FOSTERING A CULTURE
OF ETHICS AND COMPLIANCE

In recent years, a number of large and small financial institutions have been levied significant fines for compliance failures, including sanctions violations, mis-trading, and weak anti-money laundering controls. Unfortunately, in many instances those violations boiled down to cultural issues rather than weakness in the controls themselves. Control systems are a key line of defense against compliance risks. However, controls alone do not fully mitigate risks; an ethical culture is required to create good conduct across the organization and it is the most important aspect when assessing enterprise risk. It creates respect for control systems and ensures that employees consistently demonstrate appropriate ethical judgment as opposed to narrowly following prescribed rules. Conversely, an environment with a weak culture creates cynicism, evasion, and indifference among staff. Further, an ethical culture can be directly correlated with financial benefits. It is the cornerstone for a relationship of trust with customers, regulators and other stakeholders which ultimately builds increased success and ensures sustainable business.

At the heart of an ethical culture are the core values of the organization. In order to make those core values explicit and to demonstrate how they translate into behavior, these values should be communicated to personnel through policy statements and codes of conduct. While formal norms including codes of conduct and policies are defined top-down, senior management will need to ensure practices are formed bottom-up, and consistent with the values. Further, senior management must lead by example personally demonstrating the organization's values through their actions, encouraging em-ployees to challenge each others' ideas and rewarding responsible behavior. On the other hand, the Board is responsible for overseeing the overall culture including by ensuring it is a regular agenda item. Equally important, organizational values must be enforced through the interaction of accountabilities, measures, and incentives; banks need to assess to what extent established structures and processes support organizational values. Further, employees must be requested to achieve realistic goals; unrealistic goals covey the message that end results justify means.

In short, an ethical culture which effectively influences staff behavior requires the alignment, communication, and enforcement of values. An ethical culture which lacks anyone of these elements is unlikely to positively influence ethical behavior.

While the notion of what culture is can be vague, management must walk the talk and make it very clear that compliance, or doing the right thing, is everyone's responsibility and success should only be achieved the right way – without ethical compromise.

THE FOLLOWING ARE PRACTICAL TIPS THAT MAY HELP YOU NURTURE AN ETHICAL BEHAVIOR ACROSS YOUR ORGANIZATION:

1. OVERSIGHT & REPORTING.

Ensure reporting – at least annually – on management's identification and resolution of ethical issues and disciplinary actions undertaken. This will help reinforce management commitment to creating a culture of zero tolerance for compliance violations as well as ensure tone from the top has a clear and consistent echo from the bottom. Generate preventative Key Risk Indicators (KRIs) (e.g. staff surveys, 360 degree assessments of individuals) aside from detective KRIs (e.g. % of completion of code of conduct training, # of whistleblowing incidents).

2. PERFORMANCE & INCENTIVES.

Culture is largely influenced by incentives. Partner with HR to ensure evaluations, incentives, and promotions embed ethical con-siderations. Scorecards should be based on how business results are achieved and conduct exhibited, as opposed to solely the achieve-ment of business results. Ensure performance goals are routinely reviewed to confirm they continue to set realistic standards.

3. TRAINING & COMMUNICATION.

Continually enforce organizational values including through messages and newsletters. Mandate ethics training for all staff, tackle hard questions in practical terms, give real life examples (within the organization preferably), explore various methods, from baseline e-learning to more technical classroom sessions tailored for specific segments, cutting across the organization. Recommend specific training to senior management on how to conduct the judgment-based elements of performance evaluation related to adherence to organizational values as well as dealing with identified breaches.

4. WHISTLEBLOWING.

Establish a whistleblower policy to allow employees to come forward and report misconduct giving needed whistleblower protections and creating a whistleblower hotline. Make it clear that willful blindness is equivalent to actual knowledge. Importantly, regularly communicate messages that nourish employee confidence in the process and eliminate the deeply ingrained fear of retaliation.

5. VALIDATION.

Partner with your Internal Audit. Request internal audit to validate the culture, e.g. how quickly and decisively are ethical issues resolved? how efficiently were the root causes identified and remedied? are incentives structures based on ethical considerations? How are regulatory issues handled? Consider preparing a list of best practice and Key Performance Indicators (e.g. senior management discusses importance of ethical behavior with staff on monthly basis, etc.)

Building an ethical culture is a journey that requires collective action across the organization. Don't wait for an incident as a catalyst; let the journey begin!

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MENA FCCG

The MENA Financial Crime Compliance Group (MENA FCCG) is a voluntary body that seeks to bring collective action in the fight against money laundering and terrorist finance in the region. The group comprises 12 banks representing eight MENA countries, including; Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, and the UAE. The Group, is presided over by Wissam H. Fattouh, Secretary General for the Union of Arab Banks while Michael Matossian is the current Deputy Chair.