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Bridge the gap between "knowing" and "doing"

Use learning programs to develop Enterprise Risk Intelligence™

The stage

Since the Enron era, organizations have exerted considerable effort to develop broader/clearer risk management infrastructure and programs focused on identifying, assessing, and mitigating risk. Senior leaders and Boards of Directors have been charged with more actively monitoring risk, and the role of the Chief Compliance Officer and Chief Risk Officer has evolved significantly. In the last wave of industry improvements, Integrated Compliance and Risk Management (ICRM) took shape to drive higher degrees of integration, efficiency, and impact.

Yet, despite all the emphasis and effort, some of these same companies are still struggling to effectively drive regulatory adoption, compliance, and risk management behaviors. This gap between heightened awareness and execution — between "knowing" and "doing" — lies in the way we educate employees.

Learning is not only an integral component of an enterprise's risk management and compliance strategy, but the foundation upon which the workforce can be mobilized and empowered to make valuable day-to-day risk-reward trade-offs. To take risk management to the next level, organizations need to focus on education. Specifically:

- How can the operating model of compliance and risk functions, and their interactions with the business, help drive, develop, and support the right skills, capabilities, and mind-set?

- And how can we cultivate awareness and appreciation of the business's risk appetite, and simultaneously develop people's critical thinking and decision-making skills to appropriately apply this knowledge given their specific role and responsibilities?

Uncertainty yields necessity

Unexpected, extraordinary events have historically opened the door to new laws and regulations to mitigate the risk of similar events in the future. The first decade of the twenty-first century saw several instances of this phenomenon. September 11, 2001, transformed the transportation industry and made travel more difficult and more costly for both consumers and providers. Shortly thereafter, the Enron scandal forever altered the accounting and reporting industry. Later in the decade, lead-tainted toys produced in China and exported around the globe, lead to million dollar civil penalties and widespread fear and mistrust of products in the consumer goods industry. And most recently in the financial services industry, the economic implications following the collapse of the mortgage-backed securities market has left the world in an unprecedented state of monetary flux.

In each industry, the occurrence of unanticipated events has yielded a dramatic transformation of the environment in which we find ourselves.

Culture matters

Deloitte's 2010 white paper, The People Side of Risk Intelligence, discussed the intersection of talent and effective risk management. Here we're expanding on that theme, focusing specifically on the fundamental role learning plays in building a more Risk Intelligent Enterprise. Is having a compliance learning program enough to drive compliant behavior? Or, can taking a Risk Intelligent Enterprise's view to risk management and compliance result in more sustainable behavior and business results?

Before we explore these questions further, it's important to review three basic assumptions previously introduced in The People Side of Risk Intelligence that underscore the relevance of culture and motivation in driving behavior.

- **Assumption #1: There are written rules; and there are unwritten rules.** The most direct definition of corporate culture might simply be: "the way things are done around here." The challenge, as Peter Scott-Morgan pointed out in the early 1990s, is that the unwritten rules in an organization often provide a different set of directions and counsel about which behaviors lead to being effective than do the formal, written rules:

  Written rule: To become a top manager, you need broad experience.

  Unwritten rule: To get to the top, job-hop as fast as possible.

  Written rule: Managers are responsible for their profit and loss (P&L)

  Unwritten rule: Protect your turf and watch your quarterlies[1].

- **Assumption #2: Talk (alone) is cheap; Culture change follows behavior change.** Culture, while not easy to master, is crucially important in taking Risk Intelligence beyond the mechanical articulation of rules and regulations. In the end, culture is what makes Risk Intelligent behavior "the way we really do things around here" — the hallmark of the truly Risk Intelligent Enterprise. And experience shows that culture change invariably follows behavior change. To jump-start the journey to a Risk Intelligent culture, it's far more effective to pull levers that affect how employees act — such as rewards, roles and responsibilities, and training — than to rely on pronouncements and process alone to drive the desired change in behavior. Culture and behavior change, after all, are less a product of formal risk policies and controls than they are a result of the "real world of incentives and rewards" within which managers and employers operate.

Assumption #3: Learning and development is a mechanism…but it's just a piece of the pie. An ethical workforce can be one of a Risk Intelligent Enterprise's most valuable assets. Consider that the average U.S. business loses an estimated 7 percent of its revenue to occupational fraud and abuse each year — and that more cases of employee misconduct come to light through reports by other employees than in any other way.

With this much value at stake, boards and executives should not allow risk management to remain a strictly private matter between an employee and his/her conscience. They need to also actively promote a Risk Intelligent culture holistically by articulating the organization's objectives, communicating the key concerns that impede these goals, and by translating and applying the enterprise's risk appetite into day-to-day decisions. This holistic approach to Risk Intelligence will necessitate learning and development, but shouldn't rely solely on formal training experiences. Risk management is a way of thinking, and becoming more effective requires an integrated learning approach — where each opportunity is viewed through the lens of risk identification, assessment, action planning, and monitoring[2].

If you agree with the assumptions — that culture change follows behavior change, and that learning and development is one component of driving behavior change — then we have some ideas that might change the way you approach risk management and compliance learning in your organization.

Living (and learning) by unwritten rules

A key to developing holistic compliance and risk management programs is to understand the unwritten rules that managers and employees live by, and then account for these in your learning programs.

As examined in Deloitte's "The People Side of Risk Intelligence:

Creating a Risk Intelligent culture requires boards and executives to focus both on an organization's written rules by clearly defining risk management objectives and priorities, and to take a hard, honest look at the unwritten rules, the ways of working, that permeate their organization and shape people's behavior. In doing this, board members and executives are responsible not just for setting the right 'tone at the top,' but also for cultivating an enterprise-wide awareness of risk that fosters Risk Intelligent behavior at all levels of the enterprise. Job-specific training, communications campaigns, and other efforts to educate employees and manage change are essential.

The development of compliance and risk management learning programs should acknowledge the "way things are done around here" — and that may mean taking a hard look at the penalties and rewards that exist to foster "bad" behavior.

An often-made mistake when considering risk and compliance programs is to follow a basic formula of developing written procedures, accompanied by a companion program that articulates those policies and procedures to employees. This misses a key component for an effective effort—an acknowledgement of the way that things are really being done. Without it, you're not adequately enabling managers and employees to actualize what they're learning on the job — even with the most effective designed risk and compliance programs.

Defining utopia and making it real

If you had unlimited resources and your limits were boundless, what would your organization's Risk Intelligence profile look like? In order to keep your eye on the prize, it's important to have first defined the utopian end goal. Environmental, geographical, industry, and regulatory factors influence the desired state. But risk management and compliance capabilities are by-products of this goal and are uniquely defined accordingly.

Many organizations make it this far. But once Utopia is defined, it's time to make it real. It's time to figure out why the desired level of Risk Intelligent behavior and culture is not already a reality? This is where the rubber hits the road. Formal learning can address an identified skill deficiency. But the typical challenge with risk management and compliance is that people know what they're supposed to do, they just struggle to apply this thinking consistently in their daily responsibilities. Formal learning is unlikely to address the problem.

Level of Risk Intelligence

To what extent is it successful in meeting objectives?

How does it compare to competitors?

What is the current design, development and delivery strategy?

What is the learning design, development and delivery governance model?

Who are the critical internal stakeholders?

Where are the "pain points" — those external pressures and or internal potention risks of failure?

What are the agreed upon objectives for this leaning portfolio?

What is coming around the corner?

What are they looking at and demanding now?

Who are the critical external stakeholders?

Knights of the round table: Who leads the charge?

Many leading organizations prioritize their compliance and risk management agenda as one of their critical business objectives. But what about the compliance and risk management learning agenda? Effective implementation of a learning strategy is driven by the Chief Compliance Officer, Chief Risk Officer, or even Chief Ethics Officer with support from the Chief Learning Officer. The CRO/CCO/CEO defines the enterprise's risk strategy, with input from the rest of his/her C-level colleagues. Then, the risk and compliance functions, in partnership with the CLO and the learning organization, work together to develop a broad/clear and integrated program that translates the organization's specified/most significant level risk philosophy and objectives into meaningful and actionable learning programs for employees in relevant areas and levels of the organization.

| The Role of a Chief Risk Officer/ Chief Compliance Officer/Ethics Officer	Risk Organization and Governance Model
• Responsible for designing, implementing, and objectively monitoring an effective organization-wide risk management program and framework, and the effectiveness of business unit activities • Provides transparency to the CEO and Board of Directors on enterprise risks, management plans to address them, overall exposure, and residual concerns • Oversees and collaborates with business leader on the implementation of risk activities within their functions	• Creates a structure to involve senior business unit managers in the enterprise's annual risk management activities, including monitoring, measuring, and managing business risks • Establishes a common risk framework supported by appropriate standards that are used throughout the organization to manage risks • Evaluates and prioritizes enterprise risk exposure, with regular briefing to the CEO and Board of Directors • Establishes organizational process, policies, integration channels, and cross-functional collaborative means to facilitate effective risk management across the organization
The role of a Chief Learning Officer	**Learning Organization and Governance Model**
• Serves as strategic business advisor with learning and development knowledge/specialization • Establishes the learning and development program objectives based on the business and customer needs analysis • Oversees and collaborates with business leaders on the implementation of learning and development programs • Manages the learning and development area as a business unit, instituting a budgeting process and performance metrics model	• Creates a structure to involve senior business unit managers in learning and development • Incorporates the appropriate and required roles from across the organization as part of the learning and development decision-making processes • Evaluates and prioritizes customer needs and how they translate in to staff development needs • Provides a clear line of accountability and escalation for learning and development needs

The risk intelligent learning strategy

Compliance is not about "checking the boxes." Anyone familiar with news headlines has seen that no organization can risk its reputation or integrity, or expose its customer base to harm, because of accidental or intentional actions on the part of employees. You should have an aggressive learning strategy to create a Risk Intelligent Enterprise that can protect and allow your organization to meet its current and future business goals.

A learning strategy to meet the ever growing demands of the new regulatory, compliance, and risk environment should address two objectives:

- **Meeting the requirements of regulators.** Whether it is the SEC, OSHA, or the FDA, external stewards consider "training" a demonstration of your company's commitment to adhering to regulations. Spending the time and resources on compliance and regulatory adoption education wins points, because it helps. Employees should become familiar with what is required of them, and repeatedly engage with the material in a meaningful way so that it becomes a part of their day-to-day responsibilities.

- **Executing effective, consistent risk/reward analysis and decision making.** Yes, we should build knowledge of policies and procedures, but there are too many rules and they frequently change. We should build our employees' judgment muscle, so they recognize the "red flags" when they engage in a potentially risky situation. They should know how to appropriately assess a situation and the consequences associated with various courses of action. And, they should be able to make a decision, or, when inappropriate, know where to go to for guidance and assistance.

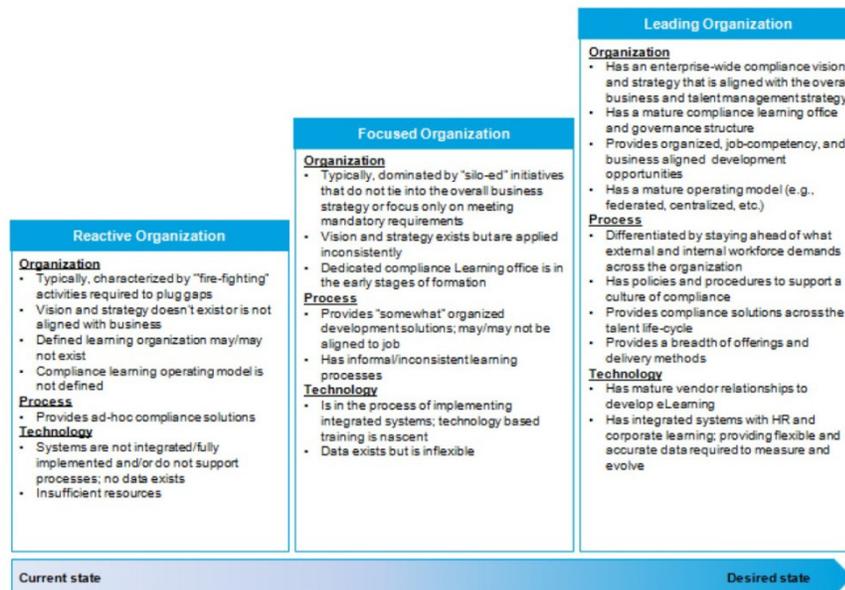## Level of Enterprise Risk Intelligence Maturity
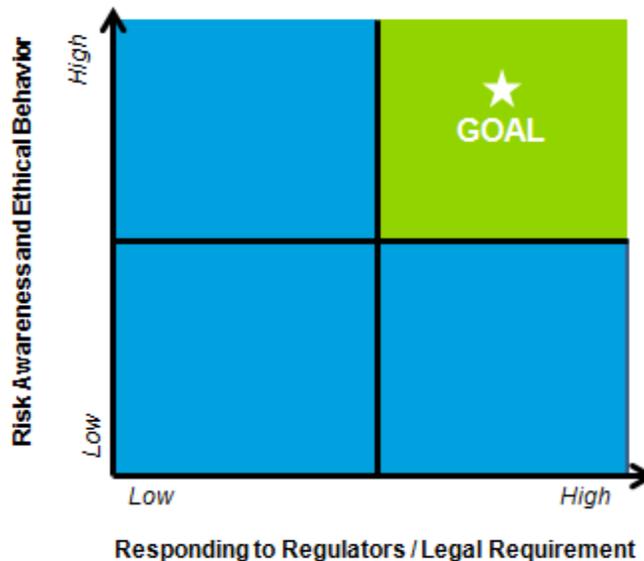
Ultimately, be deliberate

As the business continues to shift amidst often changing regulatory requirements, the organization should consider having an aggressive forward-looking strategy for a portfolio of risk and compliance learning solutions as critical. Consider the extent to which your learning programs include the following:

Strategy[3]	How it applies
Outside-In Perspective	This is a dynamic portfolio that must be hypersensitive to the outside in terms of the regulators, the economy, and customer's needs. It should set the standard and differentiate the organization via its commitment to integrity, ethics, candor, safety, and thoroughness. And it must allow for regular refresh and updates.
Customized	In order for the learning to go from a "check the box" approach to "impacting behavior," the learning cannot be "one size fits all." The learning should be customized to department, level, individual, and even generational needs. Each individual in the company must be able to directly connect their learnings to their responsibilities within the organization.
Leading-edge	In order to truly impact behavior, you should leverage the full tool kit of delivery methods: Reality learning, just-in-time learning, e-learning, smart phone learning delivery, virtual live sessions, leader-led experiences, and social learning apps. Use new ways to reinforce and retain learning via collaborative social media like wikis, blogs, and virtual discussion boards targeted to specific purposes and communities.
Integrated	The risk management and compliance learning agenda needs to be integrated into the full suite of the organization's learning strategy. For example-if there is a leadership development program or a new manager program, Risk Intelligence training should be a critical part of the objectives.
Outcome-driven	There are very real consequences for your organization if behavior is not impacted in the right direction. It's more than your eyes on this — you have outside regulators looking in as well. You must have a structure that tracks compliance and also have metrics that allow you to gauge impact.
Synchronized	Learning can't do this alone. To effectively meet objectives, a governance structure should be in place that engages the required stakeholders.

An organization's stability, health, and future shouldn't rely on its current configuration of solutions without clear direction and without confidence they will actually drive toward the desired results. It is important to begin with a clear picture of your current state (are you Reactive, Focused, or Leading?) and go from there to build, hone, or maintain your preferred/leading risk-focused learning strategy.

Reactive Organization

Organization
- Typically, characterized by "fire-fighting" activities required to plug gaps
- Vision and strategy doesn't exist or is not aligned with business
- Defined learning organization may/may not exist
- Compliance learning operating model is not defined

Process
- Provides ad-hoc compliance solutions

Technology
- Systems are not integrated/fully implemented and/or do not support processes; no data exists
- Insufficient resources

Focused Organization

Organization
- Typically, dominated by "silo-ed" initiatives that do not tie into the overall business strategy or focus only on meeting mandatory requirements
- Vision and strategy exists but are applied inconsistently
- Dedicated compliance Learning office is in the early stages of formation

Process
- Provides "somewhat" organized development solutions; may/may not be aligned to job
- Has informal/inconsistent learning processes

Technology
- Is in the process of implementing integrated systems; technology based training is nascent
- Data exists but is inflexible

Leading Organization

Organization
- Has an enterprise-wide compliance vision and strategy that is aligned with the overall business and talent management strategy
- Has a mature compliance learning office and governance structure
- Provides organized, job-competency, and business aligned development opportunities
- Has a mature operating model (e.g., federated, centralized, etc.)

Process
- Differentiated by staying ahead of what external and internal workforce demands across the organization
- Has policies and procedures to support a culture of compliance
- Provides compliance solutions across the talent life-cycle
- Provides a breadth of offerings and delivery methods

Technology
- Has mature vendor relationships to develop eLearning
- Has integrated systems with HR and corporate learning; providing flexible and accurate data required to measure and evolve

Current state ➝ Desired state

Getting there: Keys to risk intelligent learning

- **Assess where you are now.** What is the maturity level of your existing compliance and risk management learning strategy (Reactive, Focused, Mature)?

- **Bring the critical stakeholders together to build the applicable governance structure**. Leading organizations build a governance structure that brings together key internal stakeholders (e.g., Risk, Compliance, Ethics, Security, Quality, Privacy, Legal, Independence, business unity champions, with Learning and Development).

- **Have your stakeholders agree on their priorities for the desired outcomes.** For example, meeting regulators' requirements, demonstrating to regulators a commitment to address a particular issue, increasing the learner's understanding of the targeted regulations, confirming/determining integration with communications, resources and job aids to enhance retention and behavior change, making it available in multiple languages, and/or confirming cutting-edge use of social media.

- **Consider the effective delivery method for the content and the targeted audience.** For instance, live workshops, simulations, coaching and mentoring, e-learning, and/or blended learning.

- **Build an integrated reporting system to monitor and track compliance and measure your effectiveness.** Confirm that employees have the tools and supporting infrastructure to be aware of what's required of them, track their progress, and explore additional opportunities to enhance their capabilities. Further metrics and tracking for those in an oversight capacity, e.g., the compliance function, should also be incorporated for easy reporting and regular monitoring and feedback on program effectiveness.

- **Hold people accountable and communicate consequences**. Risk management is a discipline. It requires accountability, and the most effective role models are the leadership team. Establish a learning agenda that is in line with leadership's philosophy, and by example, set the standard of expectations. Then require the same from everyone else.

Conclusion

Being able to effectively manage and mitigate the risks associated with an uncertain future is what differentiates business effectiveness and failure. We have seen an evolution in the last decade in the development of effective risk management functions, practices, and tools, including the enhanced role of the Chief Compliance and Risk Officer — all designed to more effectively support organizational compliance, regulatory adoption, and risk management efforts. However, effective risk management requires something even more fundamental. It is a core component of individual and group decision-making, which means it should be a part of the very manner in which individuals, teams, and functions think and act.

Yet, despite all of the risk management advances to date, organizations are still struggling to effectively drive compliance and risk management performance throughout the enterprise. Learning is the key to bridging the gap between this heightened awareness of the importance of risk mitigation, and the execution of effective behaviors to manage it across the enterprise. Learning is not only an integral component of an enterprise's risk management and compliance strategy, but the foundation upon which the workforce can be mobilized and empowered to make valuable day-to-day risk/reward tradeoffs. To take risk management to the next level, organizations should focus on education — driving awareness and critical thinking to support more effective workforce decision making.

Know what you're up against

Learning to be Risk Intelligent doesn't come easy. Know the common challenges you're bound to face, and find experts you can trust to help you counter them.

- Rapidly changing, significantly increasing content
  - Heightened amounts of regulatory change
  - New regulatory bodies altering requirements for corporate controls
- Content that requires two different modes of learning and application: knowing and doing
  - Content is typically detail oriented and task specific, mandating specialized knowledge of particular requirements, processes, and procedures
  - Content is simultaneously behavior and principal driven, requiring core critical thinking and processing abilities
- Lack of perceived relevance or importance
  - Programs around risk, compliance, and ethics are frequently viewed as requirements but irrelevant to day-to-day responsibilities
  - Content in these courses is often perceived by the workforce as dry and dull
- The need to set the appropriate tone
  - How the top, middle, and bottom of the organization treats Risk Intelligence and learning are important considerations to drive appropriate levels of understanding, interpretation, and engagement
- Absent or minimal monitoring of employee engagement in required activities
  - Providing expectations is important, but monitoring and reporting on the back-end to confirm employee compliance and engagement for ongoing improvement and performance is crucial

Contact information

Bill Pelster
Deloitte Consulting LLP
Seattle, WA
+1 206 716 6103
bpelster@deloitte.com

Josh Haims
Deloitte Consulting LLP
Philadelphia, PA
+1 215 246 2577
jhaims@deloitte.com

Jen Stempel
Deloitte Consulting LLP
Boston, MA
+1 617 585 5862
jstempel@deloitte.com

The following practitioners have contributed to this publication: Denise Rotatori, Johanna Jones and Ellen Quint.

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[1] Peter Scott-Morgan, The Unwritten Rules of the Game: Master Them, Shatter Them, and Break Through the Barriers to Organizational Change, McGraw-Hill, 1994.

[2] Association of Certified Fraud Examiners, "2008 report to the nation on occupational fraud and abuse," 2008. Available online at http://www.bentley.edu/cbe/documents/2008_report_to_the_nation_on_occupational_fraud-abuse.pdf

[3] Based on the Deloitte Talent Development Strategy

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