FULL DISCLOSURE
A NEW APPROACH TO CONFLICTS OF INTEREST:
WHY, HOW AND THE IMPACT
WHAT IS A CONFLICT OF INTEREST (COI)?

In short, a conflict of interest occurs when an individual’s personal interests have the potential to interfere with their ability to act objectively in the best interests of the company. “Personal interests” may include social, financial or political activities and oftentimes include personal relationships.

One way to illustrate what constitutes a conflict is with a triangle that includes two related parties and the company itself. The idea is that the relationship between the two parties—where one is in a position to exert some influence as a result of the relationship—becomes problematic for a company when the relationship’s influence affects the company.

In certain aspects of your business, you may have a pretty close community, but none of the relationships in that community can really influence a decision to benefit themselves, the other party or their relationship in a way that has an adverse impact on the company. So the answer becomes straightforward: You don’t need to change anything, because there’s a lack of employee influence and company impact.
AND THEREIN LIES THE PROBLEM (AMONG A FEW OTHERS)

*The employee perspective*

Conflicts of interest are, by their definition, personal. One of the initial struggles companies face with conflicts of interest is understanding and achieving the delicacy that’s required when asking employees to disclose relationships or activities from their private life.

In that same vein, it can be tough to effectively address and overcome the common misperceptions that:

1. All relationships present a conflict; and/or that
2. All conflicts present a problem and could jeopardize the employee’s status or relationship with their employer.

Another challenging aspect of conflicts of interest is that most people tend to overestimate their ability to remain objective when their professional and personal interests are at odds with one another. If your employees inherently believe that they can manage conflicts on their own, they won’t see a need or incentive to disclose them.

In addition, the risk and impact of COIs are usually more pervasive at more senior levels of an organization. As an employee moves up the organizational ladder, they’re more likely to wield more influence, make more decisions, have greater access to confidential information and have broader networks outside of an organization than less tenured or senior counterparts.

*The organizational perspective*

The reason many organizations give for not tracking or managing conflicts of interest is sheer volume of disclosures they estimate they’d be handling. Unlike cases of misconduct, where the volume usually represents a fraction of the employee population, compliance executives often believe that they’d have a much larger number of disclosures—more than would be tenable to manage. The fear then becomes that, in the event of a compliance fallout, there would be a record of the fact that the organization knew about the conflict but did nothing to address it and prevent any misconduct that occurred as a result.
THE THREAT THAT COIs POSE TO AN ORGANIZATION

Indeed, the simple perception of conflicts of interest in a business can cast doubt on how level of a playing field the business operates on, as COIs can be corrosive to the perception of—and confidence in—organizational justice at a company. New hires, promotions, vendor selections, partnerships, investments and more that seem to be awarded subjectively can drive skepticism and mistrust among internal and external stakeholders—and lead to losses in productivity, employee retention, business opportunities and a company’s reputational value, among other things.

Left unchecked, conflicts of interest can also breed misconduct and risk for companies, including fraud, corruption, insider trading and more. Customer, partner, investor and employee confidence in a business can be shaken—and the long-term financial and reputational stability of your firm diminished—if misconduct driven by conflicts of interest is brought to light.
THE OPPORTUNITY IN PROPERLY MANAGING COIS

Though challenging, properly collecting and managing disclosures presents a few key opportunities for organizations, not least of which is the reduction in compliance risk a company achieves by having more and better disclosure data to act on—and analyze—around employee relationships that may pose a problem. In addition, effective disclosure management can also:

- **Allow gap analysis and early insight to risk**: More disclosures, with richer and more structured data contained in them, arms the corporate compliance team with richer insight into employee behaviors, risk disposition and drivers and where compliance initiatives work—or fall short.

- **Foster employee responsibility**: Giving employees ownership of their disclosures gives them some proverbial “skin in the game.” They’re disclosing their personal relationships, in their own secure portal. Giving employees ownership in compliance can increase their interest and engagement in the company’s culture of compliance.

- **Provide an easier and positive first interaction with compliance**: Disclosures can—and should—be less threatening and provide an overall more positive and welcoming experience than reporting misconduct or other compliance engagement points.

- **Provide a first and ongoing interaction with compliance**: Focusing on an ongoing, fluid disclosure process keeps the lines of communication open among employees beyond sporadic hotline reports or periodic training and policy requirements.

- **Let compliance add value**: Shifting the onus of responsibility for disclosures to employees can free your compliance team from data entry and allow them to add value in the field, conducting analysis, issuing clearances, etc.

- **Reduce the noise**: Increase the number of legitimate disclosures—and cut down on the extraneous reports you have to sift through—by providing a more intuitive experience for employees.
HOW THE STATUS QUO FALLS SHORT

There are two predominant ways that organizations currently manage conflicts of interest:

**Annual certifications:** Whether paper-based or electronic, these disclosures are largely free-form text submissions. This leaves the compliance team with mounds of unstructured and disconnected information.

**Hotline reporting:** Employees submit disclosures—and the compliance or legal team manages them—through the same hotline or web reporting portal that incidents are handled.

These methods present a number of challenges that reduce a company’s ability to effectively collect and manage disclosures:

- Unstructured and disjointed data is difficult to filter through, revisit or analyze.
- Compliance teams are usually left with a lack of disclosure data quality or low disclosure rates.
- Good employees are lost due to not understanding what a conflict is or how or why they should disclose it.
- The compliance team spends more time on administrative tasks related to taking in and updating data than analyzing and acting on it—where they’re most valuable.
- One-time, annual disclosures limit employees’ abilities to revisit or update information once a disclosure’s been made, even as relationships or jobs change that may create or remove a potential conflict.
- Employees are left with a fairly intimidating experience, usually including a boatload of form fields and questions laced with legal jargon and mandatory fields (think red, bold and ALL CAPS text).
THE BIG IDEA

The concept for Convercent’s Disclosure Manager as it stands today centers largely on four key concepts:

1. **Employee ownership**: Disclosing a conflict, or updating the disclosure as things change over time, is each and every employee’s responsibility. Compliance needs to empower employees on the disclosure journey, make sure they get input and responses on what they need to do, and keep the disclosure status and clearance up to date.

2. **Compliance oversight and objectivity**: The role of compliance is to be the guardian of the program, ensuring independent and consistent reviews and responses. It’s the role of compliance to see that every disclosure gets a clearance, but the final decisions about how a conflict can be cleared is left with relevant management.

3. **System of record**: Have one system that facilitates the entire disclosure process and captures all information in a central place.

4. **Clear communication**: Make it clear to employees that the problem with a conflict of interest is not simply to have a relationship that presents a conflict, but to have an undisclosed relationship and stay in the situation where a conflict might be present. You need to remove the fear of disclosure—because not all relationships are necessarily conflicts and all conflicts are not necessarily situations that can’t be dealt with—along with encouraging employees that disclosing relationships is the best solution.
BUILDING FOR SUCCESS

Convercent built a disclosure management solution in 2014, focusing on two critical, enhanced capabilities in order to provide a more robust and practical solution to the market:

1. **Data-driven:** The solution was built to capture categorized information alongside rich text. By doing so, we empower users to get deep metrics and analytics from the standardized data that the picklists yield, on top of the rich details for individual disclosures provided in the descriptions. This creates a very rich type of analytics that go beyond a single disclosure, into the broader cultural and behavioral aspects of what’s going on within the organization instead of managing each individual piece of information in a very reactive, short-term way.

2. **Dynamic:** Most existing disclosure solutions serve a one-time purpose, where the tendency can be to file it and forget it. We wanted to provide employees and compliance teams with living documentation that they could access, update and manage on a day-to-day basis. That way, as employees’ relationships, affiliations or professional responsibilities change—as they so often do—they can make any updates needed to their disclosures in real time instead of waiting on the next annual disclosure process.

BUILDING FOR EMPLOYEES

The ultimate goal was to provide a very welcoming, easy to use and non-threatening environment to really encourage employees to record their conflicts in a very forthcoming and honest way. We really wanted to help employees engage in a conversation with the compliance department about the challenges—both existing and potential—that they face within their organization.

1. **Employee Ownership:** It’s the employee’s disclosure, in his record, in his native language. And he has one place to go whenever he has new disclosures or updates to make.

2. **Quick Questionnaire:** By reducing the number of questions employees had to answer, and providing them with a better user experience, the goal was ultimately to encourage more disclosures with more robust information contained in them. We guide them through a short questionnaire to make it as easy (and repeatable) as possible.
ENCOURAGING LEGITIMATE DISCLOSURES

One of compliance teams’ frequent concerns (or complaints) about disclosure management is the sheer volume of reports they could (or do) receive, many of which potentially aren’t legitimate conflicts that create a burden on the team that have to review them nonetheless. We fine-tuned the number and logic of the employee questions to help employees focus on what could create a conflict in the first place—that is, the potential to unfairly influence, benefit or share something that could adversely impact the company—instead of trying to gather every minute detail about the relationship itself. Typically, where most compliance teams see extraneous reports are for relationships that don’t actually present a conflict. Our aim of enhancing the quality of legitimate disclosures coincided well with a goal of reducing irrelevant reports.

THE VALUE OF A BETTER WAY

Many companies are very interested in establishing or improving their conflict of interest programs, but some of them struggle to actually define the benefit of it.

Organizational Justice

First and foremost, one of the key benefits is the increase in transparency and organizational justice as a result. Employees who trust in the fairness of the decision-making processes can have a very positive and widespread impact on the culture of a company.

More Disclosures

Indications from Convercent’s Disclosure Management customers are that they not only increase the number of legitimate disclosures they receive per employee, but that they’ve noticed a surge in employees returning to the platform after their initial disclosure to make additional disclosures. This shows an increased level of understanding of what a disclosure is, more willingness to come forward and additional time spent thinking about additional relationships that have the potential to create a conflict.
Better Disclosures

Convercent Disclosure Manager customers have reported not only an uptick in the number of legitimate disclosures they receive, but in the quality of employee assessment provided in the disclosures. Richer detail from employees increases the compliance teams’ abilities to understand and manage situations that may present conflicts.

Increased Trust in Compliance

A culture of disclosure is one where your employees come to compliance for assistance in managing these situations, rather than trying to ignore them, manage them on their own or sweep them under the covers. The trust and accountability of this environment can have long-term impacts on employee confidence, loyalty and retention. In addition, disclosures provide an easier and less threatening first point of interaction with the compliance team than reporting an incident, which provides compliance with an opportunity to build trust with employees immediately.

Easier on Everyone

Focusing on a simpler user experience makes it easier for employees to comply and easier for the compliance team to manage.

Better Data

Having a system with structured, picklist data enables the compliance team to run reports and analytics and address larger behavioral, organizational and environmental trends so that they can better understand (and ultimately address) the things that influence and enable conflicts. Customers are now able to establish baselines and benchmark internally, understanding markets and functions that seem more prone to conflict of interest risk than others so that they can target their communications and training efforts around the topic.
REDEFINING THE STANDARD IN COMPLIANCE TECHNOLOGY
Convercent’s risk-based global compliance solution enables the design, implementation and measurement of an effective compliance program. Delivering an intuitive user experience with actionable executive reporting, Convercent integrates the management of corporate compliance risks, cases, disclosures, training and policies. With hundreds of customers in more than 130 countries—including Philip Morris International, CH2M Hill and Under Armour—Convercent’s award-winning GRC solution safeguards the financial and reputational health of your company. Backed by Azure Capital, Sapphire Ventures (formerly SAP Ventures), Mantucket Capital and Rho Capital Partners, and based in Denver, Colorado, Convercent will revolutionize your company’s compliance program.

Visit us at www.convercent.com