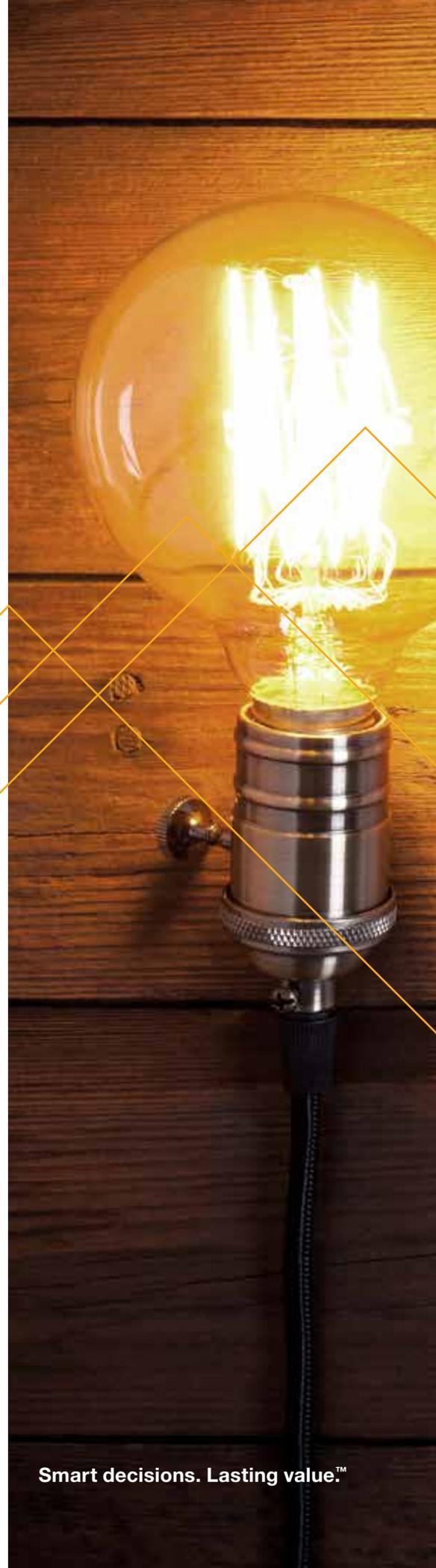




Four Strategies for Enabling Innovation in the Face of Risk and Compliance

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In the face of rapid transformation and digital disruption, perhaps one of the greatest risks organizations face today is the failure to innovate. Organizations increasingly are being challenged to innovate new products, services, delivery channels, and pricing and business models to meet customer demands. Yet, all too often, risk and compliance are perceived throughout many organizations as roadblocks to innovation and growth.

To support innovation and enable change while protecting against risk, companies must have the right attitude and approach across business culture, strategy, and organizational structure.

This checklist contrasts a forward-thinking approach to risk management with the practices that many companies have historically followed. Companies still sticking to conventional ways can take steps to help move toward a more progressive or forward-thinking way.

Rather than being the “no” function, risk management and compliance can enable success when aligned proactively with core business strategy.



1. Lay the Groundwork for a Strong Risk Management Culture

A strong risk management and compliance culture is one that enables and encourages communication and collaboration, where business lines, development teams and engineers, compliance departments, and back-office operations are working toward a common goal. This type of culture is defined by the actions of those at the top of the organization, as company leaders must set an expectation that risk management runs parallel to all company initiatives.

Here are some traits of a business culture in which risk management functions in the conventional way, contrasted with a more forward-thinking approach that supports innovation:

	Conventional	Forward-Thinking
Risk Awareness	<ul style="list-style-type: none"> ✓ Risk and compliance is the responsibility of the second-line function ✓ Compliance is rules-based 	<ul style="list-style-type: none"> ✓ Risk and compliance are everyone's responsibility and embedded in the natural processes of day-to-day business ✓ Compliance is values- and principles-based
Entrepreneurial Spirit	<ul style="list-style-type: none"> ✓ Customer acquisition and deep relationships are central ✓ Process improvement is most prized 	<ul style="list-style-type: none"> ✓ Rapid advancement of products, services, markets, and customers is central ✓ Transformation, incubation, and acceleration are most prized
Behavior	<ul style="list-style-type: none"> ✓ All failures are penalized ✓ Blame is assigned to failure 	<ul style="list-style-type: none"> ✓ Positive behavior is rewarded and recognized, even when resulting in failure ✓ Inappropriate behavior and treating customers unfairly is penalized

Organizations seeking to update their risk management culture to be more forward-thinking should start with the following:

Focus on the “why.”

Shifting the “why” of risk and compliance from a regulation statement to an underlying noble cause encourages enterprise action. This purpose might be different for every company, but imagine a culture in which the core purpose of activities is to foundationally ensure every customer is treated fairly and humanely rather than a purpose focused on keeping the organization away from fines and penalties.

Instill a collaborative approach to risk assessment.

Companies should consider risk holistically, rather than in silos. Risk categories such as operational, compliance, and cyber should be considered collectively in terms of their contribution to the overall risk within the business.

Reward positive behavior, regardless of outcome.

Innovation and new ideas should be encouraged. This means rewarding the action of innovation, even when the result is uncertain or ultimately fails.

Focus on ethics and values.

Particularly in an environment in which a company is taking chances on new ideas, ethics and values must be central to the business and risk management strategy and activities.

Ensure values are aligned with third parties and partners.

Companies are held accountable for the actions of their partners, so alignment of values with all partners and third parties is imperative to establishing a strong risk management culture.

2. Where Strategy Is Concerned, Put Risk Management in the Passenger Seat

Companies can begin to form a more systematic approach to risk-managed innovation by incorporating formal risk prioritization into organizational goals, strategies, and budgets.

Here are some traits of a business strategy in which risk management functions in the conventional way, contrasted with a more forward-thinking approach that supports innovation:

	Conventional	Forward-Thinking
Risk Appetite and Assessment	<ul style="list-style-type: none"> ✓ Decision-making is ad hoc ✓ Risk assessment is static 	<ul style="list-style-type: none"> ✓ Business operates within a predefined risk appetite ✓ Risk continuously is assessed using data analytics and is monitored within strategic planning and governance and processes
Business Opportunity	<ul style="list-style-type: none"> ✓ Business adapts reactively to changes as they come ✓ Risk management goes it alone or serves in a consultative role ✓ Risk and compliance are cost centers 	<ul style="list-style-type: none"> ✓ Business is mobilized for the future ✓ Risk management is characterized by strategic partnership, collaboration, alliances ✓ Risk management, with a focus on ethics and values, enable business strategy ✓ Risk and compliance identify opportunities for the business to pursue
External Environment	<ul style="list-style-type: none"> ✓ Company adapts to new risk and regulatory expectations only as needed 	<ul style="list-style-type: none"> ✓ Risk and compliance are viewed as sound foundations to good business, resulting in fair treatment of customers and society

Organizations seeking to update their approach to risk-managed strategy to be more forward-thinking should start with the following:

Formally and transparently document risk appetite and tolerance.

To accomplish innovation, organizations have to take some risks. Board members and senior management must set risk boundaries, and clearly articulate a level of leeway employees have to test those boundaries.

Focus on networking and relationships within the entire ecosystem.

Leadership should consider partnerships, both within and outside of the business, and whether they are embedding risk management in their decision-making.

Incorporate risk and compliance frameworks from the start.

Risk management considerations should be fundamental in strategic planning, rather than being tacked on at the end. Enabling risk and compliance in strategic planning might help illustrate any risks or compliance aspects of new products and services.

Position risk and compliance management as a tool for increasing competitive advantage.

Being compliant with relevant rules and regulations can drive better customer outcomes and growth opportunities. Organizations should harness the power of this competitive advantage, rather than viewing compliance simply as a baseline.

3. Organizational Alignment

An organization set up to facilitate risk-managed innovation has clearly defined roles and accountability and is structured using three lines of defense: line of business, risk and compliance, and internal audit.

Here are some traits of an organizational structure in which risk management functions in the conventional way, contrasted with a more forward-thinking approach that supports innovation:

	Conventional	Forward-Thinking
Leadership	<ul style="list-style-type: none">✓ Innovation is opportunistic, rather than systemic	<ul style="list-style-type: none">✓ Innovation and strategy are a dedicated focus
Roles and Accountability	<ul style="list-style-type: none">✓ Risk and compliance operate in silos✓ Compliance and risk training are assigned based on functional role	<ul style="list-style-type: none">✓ Lines of defense are coordinated and transparent✓ Risk management and compliance training are offered holistically, across the company
Effective Challenge	<ul style="list-style-type: none">✓ Risk managers write policies and respond to “issues”✓ Internal audit tests legacy functions	<ul style="list-style-type: none">✓ Risk managers challenge and provide advisory support to the business✓ Internal audit reviews and challenges risk management functions

Organizations seeking to update their organizational structure to be more forward-thinking should start with the following:

Form a dedicated innovation function.

People in the office should have clearly identified roles and responsibilities geared toward transforming business offerings and activities and focusing on innovation and risk management.

Broaden the risk and compliance training program.

Having an agile and flexible training program allows organizations to quickly train team members as needed and enables collaboration through diverse personnel.

Create a coordinated, three-lines-of-defense communication plan.

Line of business, risk management, and internal audit must work together in a coordinated fashion in order to manage risk without duplicating efforts. A document laying out the plan can help to align all parties around goals and objectives.



4. Structure the Business for Change Enablement

Organizations should integrate risk management improvements into existing practices to prepare for future shifts in risks and regulations.

Here are some traits of a change management system in which risk management functions in the conventional way, contrasted with a more forward-thinking approach that supports innovation:

	Conventional	Forward-Thinking
Change Management	<ul style="list-style-type: none"> ✓ Remediation of compliance and risk issues is reactive 	<ul style="list-style-type: none"> ✓ Risk and compliance issues are identified and supported through enterprisewide processes ✓ A change management playbook that anticipates possible future issues is used
Stakeholder Relations	<ul style="list-style-type: none"> ✓ Response to market is reactive and event-based ✓ Stakeholder relations are driven by the what and how 	<ul style="list-style-type: none"> ✓ Risk and compliance are agile in managing emerging risks ✓ Stakeholder relations are driven by the core purpose of the business and risk management strategy
Resource Allocation	<ul style="list-style-type: none"> ✓ Project teams are formed ad hoc 	<ul style="list-style-type: none"> ✓ Incubation and innovation are proactive

Organizations seeking to set themselves up to effectively respond to changing risks and regulations based on a more forward-thinking approach should start with the following:

Establish change enablement standards.

Companies should create a playbook for innovation and change that includes the activities necessary for understanding the risk associated with the change and the required operational activities and controls necessary for execution.

Mobilize diverse teams.

Creating a team of staffers with a diverse set of skills, experience, and backgrounds will best position the company to respond as needed to change.

Plan for resilience.

Having plans in place that define organizational needs relating to change initiatives will enhance agility.

Create formal incubation and accelerator programs with risk and compliance representation.

These programs should be designed to create a safe environment that permits failure in the quest for innovation.

Strategic Integration of Risk Management is Key to Innovation

Organizations are losing out on certain business opportunities due in large part to conventional ways of thinking about risk, compliance, and decision-making. Just as transformation is affecting the products and services delivered in the market, new thinking and practices are needed as organizations ready their risk and compliance functions to adapt to this emerging and fast-paced environment. By strategically integrating risk management into core operations, companies can innovate and capitalize on business opportunities abundant in the marketplace while helping to protect themselves and their customers from harm.



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