set of questions asks respondents to rate how well management responds to identified compliance breaches, an indicator of the strength of an institution’s compliance culture; the response to identified breaches is one of the factors considered when assessing the commitment to compliance required under the Sentencing Guidelines.

### Organizational Research Findings

Influencing dimensions identified by organizational science studies reflected in the diagnostic include:

- The extent to which the compliance program is more values-based versus compliance-focused. Values-based program orientation results in superior outcomes to purely compliance-focused programs. However, they are not mutually exclusive, so we assess the strength of each.
- The actions of leadership and the extent to which they align with espoused values.
- Whether the tone at the top, which should resonate throughout the institution, is distorted on its voyage downward by the mood in the middle, as manifested by the behaviors or actions of middle management and respondents' immediate supervisors.
- The extent to which management prioritizes compliance over other competing demands. Relative prioritization is just one manifestation of underlying values and beliefs which drive culture.
- The nature of the compliance environment. While compliance leadership and embedding factors such as training, rewards, communications, and resources are key drivers of an institution's compliance culture, behavioral science studies have identified that the compliance environment has an even more significant impact on compliance outcomes. Consequently, we assess the compliance environment by asking employees to rate the extent to which

they are respected, trusted, treated fairly and listened to, whether their legal rights are respected and whether or not management addresses individual concerns.

Responses to these issues help us get to the core of the underlying values and beliefs.

### Program Demographics

Demographic data is collected at an individual and corporate level. The diagnostic is pre-populated with demographics for status, role experience, location and business unit - but can be re-configured to suit institutional requirements. Institutions can slice and dice the results to identify whether compliance is better or worse for particular demographics, thereby enabling them to identify demographic strengths and to potentially learn valuable lessons from in-house experiences that can be applied to driving change where problems have been identified. Corporate demographics are collected primarily to identify variations in compliance cultures between industries and are not configurable.

### Program Outcomes

Outcomes assessed include employee commitment, willingness to speak up and compliance practices and behaviors, dimensions that individually and collectively impact compliance outcomes.

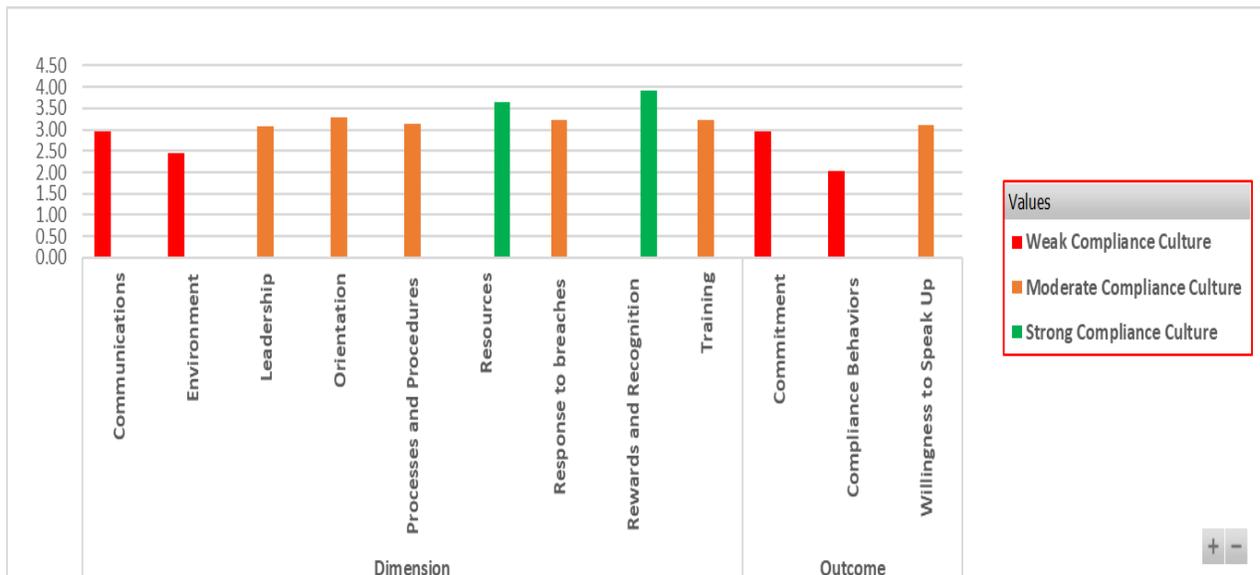
Employee commitment and the willingness to speak up influence compliance outcomes and are simultaneously affected by the compliance environment. They perform a dual role in that their strength is impacted by other program dimensions and yet they can, in turn, impact compliance outcomes. Lack of employee commitment translates into poor adherence to policies and procedures and poor compliance

outcomes; it also leads to high employee turnover rates, which has implications for compliance costs and the availability of appropriately skilled compliance staff. Reluctance to speak up can leave known compliance violations unreported for considerable periods and has been a significant factor in most high-profile cases featuring compliance breaches.

### Compliance Behaviors

The diagnostic identifies twelve compliance behaviors that ultimately result in breaches of compliance obligations if they persist. They are domain agnostic and apply to any compliance setting. Alternative behaviors may be used where preferred, to address specific practices that individual institutions wish to measure.

Figure 2- Sample Mizen Compliance Culture Diagnostic Results Extract



### Reporting

Aggregated results are displayed at global, dimensional and individual question level and are displayed in a horizontal color-coded bar chart using a Red, Amber and Green coding. Red equates to a weak compliance culture, amber to a moderate compliance culture and green to a strong compliance culture. RAG levels are pre-configured but can be adjusted based on the organization’s risk appetite.

Further analysis is made possible through the availability of CSV downloads.

Demographic data collected during the survey facilitates a disaggregated view of the results, and the diagnostic tool is pre-configured to display analysis by geography and business unit.

The overall compliance culture score is the mean score of all responses expressed in percentage terms. For example, a mean score of 3.125 translates into a rating of 62.5. Given the natural tendency of most employees to display a favorable bias toward their employer institution, we expect mean scores of 3.00-3.50 for each statement. On the assumption that most institutions are reasonably compliant, and in the absence of established norms, we propose a rule of thumb that a score within that range reflects a reasonable compliance culture, while results

above or below that range represent correspondingly strong or poor compliance cultures. We may revise these parameters when we collect more data. Nonetheless, the proposed range is consistent with results generated by similar studies.

### Converting Results into Action

Organizational climate and culture studies have identified a significant correlation between factor scores and program outcomes. Although the highest correlations have been between compliance environment and compliance outcomes and between compliance leadership and compliance outcomes, all of the dimensions assessed indicate significant degrees of correlation with compliance outcomes. This correlation enables organizations to focus in on remediating the issues that are the cause of low factor scores. The value of such an approach is already well-established in the field of safety-climate where initiatives based on such correlation have led to sustained reductions in safety incidents over time.

Converting results into action is a three-stage approach.

- Firstly, the demographic analysis will reveal which business units are doing well and which are doing poorly. By identifying the better-performing dimensions or factors in business units with a strong compliance culture, we can try to replicate it in poorer performing units.
- Secondly, correlation coefficients identify which dimensions and individual factors impact outcomes the most; this facilitates identifying the dimension or individual factor that is likely to have

higher impact, thereby enabling the design of a suitable program.

- Finally, the diagnostic can be re-deployed at regular intervals to provide the Board and senior management with continuing oversight of the organization's compliance culture.

### Conclusion

The Mizen Compliance Culture Diagnostic provides management and the Board with a rapid, cost-effective and repeatable measure of compliance culture that can generate interdepartmental or business unit comparatives and longitudinal comparatives over time. It identifies strengths and weaknesses in the compliance program and environment that could potentially impact compliance outcomes, thereby providing the starting point for the design of a remediation program. Ongoing monitoring of the institution's compliance culture, combined with a responsive remediation program that converts results into action, provides concrete evidence of a commitment to compliance. By keeping a finger on the cultural pulse, Boards have greater oversight of their compliance environment and can mitigate the risk of undetected malfeasance by rogue employees. Furthermore, the ability to demonstrate such commitment can result in penalty mitigation that reflects that commitment where such behaviors lead to prosecution.

### Additional Reading

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