Gartner for Legal & Compliance

4 Models for the Chief Compliance Officer Role

Gartner®

Gartner

4 Models for the Chief Compliance Officer Role

Published 12 April 2021 - ID G00746751 - 12 min read

Legal and Compliance Research Team

Initiatives: Corporate Ethics and Integrity; Compliance Program Management

As regulatory landscapes and stakeholder expectations evolve, so too must the role of the chief compliance officer. This research identifies four models for the CCO role, each with distinct characteristics.

Overview

Regulatory volatility, business model transformation and new and divergent stakeholder demands are driving chief compliance officers (CCOs) to reevaluate their functions' mandate and the roles they inhabit. Increasingly, CCOs are called to align the primary role they play within their business to changing market conditions and strategic initiatives. Here, we capture four distinct models for the CCO, along with the changing business imperatives that may require CCOs to flex to these models.

Key Findings

- **CCOs Have Never Been More Important to Corporate Success —** Business leaders increasingly rely on compliance as costs of noncompliance rise, new risks emerge and stakeholders demand organizations act more ethically and responsibly.
- **CCOs Must Flex the Roles They Play to Meet Stakeholder Demands —** To better support business leaders, a CCO needs to find balance among four distinct models: strategic business advisor, culture and ethics steward, tech and analytics champion, and aligned assurance forger.

Recommendations

To succeed in aligning their role to the most critical business needs, CCOs must:

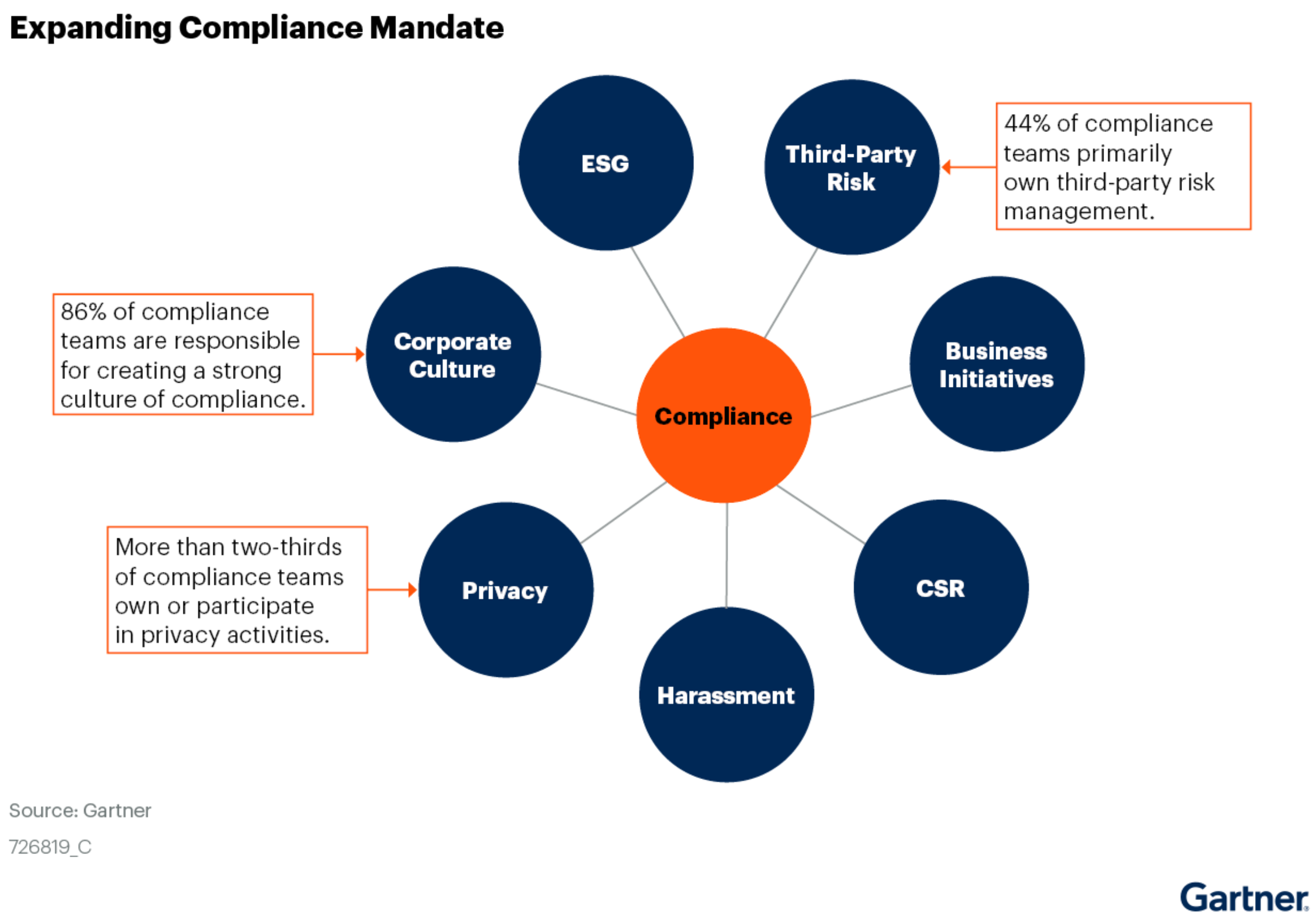
- Invest time to build relationships with executive leadership and communicate compliance's value by positioning the function as a strategic value driver over a cost center.
- Analyze where current efforts diverge from stakeholders' expectations by assessing the organization's compliance culture and reassessing how culture efforts must shift to meet changing needs.
- Develop actionable risk guidance by identifying opportunities to apply data analytics and other technology applications to gain greater insight into an expansive risk universe.

- Provide comprehensive risk management coverage through coordinated assurance efforts, which include sharing risk information and assigning clear risk roles and responsibilities.

Recent macroeconomic environmental changes have made business leaders realize that business objectives can be derailed when organizations fail to anticipate risks, meet regulatory requirements or create a strong ethical culture. Increasingly, compliance is seen as an integral part of the business. Consider the following. Investigations into several recent, high-profile corporate scandals cite poor corporate culture as the underlying root cause of employees modeling poor behavior. Macro-level trends, from economic uncertainty to regulatory instability, have converged to create persistent volatility. Organizations have seen their risk landscapes grow and change due to expanding third-party networks performing new-in-kind and noncore activities for the business.

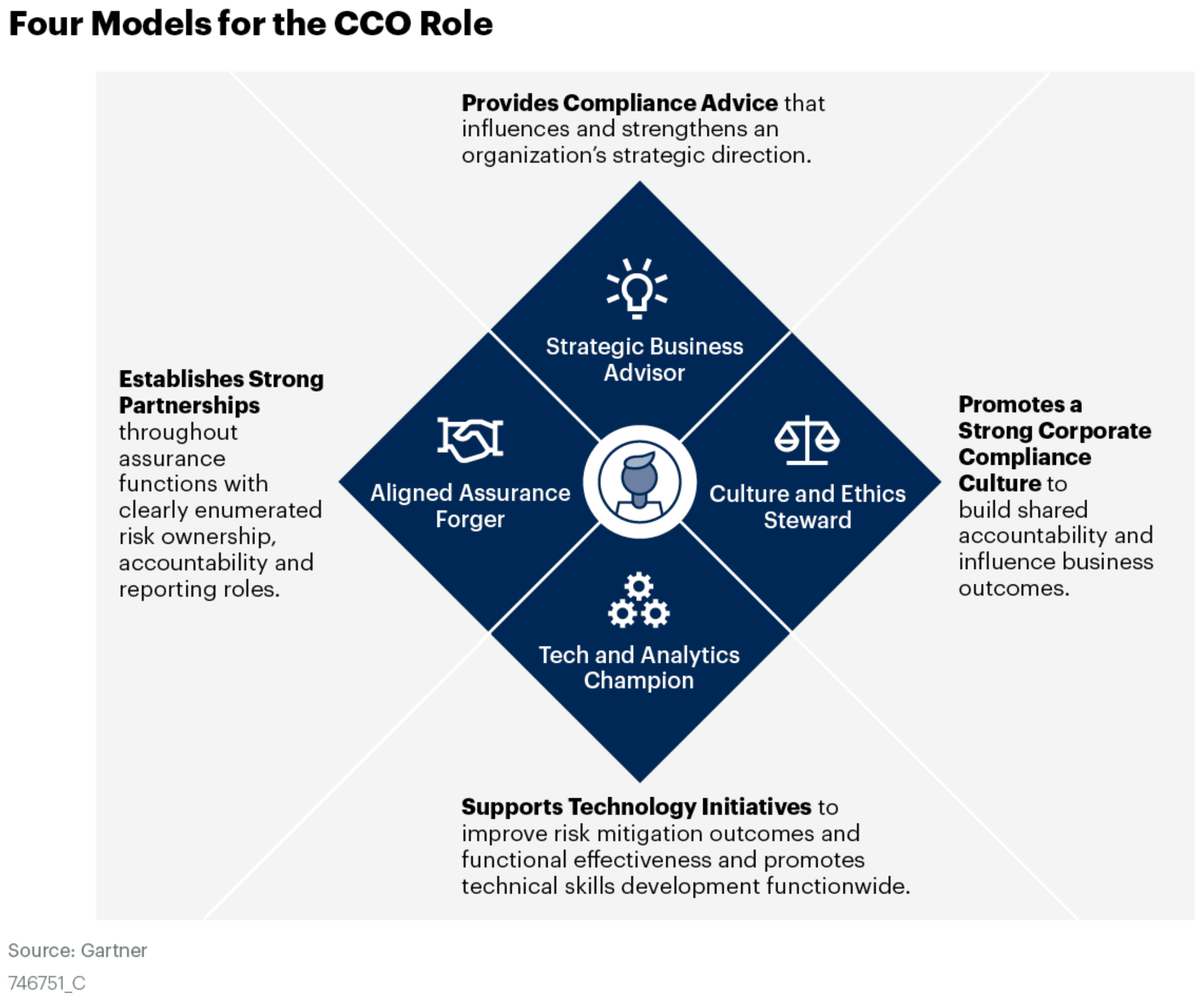
As the mandate for compliance continues to expand (see Figure 1), CCOs must shift from the primary roles they play within their organizations to align to changing business requirements and stakeholder demands. This research explores four models for the CCO role, the optimal business conditions for fulfilling that role and prescriptive recommendations for flexing to the role as business environments change.

Figure 1. Expanding Compliance Mandate



To best support business imperatives, leading CCOs may align the primary role they play to one of the following models, depending on the business context: strategic business advisor, culture and ethics steward, tech and analytics champion, and aligned assurance forger (see Figure 2).

Figure 2. Four Models for the CCO Role



Model 1: Strategic Business Advisor

The strategic business advisor provides compliance advice that influences and strengthens an organization's strategic direction.

Organizations are rapidly entering new markets with regulatory schemes that are poorly understood and may conflict with existing business models. While digital transformation, accelerated amid the pandemic, has helped expand the organizational footprint to new ways of doing business, it's also exposing organizations to new regulations and risks (see Figure 3). The impact of noncompliance on organizations can be quite significant. For instance, the U.S. Department of Labor's Occupational Safety and Health Administration has issued more than $3.5 million in fines for COVID-19 workplace safety violations.

Figure 3: Trends Disrupting the Business Environment

Source: Gartner

In the course of our research, we often observe CCOs growing overwhelmed by program management obligations, including training, communications, and stewarding hotline and investigations management matters, leaving little time for strategic advising. But in today's rapidly changing environment, business leaders increasingly lean on compliance to gain clarity around emerging sources of risk and to enable strategic decisions. To support them, CCOs must spend their time seeking out a clear view of the business objectives, advise leadership on compliance risks associated with business growth and provide objectives-driven guidance that can influence an organization's strategic direction. Doing so can offer increased personal value for CCOs as they take on a more prominent role in influencing business direction alongside C-suite peers.

Key Model-Specific Considerations

CCOs should use this list of questions to assess their capacity to flex into the role of strategic business advisors:

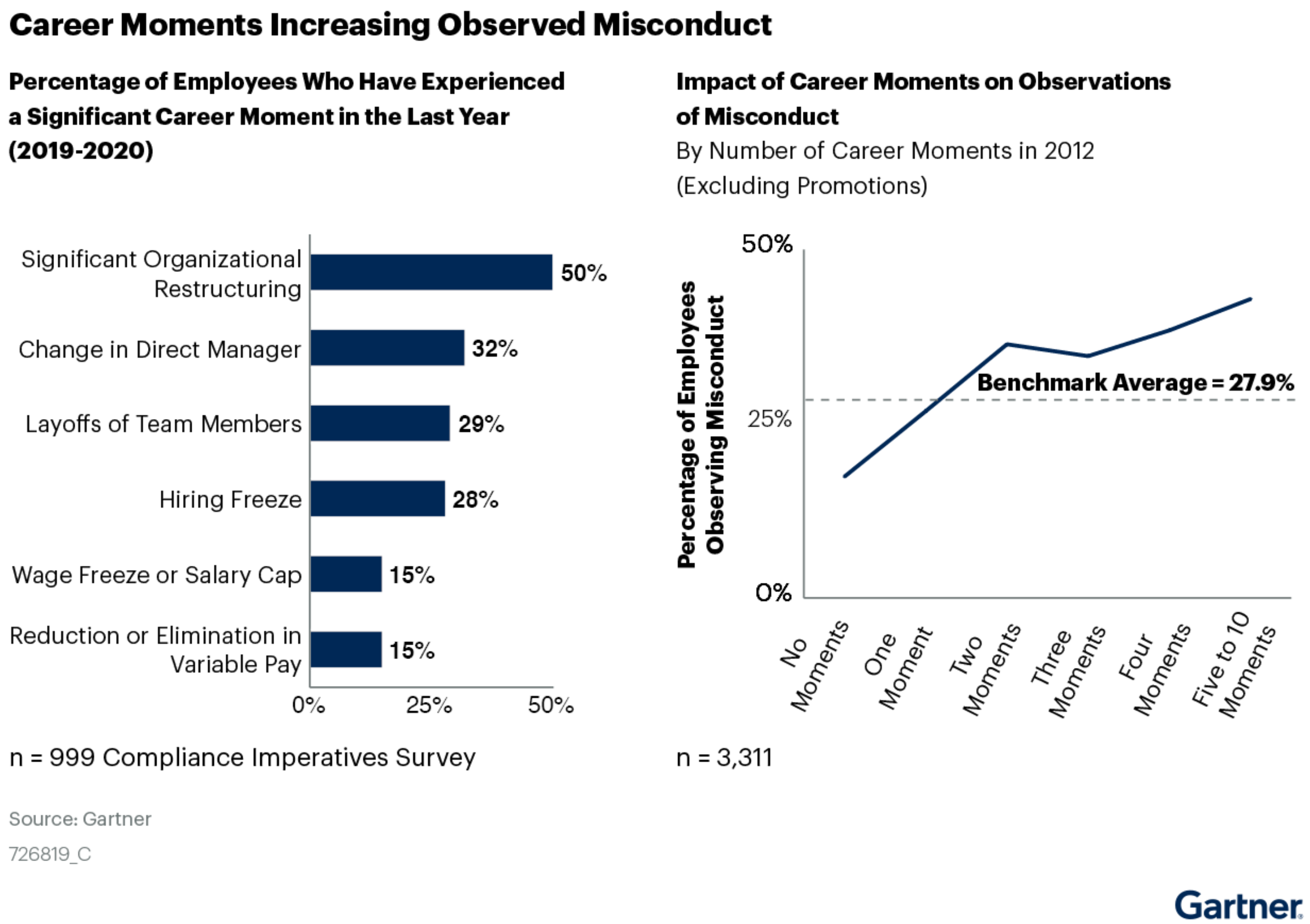
- What are the biggest risks or obstacles to corporate strategy that my department and I directly support?
- Does my department have the capacity and capabilities necessary to support corporate strategy?
- Does my department have the required visibility into business-led strategic planning efforts to adapt our guidance?
- How often does the leadership turn to my department for proactive counsel on risk and risk impact during the strategic planning process?
- Does my department have the means to recognize differences in risk appetite to prevent friction and ensure consistency in decision making?

Model 2: Culture and Ethics Steward

The culture and ethics steward promotes a strong corporate compliance culture to build shared accountability and influence business outcomes.

The average employee experiences several career moments during his or her tenure (i.e., organization structuring, compensation, promotions and role-related changes). According to our research, as the number of career moments increases, employees are more likely to witness misconduct and have a poorer perception of the company's integrity (see Figure 4).

Figure 4. Career Moments Increasing Observed Misconduct



With more employees forecast to work remotely (representing 30% of total workforce by 2024), organizations will struggle to maintain a strong ethical culture. Limited peer signals on ethical behaviors and reduced managerial interactions will hinder employees' ability to remain compliant. It's not surprising that CCOs cited promoting a culture of integrity due to change fatigue and competing pressures as one of their key priorities in our 2021 Agenda Poll Survey.

Further, our research shows that three in four employees expect their employer to take a stand on sociopolitical issues — even if the issues don't touch the organization's bottom line. Organizations have seen a 20% increase in employee engagement on taking action on a social issue, compared to doing nothing.

CCOs can strengthen the organization's compliance culture and employee confidence in organizational values by developing timely and actionable communications and manager guidance. The communication shared by compliance and senior leaders must clearly state major compliance changes, the organization's commitment to its values and the importance of speaking up and must celebrate examples of desired ethical behavior. Approximately 40% of managers do not feel prepared to handle employee misconduct reports and questions. CCOs should equip managers with resources (such as handbooks) that outline their ethical responsibilities, signals they need to send to their teams and protocols to address employee issues and concerns. Further, CCOs must reinforce the organization's commitment to transparency and zero tolerance policies to sustain employees' trust in reporting misconduct to their managers.

Key Model-Specific Considerations

CCOs should use this list of questions to assess their capacity to flex into the role of culture and ethics steward:

- Is compliance culture consistently viewed as a part of the organizational culture?
- Do executives within my organization appreciate the impact and business benefits of a strong compliance culture?
- Is compliance regularly included alongside other functional partners in communications regarding the organization's stand on sociopolitical issues?
- Has my guidance directly supported managers/leadership to drive a culture of integrity or communicate integrity expectations to employees in a clear manner?
- Are my organization's employees comfortable sharing contrarian views, speaking up or reporting instances of misconduct?

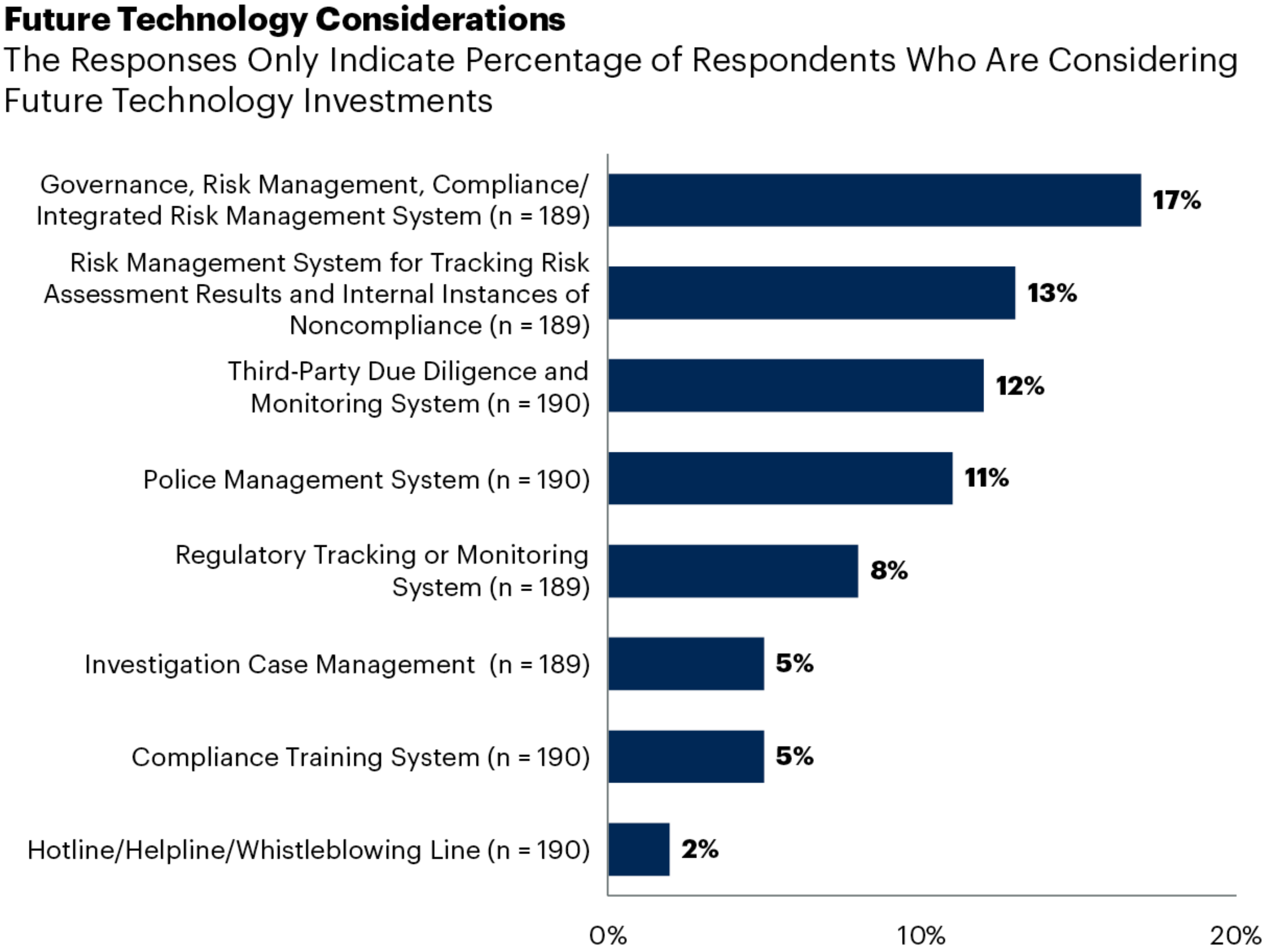
Model 3: Tech and Analytics Champion

The tech and analytics champion supports technology initiatives to improve risk mitigation outcomes and functional effectiveness and promotes technical skills development functionwide.

New and altered business models and COVID-19-induced disruptions have exposed organizations to new layers of risk. Simultaneously, workloads have increased for in-house compliance teams when they already face the same or reduced team sizes. Nearly one in five legal and compliance leaders is considering adopting technology systems to improve risk management efforts, inform decisions and meet the demands of an increased workload.

Initially dependent on compliance staff to identify sources of risk and misconduct, CCOs now look to harness the power of analytics, automation and artificial intelligence (AI) to augment the capabilities of a resource-pressed team. By YE20, compliance technology budgets are projected to have grown 1.8 times since 2019 in response to these needs. The focus, for CCOs, is to use systems that perform integrated risk management (17%), track risk assessment results (13%) and support third-party due diligence and monitoring (12%) to improve their risk management efforts (see Figure 5).

Figure 5. Future Technology Considerations



Q: Does your function use the following systems to support tracking or reporting compliance-related information?
Source: 2020 Gartner State of the Legal and Compliance Function Survey
746751_C

To ensure successful technology implementation, CCOs must create a technology adoption strategy by identifying the operational capabilities required from a technology solution and achieving stakeholder consensus on it. The strategy must be outcome-driven — that is, based on business needs and on hyped technologies or market trends. To execute the strategy, CCOs must build a three to five-year technology roadmap that defines timelines for implementing selected technologies, based on urgency and business needs, as well as outlines the accountability of various stakeholders (individuals or teams) involved.

Currently, despite increasing access to essential data, compliance dedicates only 2% of its budget for staff training. CCOs must allocate a greater portion of their technology budget to upskill their staff by identifying critical data analytics and technical skills and implementing related skills development opportunities (such as training). An equal focus on systems and talent ensures CCOs can adopt compliance technology to achieve both operational efficiencies and generate rich risk insights.

Key Model-Specific Considerations

CCOs should use this list of questions to assess their capacity to flex into the role of tech and analytics champion:

- Do I have my leadership and compliance staff's support for technology planning and implementation initiatives?
- What are my top technology priorities, and how aligned are they with my organization's technology goals?
- Is my compliance department prepared to use emerging technologies, such as AI and machine learning, to manage increasing workloads?
- Will technology help my department identify high-risk areas within the organization so we can proactively risk manage them?
- What new skills or training will my staff require in the next three to five years because of rapid advances in technology?

Model 4: Aligned Assurance Forger

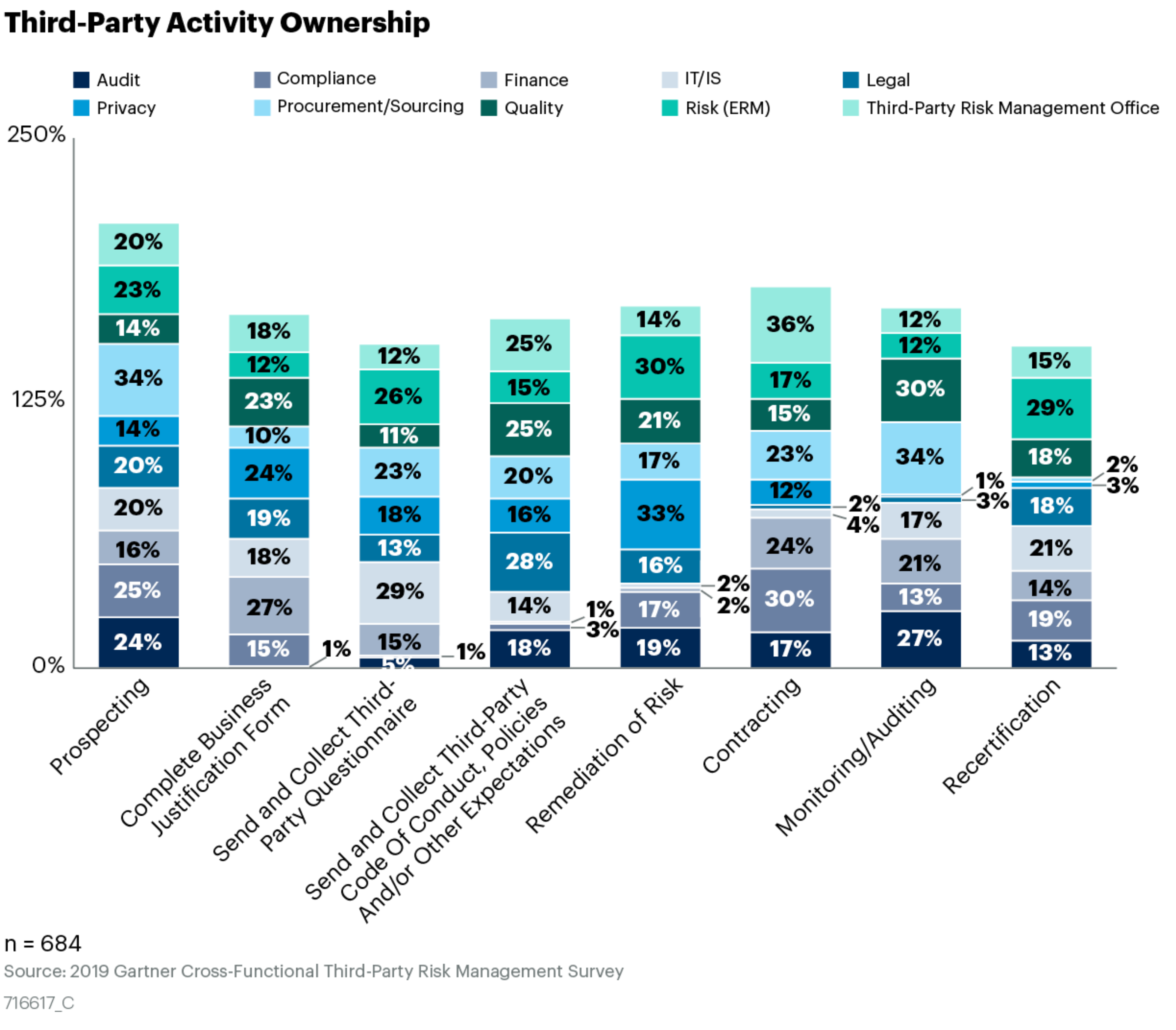
The aligned assurance forger establishes strong partnerships throughout assurance functions with clearly enumerated risk ownership, accountability and reporting roles.

Today, the average organization has 11 assurance functions, with most conducting risk assessments in silos, with limited visibility or coordination between them. This approach causes unclear risk ownership, mitigation redundancies or gaps, and disjointed — or sometimes conflicting — views of risk throughout the organization. For an organization, the costs of misaligned assurance activities can be significant and may include:

- Slowing corporate clock speed — Sixty percent of corporate strategists characterize their companies' decision making as slow.
- Process burden and noncompliance — Decreases in employee compliance can be attributed in part to the perception of high operational burden.
- Incomplete risk picture — Only 49% of middle managers analyze inherent risks in their business.
- Risk avoidance — Corporate risk aversion can cause stagnant or decreasing top-line corporate growth.

One terrain where the challenges of poorly aligned assurance play out prominently is within third-party risk management (TPRM). Our research shows different assurance functions perform discrete activities within the TPRM process with limited collaboration between them, resulting in the loss of critical third-party information owing to unclear roles and responsibilities for TPRM activities (see Figure 6).

Figure 6. Third-Party Activity Ownership



Organizations have begun to address concerns related to unaligned assurance — 42% of them have created an integrated risk assessment, and another 33% are planning to do so. This signals an urgency for compliance to coordinate its assurance efforts so it can obtain a comprehensive view of risks that threaten the organization, offer better assurance by minimizing redundancies and provide a unified assurance voice to the board.

To start, CCOs must identify opportunities to synthesize assurance activities such as risk assessment, mitigation, monitoring and reporting. CCOs can use an activity calendar to assess ongoing assurance risk activities within their organizations. Further, they can conduct an assurance mapping exercise to identify various risk owners and the scope of their risk coverage (i.e., whether a function is conducting only a high-level review or concentrating resources to manage the risk).

Key Model-Specific Considerations

CCOs should use this list of questions to assess their capacity to flex into the role of an aligned assurance forger:

- Would increased collaboration help optimize existing processes and improve my organization's risk and control environment?
- Has my senior leadership raised any concerns about high costs of disparate risk assessments throughout assurance functions?
- Have we observed gaps or overlaps in assurance throughout various organizational activities?
- Has there been any previous attempt to streamline assurance efforts within my organization? If so, what were the challenges?

Conclusion

To support a growing mandate, CCOs must be prepared to flex to four distinct models presented in this study: strategic business advisor, culture and ethics steward, tech and analytics champion, and an aligned assurance forger.

Transitioning to these models will require CCOs to take on added responsibilities. In some cases, shifting to a subset of these four models will entail positioning compliance as a strategic value driver rather than a cost center (e.g., the strategic business advisor). In other cases, the CCO may need to reassess talent needs and build a talent base with sophisticated technical expertise (e.g., tech and analytics champion).

Recommended by the Authors

Improve Compliance Risk Management Through Analytics

2020 State of the Compliance and Ethics Function

Maximize Integrity at Career Moments: Delivering Compliance Messages During Times of Change

Aligned Assurance: Coordinating Risk Monitoring and Reporting

About This Research

The analysis in this document is based on secondary research performed by Gartner.

Follow Gartner for Legal & Compliance on LinkedIn for daily tools and insights

Want to learn more? Talk to an expert:
gartner.com/en/become-a-client

About Gartner

Gartner is the world's leading research and advisory company and a member of the S&P 500. We equip business leaders with indispensable insights, advice and tools to achieve their mission-critical priorities today and build the successful organizations of tomorrow. Our unmatched combination of expert-led, practitioner-sourced and data-driven research steers clients toward the right decisions on the issues that matter most. We are a trusted advisor and an objective resource for more than 14,000 enterprises in more than 100 countries — across all major functions, in every industry and enterprise size.

Gartner®