

Chief Compliance Officer Leadership Diagnostic

Pathway to Best-in-Class Performance



RUSSELL REYNOLDS ASSOCIATES



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Overview

In an increasingly regulated environment and with the introduction of Sarbanes-Oxley in the United States, compliance has now become a fundamental focus for corporations worldwide. The growing significance of compliance in risk management and capital markets has been the catalyst for the increase in visibility of this specialist profession, with many compliance managers now reporting directly to the CEO.

The role of the compliance function in firms of all kinds continues to evolve, the most recent evolutionary changes prompted by the Enron scandal and the subsequent investigations by New York State Attorney General Elliot Spitzer in 2002. Subsequently, compliance functions are now central to the holistic approach to risk that corporations are taking. With potentially significant reputational damage possible, it is not enough for firms merely to comply with the letter of the law, they must also be seen to act in an ethical manner. Moreover, those firms that are proactively examining compliance issues as reflecting the regulatory and ethical concerns in their specific geographies are the ones developing reputations as leaders, and compliance for them has moved from being a cost center to becoming a true value driver.

There are several measurable reasons why excellence in compliance will contribute to competitive advantage:

- Lower cost for liability damages
- Better rating
- Lower cost of capital
- Lower cost of insurance
- Improved effectiveness of business processes since monitoring and documentation are integrated into the process design rather than added at the end
- Enhanced speed of changes and of product development
- Improved relations with regulators/government entities lowers reputation risk

In most jurisdictions, regulators have moved away from a rules-based approach to a principles-based approach, which means that compliance officers need to adapt, and compliance needs to become much more deeply ingrained in the business than has been the case in the past. With regulators expecting compliance officers to be proactive, compliance managers are moving closer to the business, which has implications for their independence.

There is a continued debate about where to position the compliance function to ensure success. Compliance can be part of audit, legal, finance or as a separate entity all together.

Most large financial services companies have compliance teams whose role is to take an independent stance in making sure that the company is following all the necessary rules and regulations. For example, pioneers like General Electric combine a small corporate compliance group, focusing on processes, auditing, training and communications, with specialists in their divisional structure (industries or regions). In other industries, however, compliance is being managed by existing staff and, increasingly, by experts in the respective business areas.

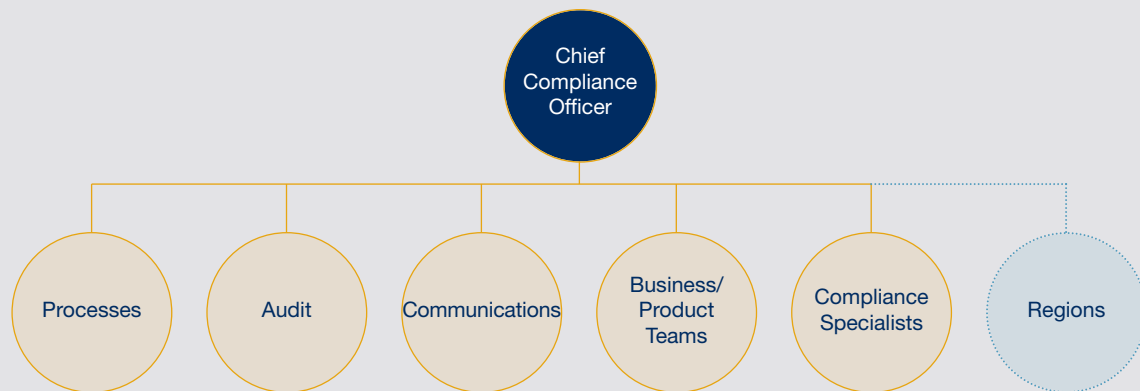
The different approaches to dealing with compliance issues are dependent on the desired outcome within an organization. Depending on whether the primary focus is on minimizing risks or increasing the company's value, the direction taken to accomplish implementation will differ. At any rate, existing compliance activities, which in most companies are already being separately administered in various areas of responsibility, can be aligned, duplication of efforts can be eliminated and a uniform direction can be pursued. That said, compliance activities will only function effectively when they receive a management board chairman's total attention and support.

While compliance officers each possess different skills and experiences, the world's leading compliance officers share a common set of characteristics that distinguish them as "best in class." Russell Reynolds Associates, in partnership with Cambria Consulting, a thought leader in corporate competency analysis, has developed a diagnostic framework for assessing compliance officers. Based on interviews Russell Reynolds Associates conducted with more than 1,000 compliance officers during the past five years, the framework's "best-in-class" characteristics fall into two areas, knowledge and experience and personal and performance competencies.

Knowledge and Experience

The market for the recruitment of compliance professionals has been particularly active for the past five years, with a shortage of professionals and increasing demand from the insurance sector, which has become more heavily regulated. In retail banking, however, there has been a general desire to "upgrade" talent by hiring from the investment banks. As a consequence, there has been significant upward pressure on compensation levels. With the detachment of compliance from the legal function, it is also less common to see a transfer of lawyers into the role, particularly in the more developed markets of the United States and United Kingdom.

Where the compliance function is very close to the legal function, however, lawyers tend to recruit other lawyers; whereas structurally, they usually need a more numbers driven and financially trained person to complement their legal skills. For a compliance function to operate effectively, it requires direct calibration and cooperation with finance, legal and audit.



Successful candidates for the Chief Compliance Officer role are often now partners from consulting, law or accountancy firms, who have developed this expertise and provided expert advice to corporate leadership. As such, candidates should possess the obligatory stature to be taken seriously by board or supervisory board members.

The ability to lead and direct varying businesses requires an individual who can appreciate all of the moving parts in an organization. There is now a much greater emphasis on the communications finesse needed to handle relationships across a broad range of constituencies within organizations.

“A Chief Compliance Officer has to lead a very diverse group, keep them on task and delegate ownership. The role has similar traits to a General Manager as you have to see all of the moving parts of the business and how they fit together. >> A General Manager is more revenue oriented; whereas, the CCO is more process oriented. Essentially, to use a sports metaphor, a CCO is the ‘defense’ to the General Manger’s ‘offense.’” —Eric Young, Global Compliance Director, GE Capital

Chief Compliance Officers cannot succeed alone. They need to possess the ability to articulate this specialist subject across the whole organization and build an understanding that compliance is a company-wide responsibility.

With an increasingly regulated business environment, regulators are increasingly becoming candidates for compliance searches. Although these candidates possess an extensive knowledge of the regulations, experience has shown that they do not necessarily have the creativity and flexibility to develop and implement practical solutions for an organization.

Personal and Performance Competencies

Independent of knowledge and experience in the sector, top Chief Compliance Officers must possess certain characteristics and competencies including:

Executing for Results	
<p>Results and Accountability</p> <ul style="list-style-type: none"> • Makes business managers aware of their front-line responsibility for managing compliance risk • Establishes metrics to track progress on compliance issues balancing regulatory parameters and proactive best-in-class practices • Ensures that line managers adhere to compliance standards and “own” the consequences of noncompliance • Pursues goals collaboratively and diplomatically in the face of seemingly insurmountable obstacles • Works with top management to drive the creation of enterprise-wide compliance standards and objectives 	<p>Critical Thinking</p> <ul style="list-style-type: none"> • Independently investigates and audits relevant systems and control mechanisms • Identifies inconsistencies and discrepancies in data and conclusions • Cuts through complex data or information to identify critical issues that need to be addressed • Identifies areas of potential exposure in complex systems and business processes that others do not recognize as risk • Takes a logical approach to investigate, isolate and eliminate causes of problems • Delegates implementation details effectively while maintaining focus on the larger issues and keeping everyone focused on objectives

Using Influence

Credibility

- Demonstrates in-depth understanding of different business lines, processes, operations and technologies
- Quickly establishes self as an expert on compliance issues
- Provides expert advice to line management in assessing compliance risks whenever new business lines or activities are added or existing activities and processes are altered
- Presents self as articulating the strong but measured voice of reason in getting agreement to difficult but necessary actions
- Uses credibility with regulators/external peers to gather intelligence, identify best practices, seek solutions

Organizational Influence

- Understands and acknowledges the practical issues in compliance enforcement from the perspective of the responsible line managers
- Builds key connections on three axes: internal lines of business, regulators and peers in other organizations
- Sizes up the culture of the organization in terms of its willingness to embrace compliance and develops a strategy to bring the culture into alignment
- Builds unequivocal support of top management that can withstand challenges from powerful line-of-business executives

Negotiation Skill

- Persists with other executives and line managers to gain acceptance of necessary compliance concepts, no matter how inconvenient for them
- Partners with other line executives to create structures and controls that are acceptable to and owned by all
- Manages conflict well; seeks common ground in potentially adversarial situations, keeps cool under fire, and explains risks and consequences clearly and directly
- Understands and appreciates the concerns of relevant stakeholders (e.g., shareholders, regulators, competitors, customers, advocacy groups)

Communication

- Ensures that others understand the compliance requirements, threats and risks that may affect their line of business
- Maintains ongoing communication with regulators
- Works to imbed compliance awareness throughout the corporate culture through ongoing communication
- Establishes a communication process to keep others up-to-date on compliance issues
- Articulates compliance issues and solutions in a language that others can understand, accept and implement
- Establishes clear lines of communication, reporting and escalation procedures from the compliance function to different parts of the business

Building and Managing Teams

Talent

- Attracts the sharpest and most experienced talent into the function
- Makes the tough talent decisions—moves people as needed to maintain the highest standards in the function
- Mentors high-potential people from other staff functions to develop an internal pool of compliance officer talent

Team Management

- Coordinates and aligns the activities of compliance staff assigned to different lines of business and functions effectively as their team leader
- Develops positive, collegial relationships with peers in other functions and parts of the business
- Motivates those around him/her and inspires loyalty in team and from business unit partners

Intellectual Acumen

Conceptual Grasp

- Has a detailed grasp of complex compliance regulations and requirements
- Generates innovative strategies for addressing future potential scenarios before they materialize
- Is exceptionally fast at grasping complex situations and the essential facts/issues
- Constantly scans and synthesizes the legal and regulatory horizon and internal business landscape

Forward Thinking

- Identifies the potential risks associated with changes to business processes and practices and communicates them to the responsible parties
- Deals with potential threats at the earliest possible opportunity and works to head off any possibility of longer-term threats
- Is current with regulatory trends and prepares in advance to address anticipated changes in requirements

Personal Acumen

Integrity and Ethics

- Takes uncompromising stands on issues involving ethical and sound business practices
- Willing to sacrifice his/her own job on matters of principle
- Has the courage of own convictions in upholding stringent requirements or the unpopular view

Confidence and Assertiveness

- Deals comfortably and confidently with CEO, COO and board members
- Able to take a tough stand with others, doesn't back down under pressure
- Deals directly and forcefully with other executives regarding potential and real compliance threats
- Is not afraid to articulate strong, clear positions that may differ from prevailing view

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Global Trends in Compliance Recruitment

As the compliance function increasingly becomes a value driver around the globe, the search for qualified and experienced candidates is widespread. Certain countries have different requirements for candidates depending on the regulatory environment in which they operate. In the United Kingdom and United States, for example, there is a move away from a pure monitoring and oversight role towards the role of “business partner;” whereas, in Japan, the emphasis has been on getting a much more deeply ingrained compliance culture throughout the business. In Continental Europe, where the function has generally been less developed, the emphasis remains on building capability in monitoring and surveillance.

Challenges in Non-Financial Services Companies

The course of change within non-financial services companies is inextricably linked to several challenges, including globalization, consolidation, management succession and capital realignment. Traditional industrial, consumer and pharmaceutical companies, for example, are adapting to rapid business cycles, continuously shifting growth patterns and more efficient supply chains, which deliver products and services to consumers more quickly and economically. Meanwhile, many industrial companies in mature markets are moving their manufacturing enterprises to emerging market economies. As companies outsource their manufacturing functions and step into new roles as full-service providers, they are launching subsidiaries, forging partnerships and developing competencies in adjacent areas such as logistics and transportation. Natural resources companies also face unprecedented pressures. As the world population continues to grow, the competition for limited resources presents an increasingly volatile and highly challenging operating climate.

These trends are creating the need for a new class of leaders, and the global network of Russell Reynolds Associates is well positioned to find them. Our established global presence enables us to provide seamless solutions across industries and geographic markets, which is a vital advantage to our clients. We identify multi-skilled executives in established markets as well as in emerging ones; we find talented professionals with supply chain expertise who can drive new growth strategies; and we recruit innovative thinkers who can help natural resources companies meet their intense challenges. In addition, we conduct in-depth executive assessments to help companies and their boards create smart succession plans, manage change efficiently and gain the market views they need to prosper.

George Klemp

George Klemp is a founding partner and the president of Cambria Consulting, a Boston-based resource consultancy specializing in strategic talent management and organizational assessment. His 30 years of experience span engagements in a wide range of industries, with emphasis on financial services, manufacturing, consumer products and technology companies.

About Russell Reynolds Associates

Russell Reynolds Associates is the most trusted name in global search and assessment. Through a global network of 37 wholly owned offices, the firm's more than 275 professionals conduct senior-level search and assessment assignments in a range of industries for public and private organizations of all sizes. With its one-firm culture, deep knowledge of major industries and unwavering commitment to client service, Russell Reynolds Associates is uniquely qualified to help clients find the best leaders. The firm's web site is www.russellreynolds.com.