

How to Address Change Management

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If you speak to most business owners, there is frequent common ground – as the world changes, so does your business. Change is created by many factors including new or changing regulations; evolving customer demands; hiring new leaders and trailblazers within an organization; creation of new products or services; mergers, acquisitions, and team lift outs; and external or market forces, such as a pandemic or recession. How an organization reacts to change will separate who is prepared and can thrive in response and who will be challenged and falter.

This article will focus on **change management**. Specifically, this article will address what change management is, common issues arising from change, and through a case study, address potential compliance program responses. Within the case study, this article will explore common change management challenges and offer practical tips on steps you can take to mitigate risks and excel during change opportunities.

I. What is Change Management?

Change management generally is defined as the methods and manners in which a firm implements change within both its internal and external processes. As change occurs in the workplace, previous work protocols are interrupted. This commonly is seen with the introduction of new technologies, new policies and procedures, the addition of a team or department, and/or the evolution of firm culture. Leadership often impacts the development and types of changes, which will help effectuate or detract from the change process. That is why a strategy to lead change dynamics is essential to help achieve desired outcomes.

By its very definition, change provides us with an opportunity to replace something. Change provides an opportunity for growth and to advance towards something better. To realize such advancement, firms need to conduct data analytics, assess outputs, introduce enhanced protocols, and train employees. This, however, is easier said than done. For compliance professionals, change often triggers the need to develop new internal controls, create new client disclosures and train personnel on new processes.

II. Common Issues Arising from Change Management

Change is not always easy. For the last sixty years, the investment advisory industry has performed marketing reviews and written disclosures based on regulatory guidance that has now changed. In response, compliance professionals must learn a new principal-based regulation and assess the impact and effect on marketing collateral, policies and procedures, and training efforts.

Broadly speaking, change management can be challenging when the following obstacles are present:

- Lack of knowledge
- Lack of adequate resources
- Lack of trust
- Ineffective communications with employees
- Lack of streamlined processes/misalignment
- Resistance to change – culturally and synergistically (lack of buy-in)
- Lack of senior management support

Using the above example, material amendments made to Rule 206(4)-1 of the Investments Advisers Act of 1940 (commonly referred to as the new Marketing Rule¹) could pose challenges for some organizations. With a compliance date of November 4, 2022, fast approaching, firms may be challenged to fully implement the Marketing Rule's requirements if they do not have adequate resources to understand the regulatory requirements for advertising materials and what must change in terms of disclosures, policies and procedures and oversight of supervisory personnel. Without an effective process and strong communication with employees, it will be extremely challenging to implement changes that will be required to meet regulatory compliance standards.

In other situations, inconsistent communication and lack of transparency can further inhibit and delay change management progress. Many of the above obstacles are driven by the "human side" of the business and require leadership, awareness, and alignment to correct confusion that disrupts progress.

With this in mind, let's explore the following case study.

III. Case Study: Change Management Challenges

ABC Wealth Management ("ABC") is an investment adviser registered with the U.S. Securities and Exchange Commission with \$1 Billion in Assets Under Management. ABC just acquired a bond portfolio team that was lifted out of a leading money management firm. ABC currently is an equity growth manager, and the addition of this team will allow the firm to diversify its product and service offerings. But this addition also brings with it challenges.

ABC's current CIO does not share in the excitement of acquiring the new bond portfolio management team. This move will create a new bond desk led by individuals who are unknown and have not yet gained the team's trust. Operationally, the Compliance, Operations, and Client Services teams have not had to conduct surveillance and service bonds before; and there is much to learn before protocols can be defined and rolled out. Marketing and Sales also have not sold this product line before, so time must be spent to gain information prior to deploying a sales and marketing tactical plan.

Based on this, what are the top change management challenges that face the ABC leadership team?

- *Challenges with Acquiring a New Team:* In approaching any new team there is much that must be considered. Personalities, communication styles, knowledge and expertise, and risk profile should be explored during the due diligence phase, and not post-acquisition.
- *Challenges with Deployment of New Products or Services:* ABC's personnel may not be familiar with bonds. Compliance personnel will need to learn from a regulatory standpoint what must be developed in terms of internal controls overseeing the bond desk. Traders will need to learn the intricacies of working a bond desk while sales and marketing will need to gather market intelligence in the bond space to effectively launch an effective campaign. Notably, whenever there is a deployment of new products or services, an impact analysis must be conducted to assess what are the internal impacts (financially, technologically, and to the team of professionals who must support this) and external impacts (to clients, vendors, and strategic partners). Consequently, conducting due diligence on what is needed to launch a new product or service is critical before launch.

1. See 17 CFR Part 275 and 279, available at <https://www.sec.gov/rules/final/2020/ia-5653.pdf>.

- *Challenges with Adding a New Business Unit:* Culturally, the addition of a new business unit can have a big impact. Who the Business Unit will report to, what benchmarks are and should be met, compensation structures and support needs all require vetting well in advance. Synchronization of systems, staffing, and compliance program deployment also requires attention. Ideally, the Business Unit should have a business plan to help set the foundation for the viability of the Business Unit. The plan should, among other things, memorialize any funding needed, provide direction on who will and on how to roll out the Business Unit, and identify system and support needs, including who will staff the Business Unit.
- *Challenges with Onboarding New and Existing Clients:* In the case of introducing a new product, the ABC Team will need to receive training on bonds and identify how bonds will be used in portfolios, who is suitable for bonds, how they will be marketed, and what disclosures are needed. The information must be conveyed internally first so that external clients receive consistency in messaging.
- *Challenges for Integrating Operations and Systems:* If the acquired portfolio team had its data on certain systems that are not integrated with ABC, this could pose a challenge. Similarly, if the introduction of the portfolio management team's operations system clashes with the Firm's existing systems, then which operating system should be used? This needs to be vetted before onboarding.
- *Challenges for Cultural and Employee Integration:* The "human side" of a transaction is often overlooked. The personalities, leadership styles, work ethic, and belief systems can greatly differ from one team to another and could create a cultural crash. ABC should identify which employees from both teams should work together. Integration, not segregation, can help to alleviate confusion and create a synergistic environment.

Identifying these and other challenges is the first step to help set the framework of how the new Business Unit will operate. Concurrently with this, Compliance should be involved so that they can help identify the impact of ABC's Compliance Program and what must be deployed concurrently with the operations of the new Business Unit.

IV. Compliance Program Impact from Change Management

Whenever there is change, Compliance must conduct a gap analysis of what policies and procedures are in place to mitigate risks, what client disclosure documents must be updated, and what supervisory controls must be implemented. The following steps should be considered whenever there is change impacting the organization to help mitigate risks.

- Conduct due diligence to fully understand the impact that this change may have on the company and its employees; consider financial, compliance, and cultural impacts.
- Consider whether a new conflict emerges because of the change and how that can be mitigated.
- Assess how Compliance policies and procedures need to evolve or be developed.
- Identify what technologies and systems, if any, are impacted by the change and pinpoint potential integration issues.
- Conduct a post-change risk assessment to ascertain if additional actions are necessary; often, additional training is required
- Evaluate how the change will impact clients and proactively take steps to fully and clearly communicate this through the Form ADV brochures, client agreements, marketing collateral, and client notification letters, as needed.

- Capture the firm's efforts in addressing change management in your Annual Review, highlighting the deliberate efforts taken by senior management to mitigate risks and fulfill fiduciary obligations to clients and the organization.

Conclusion

Change management is a deliberate process. It requires pivoting, integration, and understanding which can be accomplished with transparency and effective leadership. Importantly, in the financial industry, change management requires compliance professionals to have a seat at the table to provide counsel to their firm(s) related to how an organizational change will impact the enterprise. Change can bring regulatory risks, business risks, reputational risks, operational risks, and compliance risks. Understanding change management can help to drive successful results during an organizational change – and compliance officers are often in the best position to help identify and mitigate risks associated with such change. ■