Managing the New Risk Landscape
Empowering the business to own compliance risks
The pace of business change and the growing risk landscape require legal and compliance leaders to establish greater business ownership of risks. Though it may have been effective in the past, prescriptive risk management undermines long-term risk management goals and is no longer tenable.

Legal and compliance leaders must instead empower employees to own risk management. This yields significantly better risk outcomes than prescription. Employees who are empowered to manage risks are more likely to act on observed risks, report identified risks and feel confident owning risks.

Legal and compliance leaders must empower the business to own risk by:
1. Clarifying risk management roles and responsibilities
2. Providing tools and resources that empower the business to own risk
3. Ensuring employees feel accountable for managing risks

Key findings
- Despite most compliance executives working to establish business ownership of risk, business units are rarely the true owners of compliance risks.
- Many compliance programs try to build business ownership of risk by prescribing specific actions to their business partners, but this approach undermines risk ownership.
- Employees who are empowered to manage risks are significantly more likely to act on observed risks, report identified risks and feel confident owning risks.
- Empowered employees are additionally:
  - 2.9x more likely to overperform on individual performance goals
  - 3.2x more likely to overperform on team performance goals
  - 2.5x more likely to overperform on corporate financial goals
Business Ownership of Risks Remains Limited

Most compliance programs own and manage compliance risks on behalf of the business. While this approach has some benefits, it is becoming less sustainable given today’s pace of growth and innovation:

• Two-thirds of CEOs expect their business models to change in the next three years.
• Ninety-six percent of chief strategists are pursuing changes in business capabilities.
• Eighty percent of chief strategists are pursuing changes in profit models.

At the same time, 81% of legal and compliance leaders state they are working to establish business ownership of risks, yet business units are rarely the true owners of compliance risks (see Figure 1).

The business rarely serves as risk owner for the risks compliance programs identify as most important.

The pace of business change combined with limited business ownership of risks require legal and compliance leaders to adopt more sustainable and effective risk management approaches.

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Figure 1: Risks Most Commonly Owned* by Business Units
Percentage of Respondents, Top 6 Risk Areas

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Percentage of Respondents</th>
</tr>
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<tbody>
<tr>
<td>Third-Party Risk</td>
<td>20%</td>
</tr>
<tr>
<td>Gifts and Entertainment</td>
<td>5%</td>
</tr>
<tr>
<td>Corporate Culture</td>
<td>4%</td>
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<tr>
<td>Fraud</td>
<td>4%</td>
</tr>
<tr>
<td>Anti-Money Laundering</td>
<td>3%</td>
</tr>
<tr>
<td>Data Privacy</td>
<td>3%</td>
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Number of respondents = 152 to 164
Source: Gartner 2016 State of the Function Survey

* Risk owner = the function primarily responsible for oversight, identification and mitigation of the risk
Empowering the Business Creates Ownership

The discrepancy between compliance’s efforts to establish business ownership and the business’s actual ownership of risks is due to compliance programs’ approach to ownership. Compliance programs typically prescribe risk management actions to the business, believing this makes risk ownership easier amid competing priorities — and therefore more likely to take hold. However, compliance determining actions for the business to take runs contrary to the essence of business ownership.

The prescriptive risk management approach may have been effective in the previous risk environment, but our research finds it undermines long-term risk management goals and harms risk management outcomes. Prescriptive risk management not only results in compliance functions carrying the risk management load for the business but also prevents business units from taking ownership of risks.

Rather than manage risks for the business, compliance programs must support, facilitate and enable the business to manage risks themselves (see Table 1).

Table 1: A Different Approach to Ownership

<table>
<thead>
<tr>
<th></th>
<th>Prescriptive Risk Management</th>
<th>Empowered Risk Management</th>
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<tbody>
<tr>
<td>Risk Assessment</td>
<td>Compliance gathers risk information and prioritizes risks for the business to address.</td>
<td>Compliance facilitates business assessment and prioritization of risk.</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>Compliance establishes appropriate mitigation steps and assigns risk owners throughout the business.</td>
<td>Compliance creates tools and resources to enable the business to create its own risk remediation procedures.</td>
</tr>
<tr>
<td>Risk Monitoring</td>
<td>Compliance periodically assesses the business’s progress against assigned mitigation steps.</td>
<td>Compliance works to build a sense of accountability for risk ownership within the business.</td>
</tr>
</tbody>
</table>

Source: Gartner
Empowering the business to own compliance risk management produces better outcomes than prescriptive risk management. In our analysis, ownership declines as compliance programs increasingly prescribe and manage risks on behalf of the business. On the other hand, the more compliance programs empower employees to manage risks on their own, the stronger the business ownership of risk management becomes.

Employees who are empowered to manage risks are more likely to act on observed risks, report identified risks and feel confident owning risks (see Figure 2).

Shifting from prescriptive to empowered risk management leads to better behavioral outcomes from frontline employees and leaders.

The empowered risk management approach not only improves risk outcomes but also impacts business performance. Empowered employees are:

- 2.9x more likely to overperform on individual performance goals
- 3.2x more likely to overperform on team performance goals
- 2.5x more likely to overperform on corporate financial goals

Number of respondents = 4,930
Source: Gartner 2018 Employee Risk Ownership Assessment

Figure 2: Changes in Risk Ownership Traits

Likelihood of Acting on an Observed Risk
Likelihood of Reporting an Identified Risk
Confidence in Owning Risks

31% -1%
13% -6%
40% -17%

Number of respondents = 4,930
Source: Gartner 2018 Employee Risk Ownership Assessment
The empowered risk management approach produces these desired outcomes because it narrows the distinction between ownership of business performance and risk management (see Figure 3). Giving the business ownership of risks leads to less burdensome controls and processes, greater accountability for risks and increased business speed and efficiency.

Figure 3: How Empowerment Creates Ownership

- Business leaders are more likely to own risks they prioritize and deem important.
- Mitigation steps developed by the business feel more natural and less burdensome.
- Business leaders and employees feel a greater sense of accountability for completing mitigation steps they help develop.

Greater Business Ownership of Risk

Source: Gartner

Empowered risk management enables the business to achieve its objectives while also managing compliance risks.

Despite the high value of empowered risk management and 81% of legal and compliance leaders stating they are working to establish business ownership of risks, 53% of employees do not feel empowered to manage risks. In light of this disparity, compliance programs have an imperative to empower the business to own compliance risks.
The Anatomy of an Empowered Organization

True business ownership of risks requires that frontline employees and leaders understand their role in acting on risks, feel able to act on risks and feel responsibility for risk management. Shifting from prescriptive to empowered risk management therefore requires that compliance and ethics programs:

1. Clarify risk management roles and responsibilities
2. Provide tools and resources to enable business ownership
3. Create accountability for risk ownership

Clarify risk management roles and responsibilities

Employees must understand the need to act on risk as well as the necessary actions required of them. Conflicting messages about risk management roles and unclear direction about which activities the business should own prevent risk ownership.

Legal and compliance leaders must clarify roles and responsibilities between the business, the compliance function and other assurance functions to ensure risk management is efficient and doesn’t overlap.

Legal and compliance leaders can clarify risk management roles and responsibilities by:

• Engaging in cross-functional dialogue to identify optimal risk owners
• Coordinating with other assurance functions to minimize conflicting risk management expectations among business partners
• Building a framework to distinguish tasks that require compliance expertise from those that can be transferred to the business
Provide tools and resources to enable business ownership

In addition to understanding roles and responsibilities for risk management, business employees and leaders must feel able to act on risks. The imperative for compliance is not to act for or instruct the business but to provide the necessary coaching, guidance, tools and resources to enable more independent risk decision making. Without confidence in their ability to manage risks, business leaders are unlikely to act on compliance risks.

Key roadblocks to empowering employees to own compliance risk are limited guidance and inaccessible tools and resources. One in three employees believes the compliance and ethics team does not provide guidance on how to address compliance risk, and 57% of employees do not believe they can easily obtain the tools and resources they need to address compliance risks.

To solve this challenge, legal and compliance leaders must democratize resources—place compliance’s tools, reports and data in the hands of employees to enable more complex and nonstandard decision making—and teach employees how to resolve risks on their own rather than relying on compliance for every answer.

Democratizing guidance empowers frontline employees and leaders to own risk management and independently arrive at mitigation solutions. Legal and compliance leaders can enable business ownership by using tools and resources to:

- Enable business leaders to discuss, prioritize and action-plan risks using discussion prompts, agenda setting and sample conversation topics
- Help the business manage risks using self-service resource centers that provide a comprehensive suite of risk guidance
- Teach the business to make the right risk decisions by increasing the transparency of the risk process and democratizing risk reduction strategies
Create accountability for risk ownership

Business empowerment requires employees to feel responsible for risk management. However, only 42% of employees feel that they and their peers are held accountable for managing compliance risks. Despite their willingness to manage compliance risks, business leaders may sacrifice risk ownership under pressure from competing priorities.

“We’ve made progress on business ownership of risk, but that doesn’t mean it’s not easy to slip back into the old ways. Everyone’s resource-constrained, so the business will get compliance to take it if possible.”
Chief Compliance Executive
Insurance Company

Legal and compliance leaders must overcome this challenge by holding business units accountable for process discipline and the mitigation of risks arising in workflows.

Clearly delineating required responsibilities helps the business manage risks amid competing priorities. Legal and compliance leaders must empower the business to own and manage compliance risks by:

• Narrowing down to a small set of compliance risks and regularly monitoring them to gain insight into business ownership of compliance risks
• Discussing business ownership of compliance risks at the same level as business performance — among executive leadership and the board — to establish true accountability
Conclusion

Prescribing risk management actions to the business is not only ineffective but also undermines risk outcomes. Legal and compliance leaders must instead empower employees to own compliance risks. Employees who are empowered to manage risks are more likely to act on observed risks, report identified risks, feel confident owning risks and overperform on business performance goals.

Legal and compliance leaders must empower the business to own risk by:
1. Clarifying risk management roles and responsibilities
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Recommendations

To advance their risk management practices, legal and compliance leaders should:

• Coordinate with other assurance functions to minimize conflicting risk management expectations among business partners
• Distinguish risk management tasks requiring compliance expertise from those that should be managed by the business
• Inventory risk management tools and resources that, if democratized, would allow the business to self-sufficiently manage risks
• Narrow down to a small set of compliance risks that the business is able to own, and monitor them
• Discuss business ownership of compliance risks at the same level as business performance to establish true accountability

About this research

This research is based on qualitative interviews with more than 75 chief compliance officers and their direct reports as well as reviews of internal and external research. In addition, we conducted a risk ownership assessment that tested more than 100 items with 4,930 midlevel managers, individual contributors and executives in 10 countries, 18 functions and 19 industries.
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