

BEYOND REGULATORY COMPLIANCE

The Relationship Nobody Teaches

A Practitioner's Perspective on Why Regulatory Engagement Is a Leadership Discipline, Not a Compliance Activity



Giovanni Leonardi

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“The leaders who manage regulators most effectively are the ones who stop thinking of them as regulators and start thinking of them as the most consequential stakeholder they will ever have.”

1. The Stakeholder Hiding in Plain Sight

Every organisation in a regulated sector has a stakeholder map. It identifies customers, shareholders, employees, suppliers, partners, and increasingly the community and the environment. Somewhere on this map, usually at the periphery, sits the regulator. It is acknowledged. It is not understood.

This is a remarkable failure of leadership imagination. The regulator is, in most regulated organisations, the single stakeholder with the greatest power to determine the organisation's future. It can impose fines that destroy a quarter's earnings. It can mandate changes that consume years of management attention. It can revoke the licence that underpins the entire business model. It can shape the competitive landscape by imposing requirements that advantage some players and disadvantage others. No customer, no shareholder, no supplier commands anything approaching this influence.

Yet the relationship with the regulator is almost never managed as a stakeholder relationship. It is managed as a compliance activity — a series of submissions, responses, assessments, and remediation actions administered by the compliance function and governed by regulatory affairs specialists. The CEO and the board engage with the regulator at prescribed intervals, through formal channels, following carefully scripted briefings prepared by the legal and compliance teams. The relationship is characterised by caution, formality, and a deep institutional anxiety about saying the wrong thing.

This essay argues that this approach is not merely suboptimal but fundamentally misconceived. The regulator is not a compliance obligation. The regulator is a stakeholder — arguably the most important one — and managing the relationship requires the same strategic attention, the same investment in understanding, and the same leadership commitment that organisations devote to their most critical commercial relationships.

2. Why Organisations Get This Wrong

The reasons for the mismanagement are structural, cultural, and professional, and they reinforce each other.

The compliance function mediates the relationship. In most organisations, the primary interface with the regulator runs through the compliance or regulatory affairs function. These teams are expert at managing the mechanics of regulatory engagement — filings, responses, examinations, remediation plans — but they are not typically empowered or equipped to manage the relationship strategically. Their orientation is reactive and defensive: respond to requests, satisfy requirements, close findings. This is essential work,

but it is not stakeholder management. It is administration.

The consequence is that the organisation's most senior leaders engage with the regulator only episodically — at annual reviews, during examinations, or in crisis. They arrive at these interactions with limited context, rely heavily on scripted briefings, and retreat as soon as the formal agenda is complete. The regulator, meanwhile, forms its impression of the organisation's leadership from these episodic encounters and from the quality of the day-to-day interactions managed by the compliance team. The impression is often not favourable.

The organisation fears the regulator. This is perhaps the most corrosive dynamic. Regulated organisations develop an institutional anxiety about regulatory engagement that permeates everything from board papers to programme design. The anxiety manifests as risk aversion in communication: a reluctance to share bad news proactively, a tendency to present issues in the most favourable light, a habit of deferring difficult conversations until they can no longer be avoided.

This anxiety is understandable — the consequences of regulatory displeasure are real — but it is counterproductive. Regulators are not naive. They know that organisations have problems, that programmes encounter difficulties, and that compliance is imperfect. What concerns them is not the existence of problems but the organisation's awareness of and response to those problems. An organisation that surfaces issues proactively, explains what it is doing about them, and demonstrates a credible trajectory of improvement is far more likely to maintain regulatory confidence than one that presents a polished facade and hopes the regulator does not look behind it.

Leaders do not know how to engage. Most senior leaders in regulated sectors have deep commercial, operational, or technical expertise. Very few have been trained in regulatory engagement. The skills required are distinctive: the ability to communicate with precision and candour in a high-stakes environment; the ability to understand the regulator's perspective, priorities, and constraints; the ability to negotiate outcomes that serve both the organisation's interests and the regulatory objective; and the ability to build trust over time through consistent behaviour rather than through individual interactions.

These are leadership skills, not compliance skills. Yet they are rarely developed, rarely practised, and rarely valued in the same way as commercial or operational leadership capabilities. The result is that regulatory engagement defaults to the compliance function not because that is where it belongs but because nobody else knows how to do it.

3. What the Regulator Actually Wants

One of the most persistent misconceptions in regulated organisations is that the regulator wants perfection. This is not the case. What the regulator wants — what every regulator I have encountered across sectors ultimately cares about — is something more nuanced and, in many ways, more achievable.

The regulator wants confidence that the organisation understands its own risks. Not that it has eliminated them — that is neither possible nor expected — but that it knows where they are, how material they are, and what it is doing about them. An organisation that can articulate its risk landscape clearly, honestly, and without being asked is an organisation the regulator can trust. An organisation that requires the regulator to discover its risks through examination is an organisation that will receive considerably more scrutiny.

The regulator wants evidence of management grip. When issues are identified — whether by the organisation itself, by the regulator, or by external events — the regulator wants to see a response that is proportionate, well-governed, and tracked to completion. The speed of the initial response matters less than the quality of the follow-through. Regulators have long memories for remediation programmes that start well and fade, for findings that are closed on paper but not in practice, and for commitments that are made in formal meetings and not delivered.

The regulator wants a relationship, not a transaction. This is the dimension that most organisations miss entirely. Regulators are composed of human beings who are trying to do a difficult job with imperfect information and finite resources. They value relationships with regulated organisations that are characterised by openness, reliability, and mutual respect. They do not value relationships that are characterised by formality, defensiveness, and the minimum necessary disclosure.

The practical implication is that the quality of the regulatory relationship is a leading indicator of regulatory outcomes. Organisations that invest in the relationship — that engage proactively, share information willingly, and treat the regulator as a professional counterpart rather than an adversary — consistently experience more favourable regulatory outcomes than organisations that do not. This is not because regulators play favourites. It is because trust is earned, and trust creates the space for constructive engagement that defensive behaviour forecloses.

4. The Leadership Discipline

If regulatory engagement is a stakeholder relationship rather than a compliance activity, it follows that it should be managed as a leadership discipline. This means several things.

The CEO owns the relationship. Not the Chief Compliance Officer, not the General Counsel, not the Head of Regulatory Affairs. The CEO. This does not mean the CEO handles every regulatory interaction — that would be neither practical nor appropriate. It means the CEO sets the tone for the organisation's regulatory engagement, invests personal time in understanding the regulator's priorities and concerns, and ensures that the organisation's leadership team treats the regulatory relationship with the same strategic seriousness as its most important commercial relationships.

Regulatory intelligence is a strategic function. Most organisations collect and process regulatory intelligence — new rules, consultation papers, enforcement actions, speeches by regulatory leaders — as a compliance activity. The output is a list of requirements to be met. A more strategic approach treats regulatory intelligence as a source of insight into the regulator's evolving priorities, concerns, and areas of focus. This intelligence informs not just compliance planning but strategic planning: where is the regulatory environment heading, what does that mean for the business model, and how should the organisation position itself?

Proactive engagement is the default. The instinct in most regulated organisations is to minimise regulatory contact — to volunteer nothing, to wait until asked, and to manage every interaction through carefully prepared scripts. The leadership discipline inverts this instinct. It assumes that the organisation should be engaging the regulator proactively on matters of significance — sharing its assessment of emerging risks, explaining its strategic direction and its implications for the regulated activities, and surfacing issues before they are discovered. This approach requires courage, because proactive disclosure carries short-term risk. But it builds long-term trust that is far more valuable than the false

security of silence.

The organisation invests in regulatory capability across its leadership. If regulatory engagement is a leadership discipline, then leaders at every level need the skills to engage effectively. This means training, coaching, and practical experience in regulatory interactions — not just for the compliance team but for operational leaders, programme directors, and senior managers who interact with the regulator or whose decisions have regulatory implications.

5. The Uncomfortable Truth

The reason this shift is difficult is that it requires leaders to be vulnerable in a context where vulnerability feels dangerous. Engaging the regulator proactively means acknowledging problems before they are found. Building a relationship means dropping the defensive posture that feels protective. Investing in understanding the regulator's perspective means accepting that the regulator's concerns may be legitimate, even when they are inconvenient.

The leaders who manage regulators most effectively are the ones who stop thinking of them as regulators and start thinking of them as the most consequential stakeholder they will ever have. This reframe does not make the relationship easy. Regulators have powers that other stakeholders do not, and the asymmetry is real. But it does make the relationship manageable — and it opens the possibility of an engagement that is constructive rather than adversarial, strategic rather than reactive, and ultimately more effective at achieving the outcomes that both the organisation and the regulator are seeking.

The relationship nobody teaches is, in the end, the relationship that matters most. The organisations that recognise this — and invest accordingly — will find that the regulator is not the threat they feared but the partner they never thought to cultivate.