Global surveys show that most digital transformation programs fail due to culture and people rather than technology. Ralph Ebert writes in his essay for finews.first how this root cause particularly affects the balance of Compliance Culture vs. Digital Culture.

According to data from IMD’s Global Center for Digital Business Transformation, the core drivers of digital transformation include competitive threats and new business opportunities. And according to Harvard Business School, businesses that fail to adopt digital technologies show an average 3-year gross margin of 37 percent, while the leading digital adopters post an average 55 percent gain.

This truth is today in Compliance even more obvious than in other sectors of financial institutions as the regulatory pressure has never been more intense and digitalization projects in
Compliance do serve mainly regulatory Compliance requirements without the «right to fail» rather than purely efficiency-driven opportunities. Businesses that fail to embrace digital transformation leave themselves open to falling to the competition.

According to research from IDC (see before), digital transformation accounts for over 40 percent of all its spending and is expected to top $2 trillion by the end of 2022. These digital transformations cover all types of adoption from cybersecurity to artificial intelligence and automation – but the reality of such digital transformation success stories in Compliance is less impressive.

«Most digital transformation programs fail due to culture and people rather than technology»

Why is Compliance culture so important for the success of the transformation process whereas technology and its implementation should be in the spotlight?

The answer to this question is sometimes obvious – transformation processes are made for and with people that are having the right skills, the right mindset, and a supporting culture. This dependency on the human factor is even more present for Compliance transformation processes where the financial institution must address the regulatory requirements, provide for an efficient outcome, and pursue the digital transformation based on the existing Compliance operating model at the same time.

The underlying factor is however that the financial institution has already an existing Compliance culture and that digital transformation can be built upon this foundation. The unpredictable increase of regulatory requirements in the banking sector over the last five years and the rise of penalties for non-compliant behaviors against banks have created a situation where more than ever a Compliance culture in the organization can prevent or at least reduce such non-compliant behaviors.

Does this lead to the inherent question of what is Compliance culture? How can I create and finally measure it?

«Compliance Culture is impacted by rational and emotional elements»
By culture, we refer to the self-sustaining patterns of behaving, feeling, thinking, and believing that determine «how we do things around here» – an emotionally driven environment. We observe that there is a high disparity in the financial industry regarding the ownership of Compliance Culture within the organization. Naturally, the Chief Compliance Officer should own the responsibility and execution of the Compliance culture within the organization whereas the real impact can only be achieved if the «tone from the top» is aligned with the sustainable actions of all other functions whether it is business, supporting, or back-office.

At the beginning of the journey toward Compliance culture, there is often the need to diagnose and assess the current Compliance Culture to create a Cultural Thumbprint with strengths and challenges. This is mainly based on an analysis of the historical Compliance related incidents as well as carrying out interviews with senior leaders to understand how people view the Compliance risks? What are their behaviors, how committed they are to the organization, and what it hinders them?

«Every bank is different and the right way towards Compliance Culture will be different»

Once this cultural footprint has been established, the most important part of the process starts with three simple questions:

- Vision: What is my Vision of ethical behavior in the bank and what should a Compliance Culture look like?
- Impact: Where do we want to create a real impact with Compliance Culture?
- Measurement: How do we measure the level of my Compliance Culture?

The vision of Compliance Culture requires already that Compliance has defined a vision and mission statement on its role and in particular the inherent values based on which it will operate. The impact assessment should mainly focus on tackling the few critical behaviors instead of the company’s «mindset» which will need a different set of tools, processes, and timeframe. The financial institution will need to have a hybrid formal-informal approach to build emotional commitment and sustain the right behavior to create long-lasting Compliance Culture.
Finally, every financial institution which is engaged in establishing a Compliance Culture needs to determine a set of objectives and key performance indicators to measure the progress of the implementation. This will help the transformation process to be continued in difficult times as long as progress can be revealed.

Ralph Ebert, a German lawyer, is active in legal and compliance for big and private banks with 15 years of experience. He currently works as head of compliance at Banque International à Luxembourg (BIL) in Switzerland. He previously worked in Seoul, Montreal, and Paris, before moving to Switzerland in 2008. He worked for companies including BNP Paribas, Credit Suisse, UBP and Credit Agricole Indosuez. He specialized in the fight against money laundering. He also focuses on the integration of regtech solutions, consequences for compliance and the modern compliance culture.