

COMPLIANCE AND REGULATORY DISRUPTION

The interplay of regulatory trends and strategic priorities



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Executive summary

Executives universally agree that the scale of compliance standards and regulation has increased. Implementing regulation trends has not been easy, however, and many are still unsure about the future regulatory landscape.

Organisations are quick to bemoan the cost and energies needed to adopt each regulation. And in some cases, executives believe that achieving compliance has come at the expense of primary business objectives, such as operational improvements and innovation.

A survey conducted by The Economist Intelligence Unit, sponsored by OpenText, reveals that businesses are resilient and strategic solutions to compliance overload are well under way. Information governance has become a central priority around the world as companies try to adapt to new and changing regulations more quickly. The research also finds that information governance is delivering benefits such as increased security, accessibility and accuracy of information.

Key findings of this research include the following:

The pace of change is difficult to manage

Nearly every survey respondent says that their firm has experienced a significant increase in the scale and scope of regulation. Yet only a third of organisations consider themselves very successful at addressing the waves of compliance-related challenges such as operational disruption.

Strategic objectives are hindered by compliance trends

The ability of business organisations to achieve their strategic objectives—particularly revenue growth and operational improvement—is hindered by the scope and pace of regulatory change, according to the majority of respondents. Furthermore, many businesses say the challenges presented by regulation are often in direct conflict with organisations' strategic priorities.

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GDPR has a resounding impact

Globally, less than 1% of respondents admit to doing “nothing at all” in response to the General Data Protection Regulation (GDPR), which is the regulation that addresses the data protection and privacy of EU residents. Furthermore, most executives say GDPR has directly changed their strategies or operations, as well as affected their financial goals.

Organisational improvements from information governance are well under way

Organisations are adapting approaches to information governance in order to more efficiently meet new requirements. But perhaps as a result, nearly half also report beneficial improvements in security and reduced risk exposure.

About the report

The scale of regulatory change that all industries face brings costs, risks and opportunity. Organisations are adapting in different ways to meet these challenges, and some industries are proving more effective than others.

Compliance and regulatory disruption: The interplay of regulatory trends and strategic priorities was written by The Economist Intelligence Unit and sponsored by OpenText. The research is based on a survey of 307 business executives from enterprises across industries located in the US, Canada, UK, France, Germany, Australia and Japan.

All survey respondents are familiar with compliance and regulatory requirements as they relate to information governance and security in their respective industry.

Survey demographics

The Economist Intelligence Unit survey sought an equal representation of senior executives across key industries and functions. Half of the survey respondents are C-suite executives and the remaining respondents hold positions at or above the director level. Respondents are equally split between six industries: distribution and transportation, financial services, government, healthcare, manufacturing, and retail. They also represent an equal division among the following functions: legal and compliance, finance, general management, human resources, IT, and marketing. Additionally, all respondents represent organisations with global revenue of more than US\$50m, half of which have annual global revenue of US\$500m or greater.

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CHAPTER 1:

Strategic challenges and costs of compliance

Unequal distribution of regulatory burden

Regulations have always been a part of business. They are an essential way in which governments influence economies and protect societies, and their authority has always had a significant influence on how a company operates.

The scope of any given regulation may affect companies around the globe, while other regulations are highly specific to industry, region and products. Whatever the impact, it is the responsibility of each business to be aware of and ensure compliance to regulations as they are established.

Responding to compliance has become more taxing. The majority (64%) of survey respondents report feeling hampered by the increasing scope and pace of compliance changes in the past three years alone.

Yet not all organisations bear the burden equally. When it comes to severity, few will be surprised to learn that the financial services sector is one of the most strongly affected by recent compliance changes. Respondents in this sector most often say that in the past three years the pace of change has “increased a great deal” and that the scope has increased significantly as well.

That’s not surprising to Latha Balakrishnan, director of compliance and regulatory consulting at Duff & Phelps in the UK. As Ms Balakrishnan notes, “a lot of regulation in recent years has followed from a reactive approach to major events. In the financial services sector, for example, the major global financial failures that erupted in 2007-09 prompted the more stringent regulatory attitudes of governments and regulators.”

Indeed, many strategically significant regulations have come into play for the financial sector in the past few years. These range from Basel III (2015) and the Markets in Financial Instruments Directive II (MiFID) (2018) to the Second Payment Services Directive (PSD2) (2018) and the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) (2018). Few financial operations are left untouched.

The manufacturing industry and distribution and transportation sectors also lead among those who say the pace and scope of regulation have significantly increased. This is hardly surprising. A 2017 report by QuantGov found that the volume of rules and policies for the manufacturing sector is rising, and that over 217,000 federal regulatory restrictions—from the broad to the highly specific—are now relevant in North America. More than 100,000 of those are related to chemical manufacturing alone.¹

Footnote:

1. Patrick McLaughlin, Jonathan Nelson and Oliver Sherouse, “Regulatory Accumulation in the Manufacturing Sector”, <https://quantgov.org/charts/regulatory-accumulation-in-the-manufacturing-sector/>

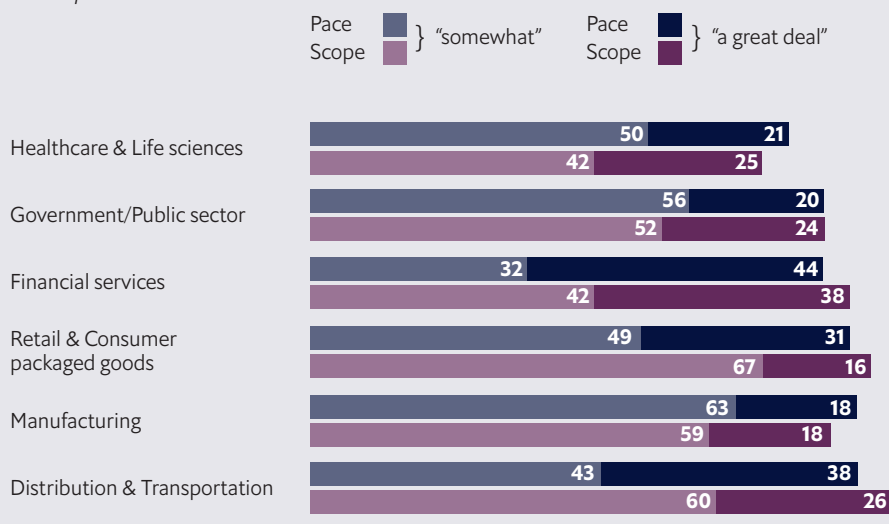
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CHART 1:

Respondents who say that the pace or scope of changing compliance standards and regulations related to their organisation has increased either "somewhat" or "a great deal" in the past three years.

% of respondents



Europe, closely followed by North America, reports the biggest scope of regulatory change (31% Europe v 19% APAC) on a regional basis. Again, this is not surprising. The European Commission proposed and created many of the most far-reaching regulations, including PSD2, PRIIPs, MiFID and GDPR, all of which largely relate to the protection of EU customer and resident data.

Although GDPR is centred on the protection of EU resident data, the globalised nature of businesses and consumers means even region-specific legislation can have global ramifications.

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Disconnect between compliance and organisational strategies

Despite what may seem a tidal wave of regulation, only 1% of respondents say that they are completely failing to address compliance challenges. Nearly a third of organisations (31%) consider themselves very successful at addressing their compliance-related challenges, although most describe themselves as only somewhat successful (65%).

But compliance can often hinder corporate objectives.

According to our survey, revenue growth and improving profitability are the top strategic objectives in the private sector, and improving public service delivery is the top priority in the public sector. Cost reduction, innovation and stronger customer acquisition/citizen engagement are also prioritised by respondents.

Yet, when asked if and how the increasing scope and pace of compliance have affected their organisation, the most commonly selected consequences are operational disruption (38%), slower growth (28%) and slower innovation (28%)—results that are in direct competition with the top strategic priorities.

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Two-thirds (64%) of respondents say that the pace of regulatory change and scope of regulations are a direct and significant hindrance to achieving their strategic objectives. Only 10% say that the trends are “not at all” a deterrent.

CHART 2:

Main challenges currently facing organisations due to changing compliance standards and regulatory uncertainty

% of respondents



Financial services present a persistent outlier to these findings. The majority (76%) of these respondents say regulation and compliance hinder their strategic objectives, compared with 61% of manufacturing and 58% of public-sector respondents.

These results also differ significantly among regions. Out of the European respondents, 74% said regulations are a hindrance, compared with 65% in North America and 52% in Asia-Pacific.

The specific challenges that organisations cite vary extensively by industry. For example, the manufacturing industry twice as often reports slower innovation because of compliance issues than healthcare (37% v 19%). But healthcare blames compliance for slower growth twice as much as financial services, and nearly three times as much as the public sector (39%, 18% and 12%, respectively). Retailers also report some of the greatest compliance-related operational and customer-engagement challenges relative to other industries.

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CHART 3:

Top three challenges currently facing organisations due to compliance standards and regulatory uncertainty, by industry

% of respondents

	Operational disruption	Slower growth	Reduced or slower innovation	Regulatory disputes and/or fines	Decreased customer engagement/satisfaction
Distribution & Transportation	32	32		30	
Financial services	36		32	36	
Government/Public sector	40		26	24	
Healthcare & Life sciences	42	39			25
Manufacturing	39	28	37		
Retail & Consumer packaged goods	41	39	28		

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CHAPTER 2:

GDPR—a universal catalyst for change

Few businesses have escaped one of the most significant personal data and privacy protection mandates in the world: the General Data Protection Regulation (GDPR). Nearly all organisations surveyed (99%) report that they have at least started to develop and implement a strategy to comply with GDPR.

According to Ms Balakrishnan, “GDPR will be a game changer. It’s not telling people how to check any particular box within their own organisation. It’s driving them to manage their risk, explain their risk management and live by their own standards. The direct effect of this regulatory intervention is to empower people and give choice to the consumer.”

Indeed, a quarter of respondents (25%) say that they have entirely changed strategy or operations specifically in response to GDPR. Another quarter (25%) also report that they have entirely changed a strategic or financial goal to comply with the new regulation.

The impact on financial goals may largely be due to the cost of instituting and maintaining various measures of compliance, including technology updates and employing dedicated compliance managers. It is estimated that Fortune 500 members will spend a combined US\$7.8bn preparing for GDPR alone, and that small and medium-sized businesses in the UK, for example, spent on average more than 600 hours to ensure compliance before its deadline.^{2,3}

Nearly all respondents have raised awareness of GDPR among all employees and executed a strategy to comply with GDPR. Slightly fewer have implemented new or updated technologies or established GDPR as a Csuite or board-level issue.

Notably, presenting GDPR as a board-level issue is a more frequent call-to-action in North America (82%) than in the regulation’s originating region (Europe: 68%). In Asia-Pacific, GDPR is also frequently elevated to the board, according to 71% of that region’s respondents.

Interestingly, public- and private-sector approaches to GDPR implementation do not vary significantly; the sole exception is that the public sector is significantly more likely to change its strategy or operations than private organisations. This may be because the public sector relies heavily on personal data to understand the public it serves, which in turn helps it achieve its top strategic objectives: public service improvements and citizen engagement.

Footnotes:

2. B2B Marketing, “GDPR: How much time are companies spending in preparation for the new data regulation?”, <https://www.b2bmarketing.net/en-gb/resources/news/gdpr-how-much-time-are-companies-spending-preparation-new-data-regulation>
3. Mehreen Khan, “Companies face high cost to meet new EU data protection rules”, <https://www.ft.com/content/0d47ffe4-ccb6-11e7-b781-794ce08b24dc>

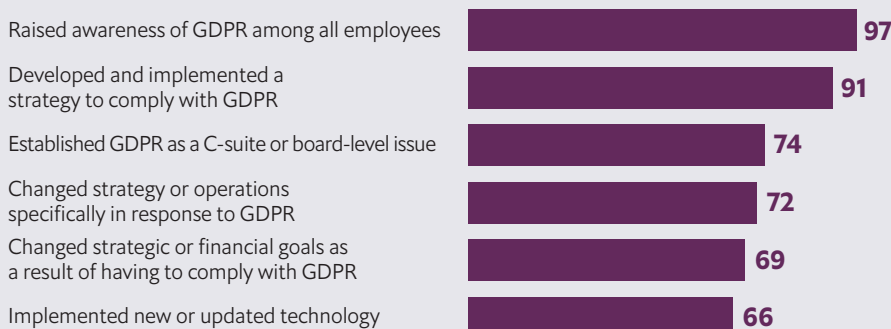
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CHART 4:

Actions taken in response to GDPR

% of respondents choosing "somewhat" or "entirely"



It is notable that manufacturers are less likely to say that they have developed and implemented a strategy to comply with GDPR (84% v 92% respectively for retail, and 92% for financial services). And manufacturers' leading response to GDPR is to "raise awareness among employees," yet they least often say they have established GDPR as a C-suite or board-level issue.

Non-compliance with GDPR yields fines that most businesses cannot easily afford. Thus the transformation is particularly urgent for many organisations and, worryingly, only 41% of respondents rank their preparedness for GDPR positively.

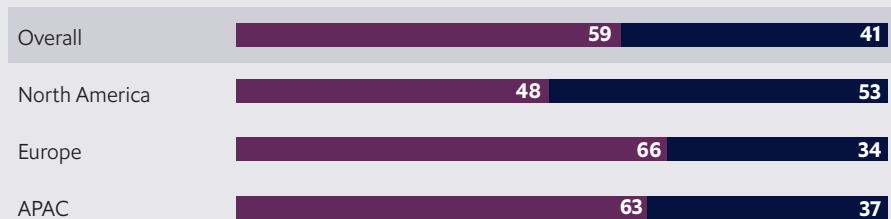
GDPR has triggered opportunities for more efficiency, security and privacy awareness.

CHART 5:

Preparedness for GDPR

■ Less prepared ■ More prepared

% of respondents



Footnote:

Respondents were considered more prepared if they answered somewhat or a great deal to each of the indicators in the following question: what actions have you taken in response to GDPR? Indicators include: raised awareness of GDPR among all employees, developed and implemented a strategy to comply with GDPR, established GDPR as a C-suite or board level issue, changed strategy or operations specifically in response to GDPR, changed strategic or financial goals as a result of having to comply with GDPR, implemented new or updated technology.

Yet it is not all negative. Preparing for GDPR has more than a few fringe benefits. In many cases, the survey finds that GDPR has triggered opportunities for more efficiency, security and privacy awareness.

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CHAPTER 3:

Reaping the rewards

Information governance solutions

Despite the many challenges presented by the increasing scope and quickening pace of regulatory change, the necessary work towards staying in compliance is not an unmitigated loss. In fact, the survey finds that the benefits for many businesses are substantial.

Ms Balakrishnan also identifies important linkages between compliance, what she sees as a foundational element of risk management, and strategic business objectives: “Risk management should be at the forefront of developing products and services, understanding consumer requirements and end-user expectations, and of course, how technology can support the products or services brought to market.”

Previously, as compliance deadlines loomed, businesses would begin searching for efficiencies that better prepared them for further change and reduced the cost burden of additional compliance. The improved quality and collection of an organisation’s data, regardless of industry or product and service, became a clear solution for both meeting and proving compliance.

This put a spotlight on information governance—the management of information at an organisation.

In addressing information governance, many organisations began enhancing their information systems, data quality and information accessibility. Well-implemented information governance also helps lower operational costs by eliminating duplication of data, data management tasks and storage of unnecessary information. The ability to improve the management of their information has helped companies better analyse their customers and markets and spot growth opportunities.

“We have seen that in the current digital age, where innovation is a key driver, information is of great value to companies in order to further their business goals, whether to develop new products and services or to target a particular consumer population,” says Ms Balakrishnan. “The key is making sure that information is genuinely being used for the benefit of the consumer, and business strategies are based with this in mind.”

All survey respondents cite at least one advantage associated with their organisation’s approach to information governance, specifically driven by compliance and regulatory requirements. In all, 81% say their compliance of information has improved. And the majority report improved security and efficiency, reduced risk exposure and other benefits, such as improved customer satisfaction, that align with business goals.

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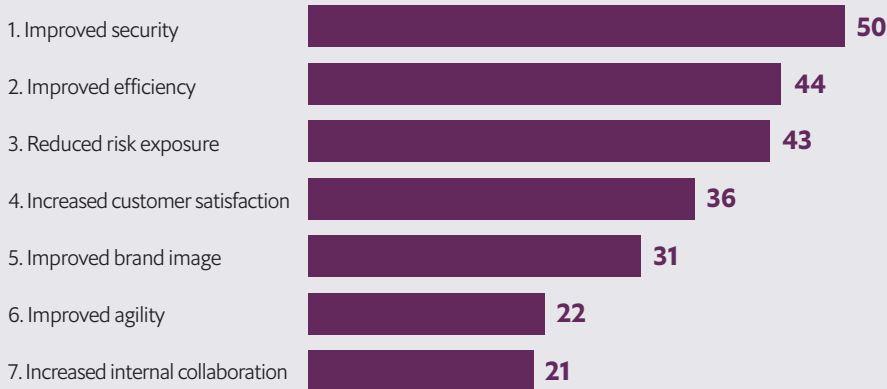
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CHART 6:

Top perceived benefits to implementing an effective information governance strategy

% of respondents



In addition, seven out of ten executives say the accuracy of their information has improved because of compliance-driven governance frameworks. Financial services firms have experienced the most improvement (80%) on this front, even though, as previously noted, the majority (76%) of these respondents say regulation and compliance hinder their strategic objectives. Respondents from the retail industry report similar improvements.

Notably, healthcare and the public sector most frequently indicate little or no improvement across various metrics, which suggests that these industries may be ripe for integrating new approaches to information governance.

CHART 7:

Organisational improvements as a result of information governance approaches adopted to meet new requirements

% of respondents



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Global C-suite and board involvement

Our survey confirms that strategies related to information governance have become a top priority for senior executives and board members. The majority of respondents say their leadership team reviews their information governance frameworks in conjunction with their strategic objectives more than once per year.

CHART 8:

How frequently does your organisation's leadership review its information governance framework to ensure that it supports or is aligned with strategic objectives?

% of respondents



“The boards and senior management play a huge part in this because, unless they carry the ethos of the organisation, talk the talk and walk the walk, they are not likely to get the necessary buy-in from all of their employees. Ignoring this can have a direct impact on [the] brand, reputation and revenue line of an organisation.”

Latha Balakrishnan, director of compliance and regulatory consulting, Duff & Phelps (UK)

Ms Balakrishnan similarly describes the importance of involving leadership in risk management, “the boards and senior management play a huge part in this because, unless they carry the ethos of the organisation, talk the talk and walk the walk, they are not likely to get the necessary buy-in from all of their employees. Ignoring this can have a direct impact on [the] brand, reputation and revenue line of an organisation.”

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CHAPTER 4:

Wider impact of regulation

Although the costs of compliance and data management can be high for businesses, our survey reveals that there is a range of strategic benefits that may emerge. And the findings point to a willingness among industry players to face their compliance challenges head-on and enact change across their organisations.

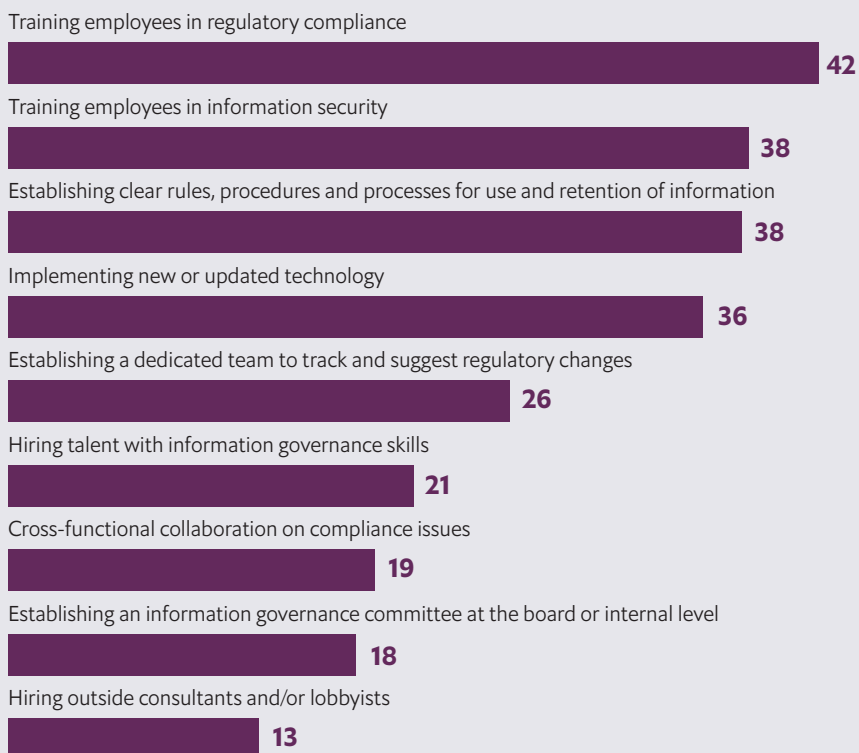
Changes to the workforce are central to adaptation. Two-thirds of survey respondents are currently training existing employees in regulatory compliance and information security, and nearly a quarter are prioritising the hiring of new talent with information governance skills. Furthermore, 26% are establishing a dedicated team to monitor regulation and highlight changes that may be needed.

Governance structures are also regularly tweaked. Businesses are widely engaged in establishing and strengthening their rules and procedures. And more than a third are implementing new or updated technologies to better address regulatory uncertainty.

CHART 9:

Key priorities to address changing compliance standards and regulatory uncertainty

% of respondents



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Ms Balakrishnan emphasises the importance of governance structures because of the enormous benefit they provide to consumers, and in turn businesses. “Any business wants to see how well they can sustain the sale of their products and services in the long-term and how they can remain above industry standards in delivering a better product so that their revenue, profitability and market value remain high.”

“If businesses keep those commercial aspects in mind alongside the critical demands of the end-user, that is a very powerful combination. With confidence, businesses can say, ‘we have better standards than others in the market and our company is committed to achieving those standards on a continual basis,’” she says.

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Conclusion

Information governance has become central to compliance. But there are clear disparities between industries and regions, and these differences are reflected in the benefits that they report.

For many, a more strategic approach to the centralisation of information management will help minimise costs and prepare the organisation for upcoming regulation. Best practices for this transformation include:

Secure buy-in at the top: although it is encouraging that the majority of executives surveyed say their leaders and boards have taken an interest in governance, it should be a universal finding. The time, understanding and commitment of top leadership to corporate-wide strategic governance set the stage for the organisation. Without it, precious resources and opportunities for growth and innovation are lost to the burden of siloed, project-by-project, approaches.

Involve everyone, all the time: governance is an ongoing project and should be treated as such. In the case of GDPR, only 48% of respondents say their organisation has entirely raised awareness of the regulation among all its employees, suggesting that more work remains to ensure compliance-related issues are effectively addressed.

Additionally, GDPR is only one of many regulations most organisations should be discussing, and it is unclear how frequently the issue of regulatory awareness is raised. Organisations should instate regular reviews to ensure that programmes are being followed, that employees, clients and suppliers understand the reason for compliance and, in turn, for implementing strong information governance strategies.

Simplify: any central information governance strategy should prioritise reducing the amount of data being managed in order to shed unnecessary and risky data. Such a strategy should also reduce the number of touch points in the course of that management in order to increase efficiency and reduce the possibility of unauthorised modifications to information.

Creating a central approach that meets these requirements may require a breakdown of long-held approaches. Stakeholders need to be prepared to make significant structural modifications to achieve this goal. Furthermore, a simple system will be easier to mine for data and insights—and easier to defend in any regulatory review. Flexibility and open-mindedness will serve the organisation well.

Take a long-term approach: successful programmes are not typically set up overnight. Although many respondents are optimistic about the future of their organisation's information governance, such a transformation may take time and require further changes to achieve the vision. Compliance is also an ongoing and evolving challenge, and to best future-proof the organisation, the foundation of a well-designed programme should be sufficiently flexible to adapt. Continuous monitoring of the information governance system for compliance is often overlooked to the detriment of the long-term growth and success of the programme.⁴ ■

A more strategic approach to the centralisation of information management will help minimise costs and prepare the organisation for upcoming regulation.

Footnote:

4. T Sean Kelly, "Best Practices in Information Governance Enforcement", <https://www.informationweek.com/strategic-cio/security-and-risk-strategy/best-practices-in-information-governance-enforcement/a/d-id/1328398?>

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London

The Adelphi
1-11 John Adam Street
London
WC2N 6HT
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
Email: london@eiu.com

New York

750 Third Avenue
5th Floor
New York, NY 10017
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong

1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Geneva

Boulevard des
Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com

Dubai

Office 1301a
Aurora Tower
Dubai Media City
Dubai
Tel: (971) 4 433 4202
Fax: (971) 4 438 0224
Email: dubai@eiu.com