

A proactive approach for Governance, Risk, and Compliance (GRC)

ETHICALLY
ACHIEVING OUTCOMES
IN THE PRESENCE OF UNCERTAINTY

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A proactive approach for Governance, Risk, and Compliance (GRC)

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Big Idea:

Companies are not able to keep up with the increase in: **regulatory demand, uncertainty, or stakeholder obligations.** GRC offers a way to address these concerns. However, up until now GRC has been based on reactive strategies using old models for risk, control, and audit. These approaches have proven to be ineffective, unsustainable, and incapable of scaling. Therefore, new strategies are needed. These should be based on proactive models that focus on: outcomes rather than adherence, integrated rather than separate structures and systems, and effectiveness rather than control.

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OUTLINE

What we are going to cover in this presentation

1. An overview of the compliance landscape
2. What is GRC?
3. What's wrong with GRC?
4. How can GRC be improved?



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COMPLIANCE LANDSCAPE

Lack of effectiveness and rising costs

- **Lack of effectiveness**
  - **70%** of companies do not measure the effectiveness of their compliance programs
  - Incomplete and invalid metrics
  - Mistaking legal accountability for compliance effectiveness
  - Self-reporting and self-selection bias
- **The cost of compliance is too high and increasing**
  - Compliance alone is estimated to be between **8%-10%** of a FTE (time and salary)
  - Compliance can be **2 to 3 times** that in highly-regulated, high-risk sectors (ex. oil&gas, energy, etc.)
  - GRC is going to be more





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COMPLIANCE LANDSCAPE

Attitude towards compliance

How do you view compliance?

- **Necessary Good**
  - **Proactive** anticipate, plan, act to be more certain
  - **Manage both threats and opportunities**
  - **Goal is to meet obligations**
- **Necessary Evil**
  - **Reactive** surprised, always behind, uncertain
  - **Only concerned about non-conformance**
  - **Goal is to pass an audit**





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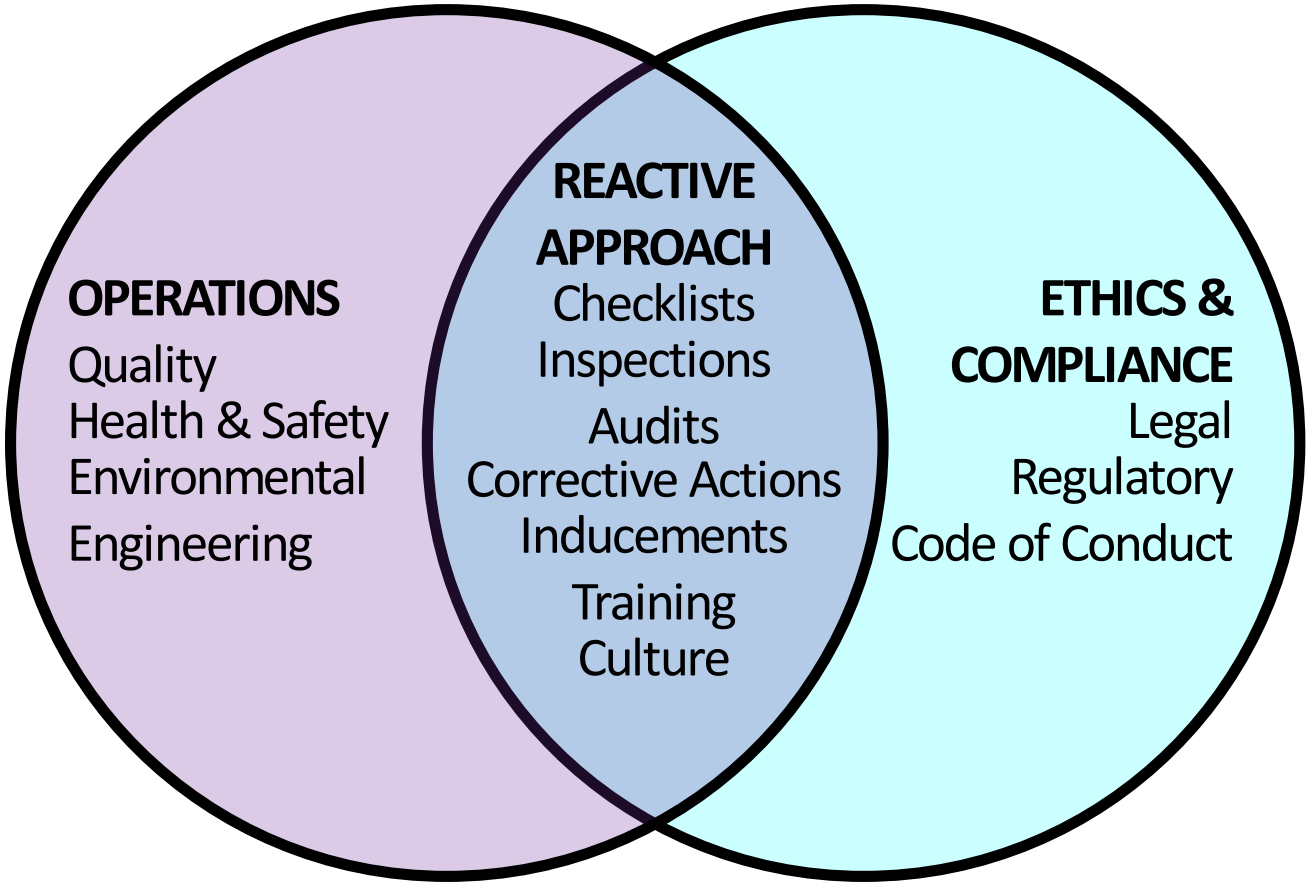
COMPLIANCE LANDSCAPE

Compliance is only looking at half the problem

Accept Stakeholder Responsibilities



Conformance to Standards



Accept Public Responsibilities



Conformance to Requirements

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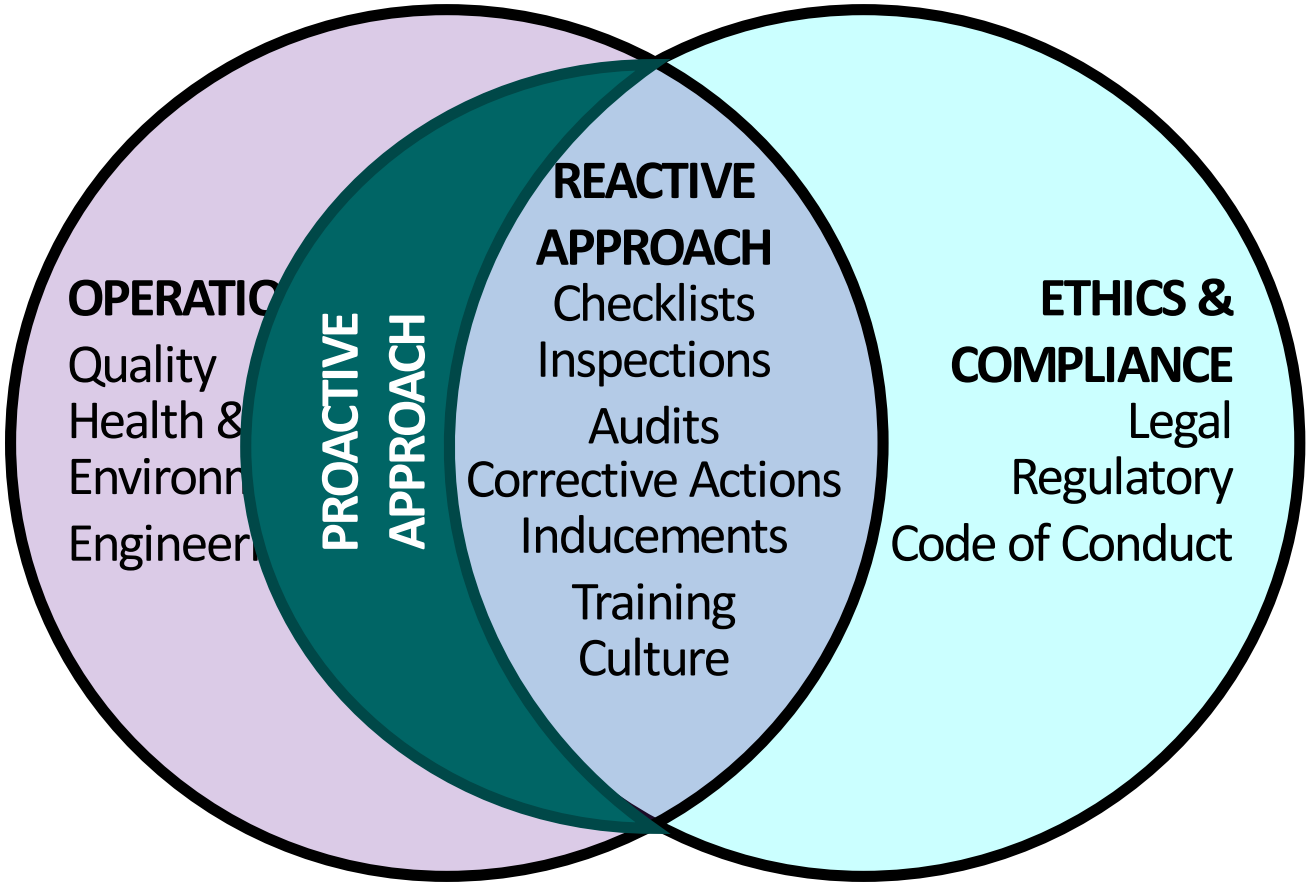
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Accept Public Responsibilities



Conformance to Requirements

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COMPLIANCE LANDSCAPE

No longer only prescriptive requirements

Prescriptive-based Compliance

Reactive Thinking



Proactive Thinking

Performance-based Compliance

Standards Based	Audit Based	Continuous Improvement Based	Risk Based
What should I do?	What must I do?	How can I improve?	How can I ensure objectives?

Findings / Lagging Actions

Ownership / Leading Actions

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COMPLIANCE LANDSCAPE

Expansion of compliance programs and systems



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PROACTIVE GRC

1. What is GRC?

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HOW IS GRC CURRENTLY DEFINED?

Definitions

Individual Roles

- **Governance**: the process by which policy is set and decision making is executed.
- **Risk Management**: the process for preventing loss
- **Compliance**: the process of adherence to policies and decisions

Combined Roles

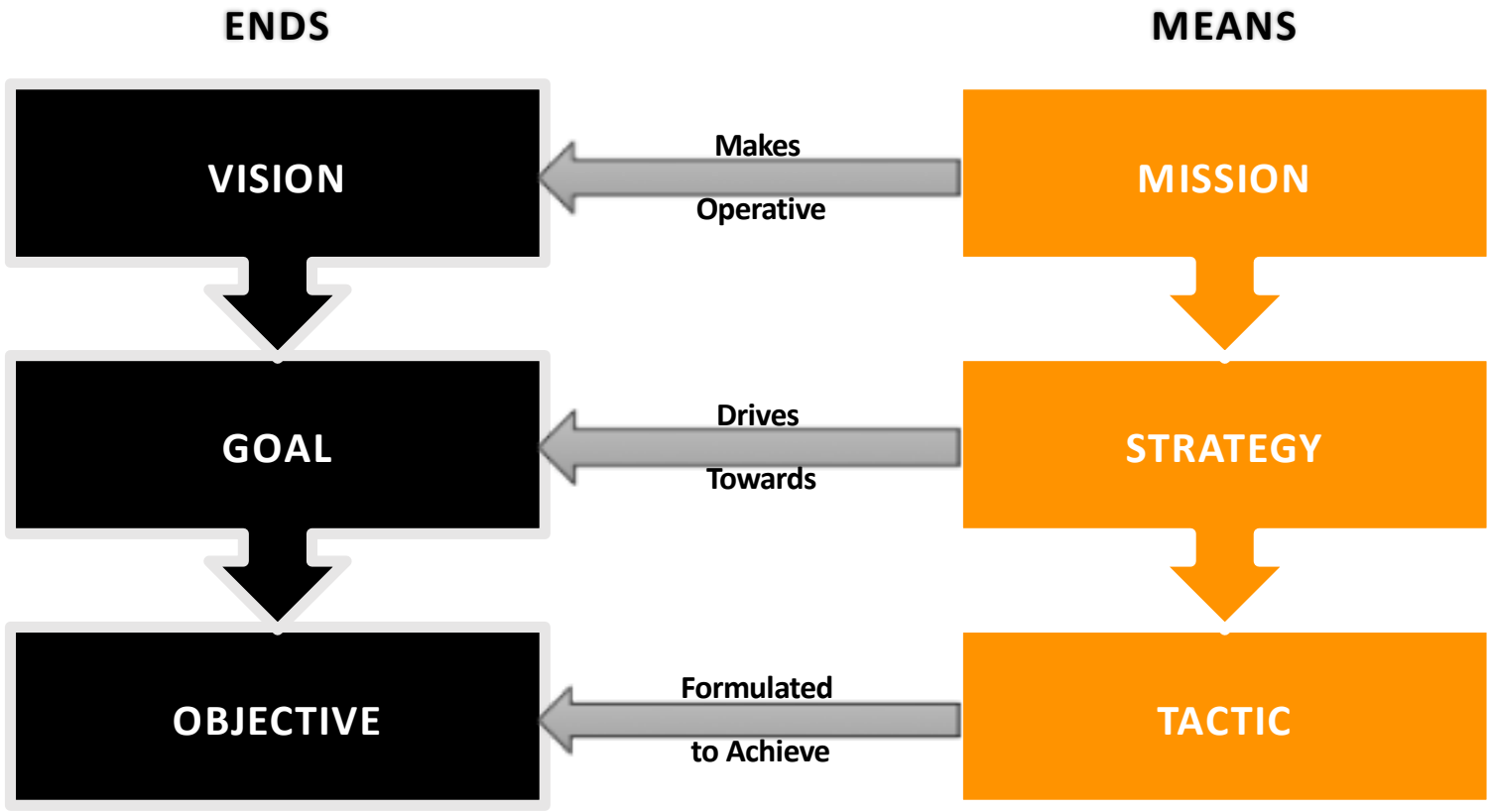
- **GRC** is the integrated collection of capabilities that enable an organization to reliably achieve objectives, address uncertainty and act with integrity [OCEG]
- **GRC** is neither a project nor a technology, but a corporate objective for improving governance through more-effective compliance and a better understanding of the impact of risk on business performance [Gartner]

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WHAT PROBLEM IS GRC TRYING TO SOLVE?

Keeping the company on track – aligning the ends with the means

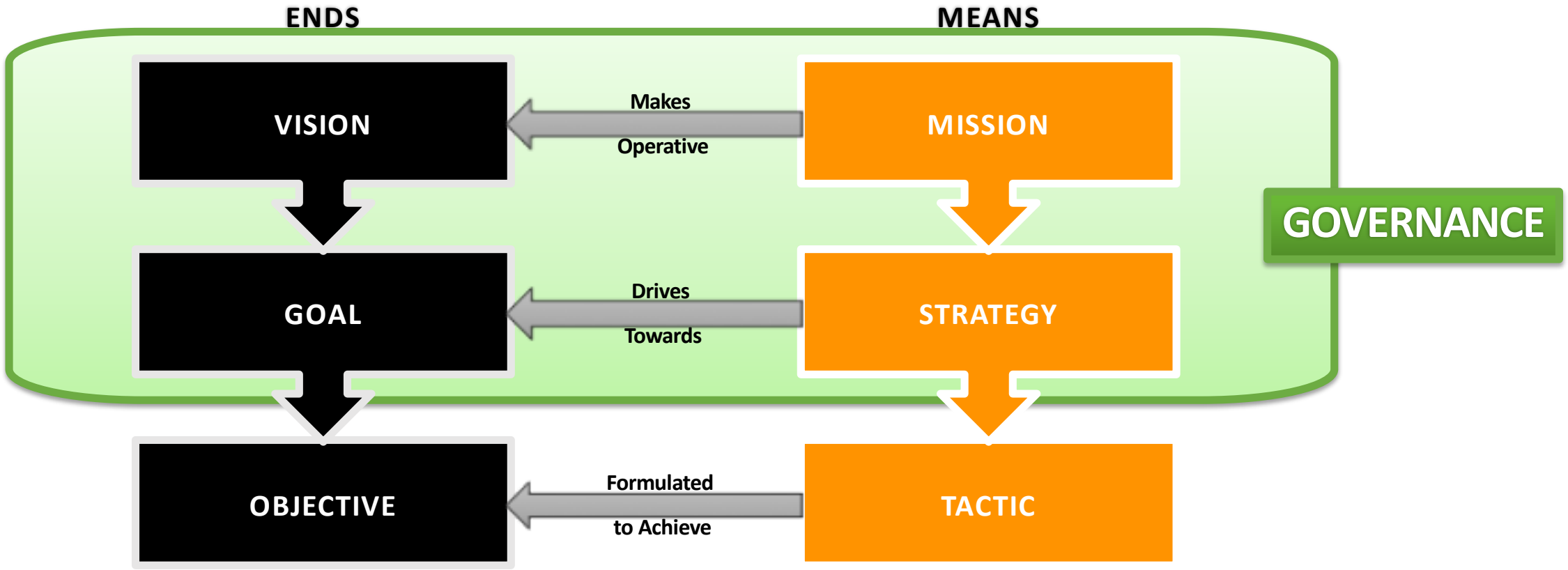


– Adapted Business Rules Group (BRP) Model

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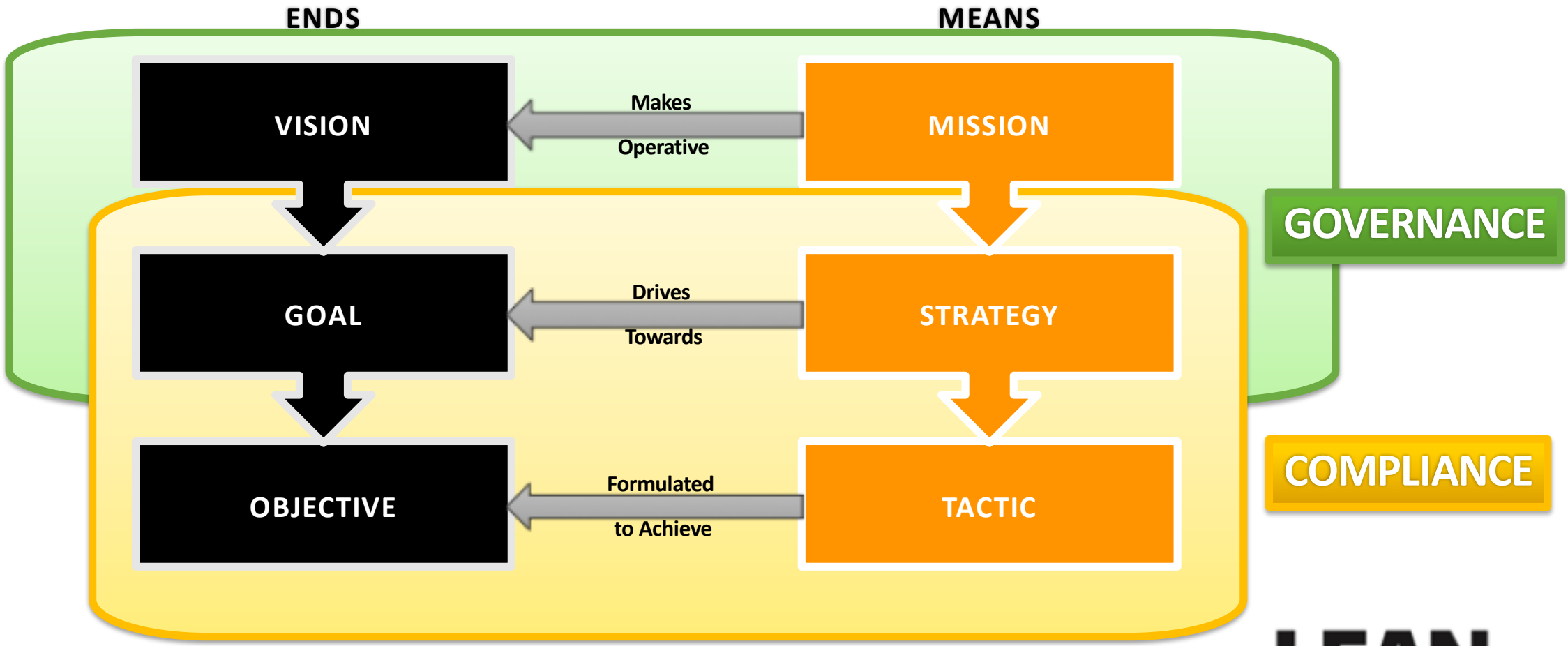
– Adapted Business Rules Group (BRP) Model

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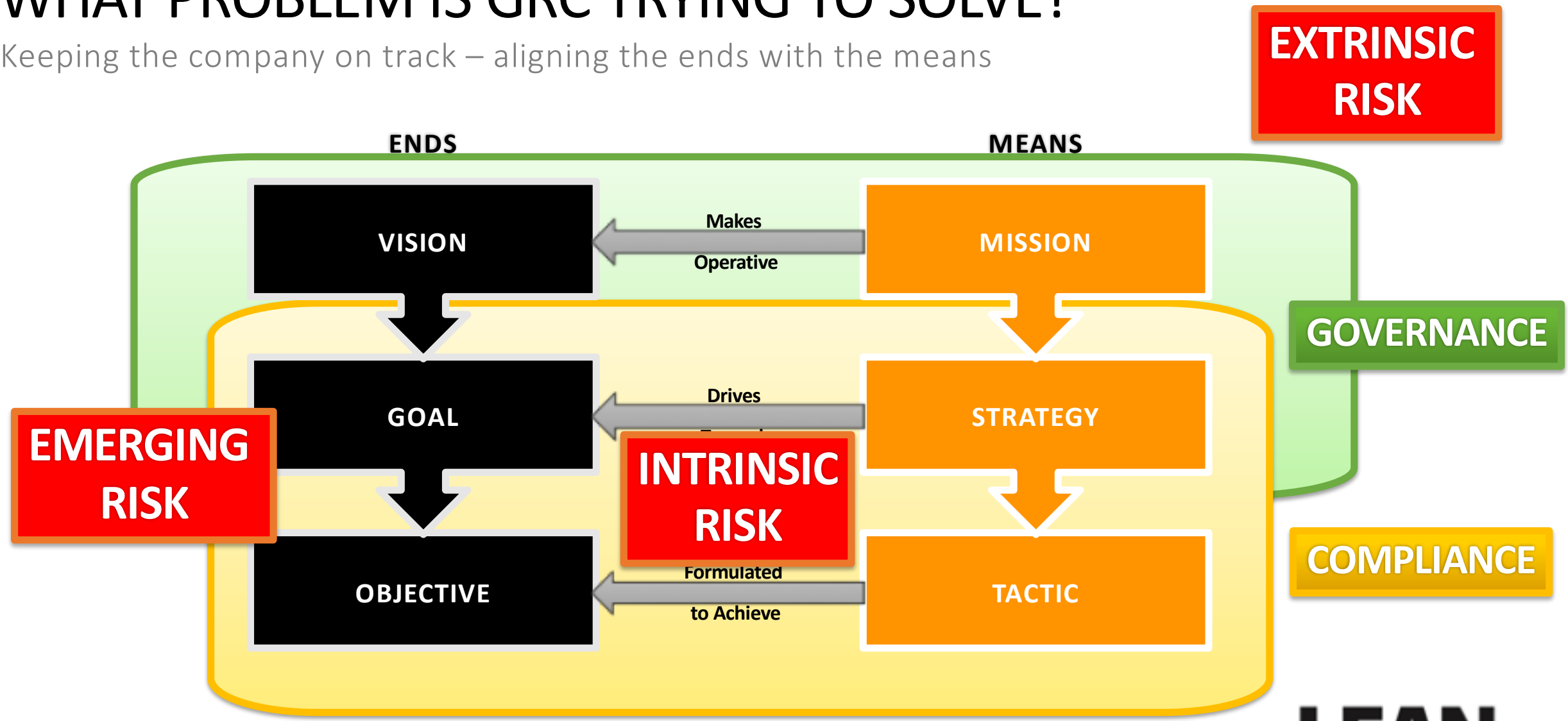


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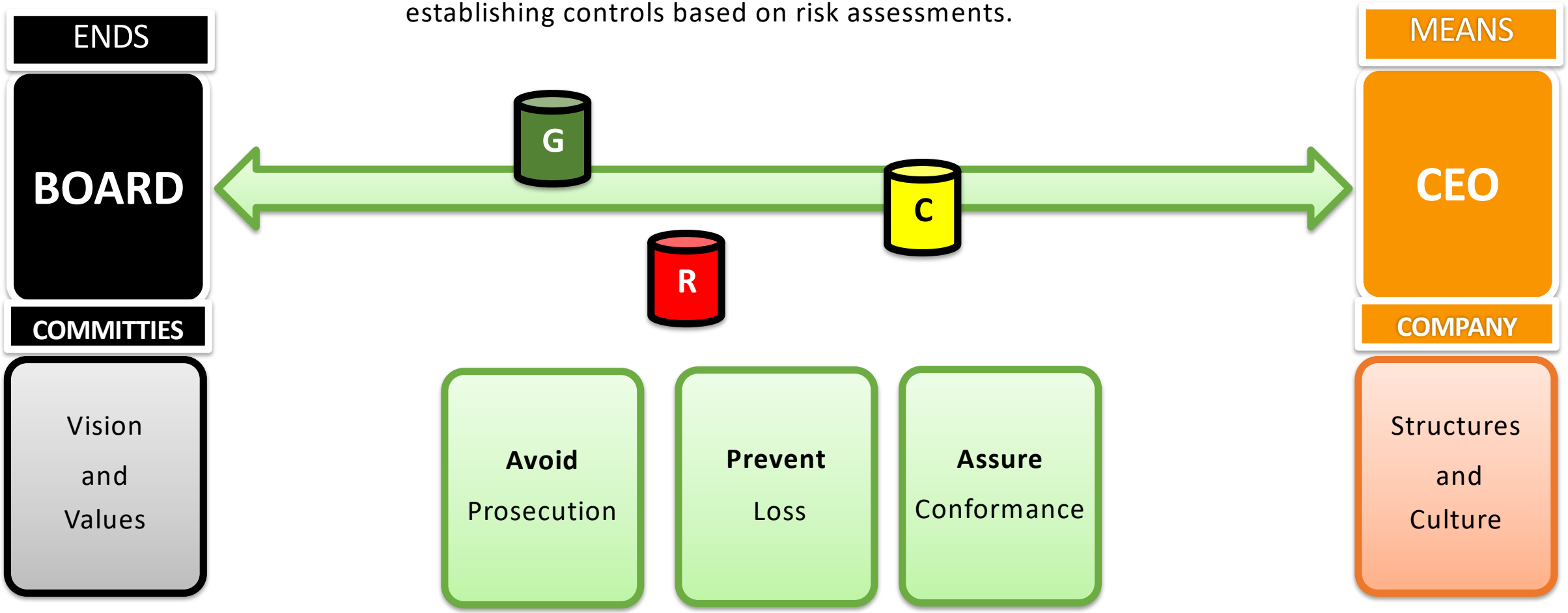
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HOW DOES GRC ATTEMPT TO SOLVE IT?

Minding the gap between the board and the CEO

GRC (1.0) are individual functions to prevent loss and avoid prosecution. It does this primarily by conducting audits and establishing controls based on risk assessments.

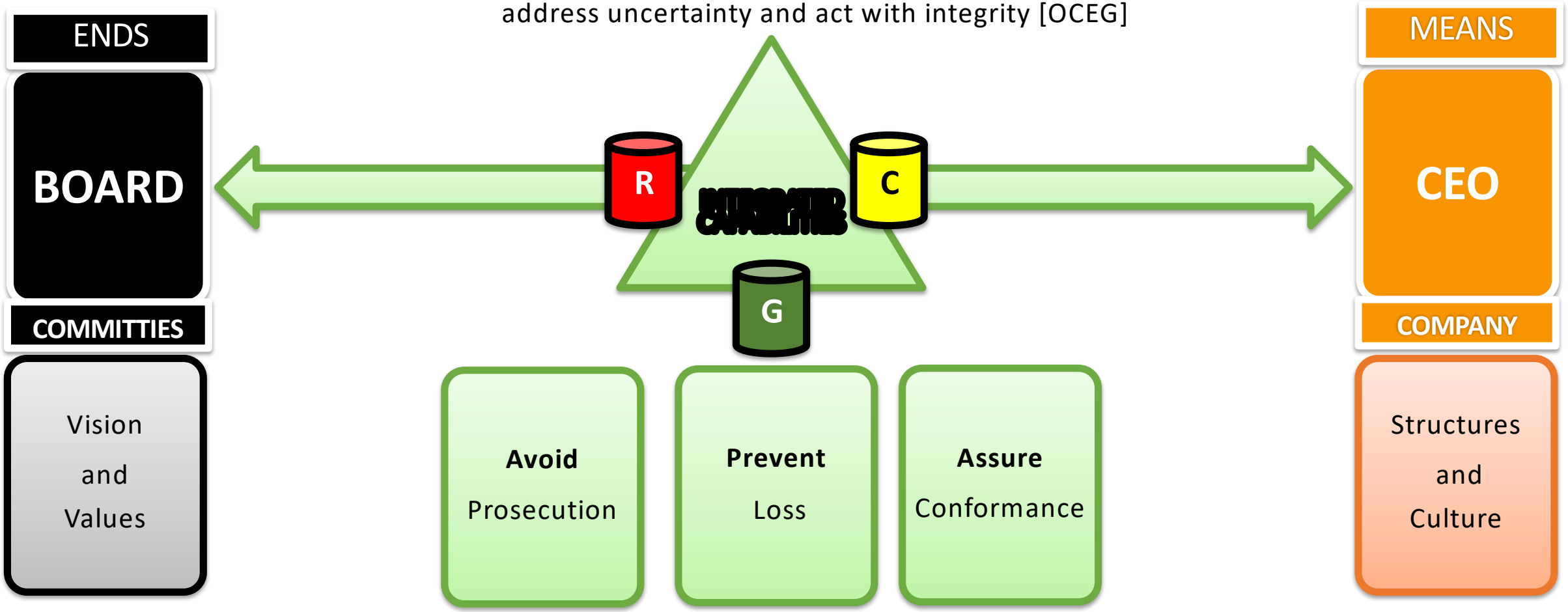


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Minding the gap between the board and the CEO

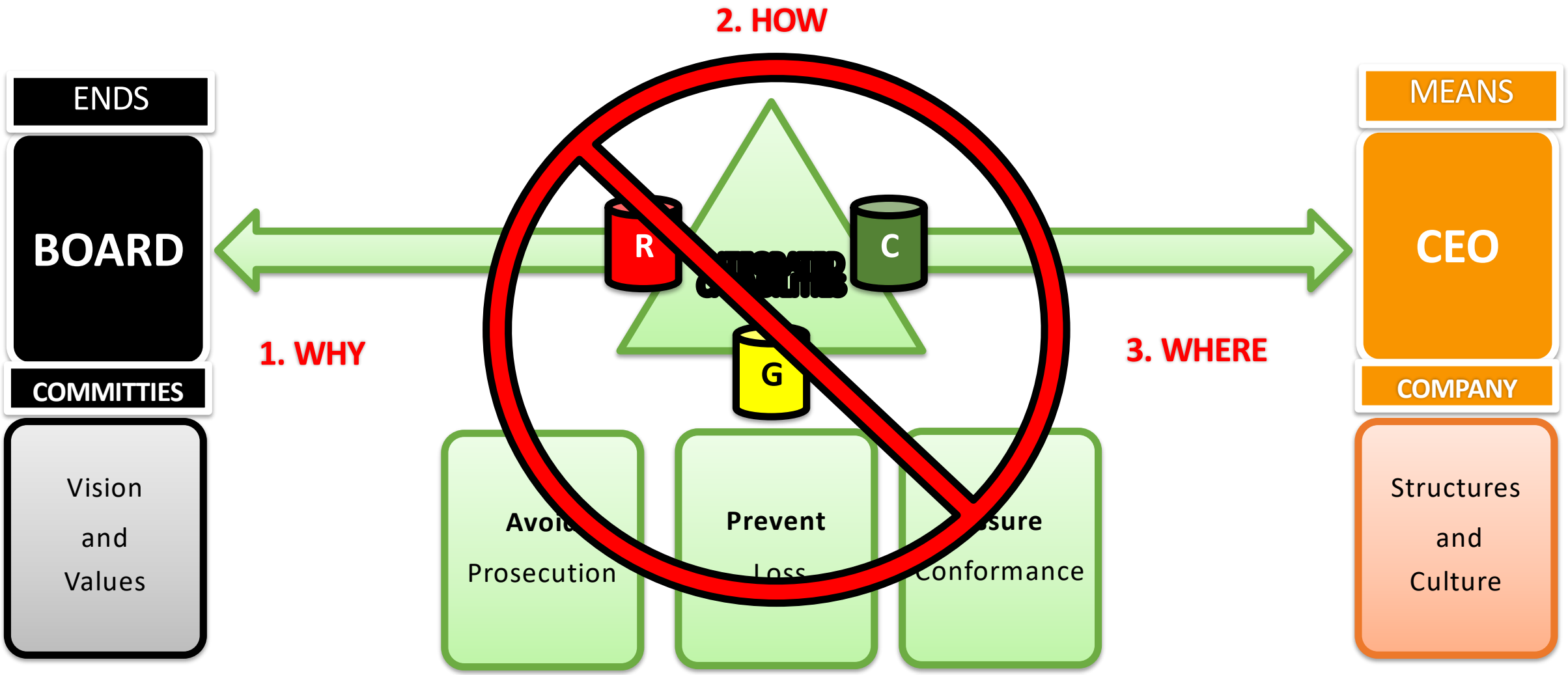
GRC (2.0) is the integrated collection of capabilities
that enable an organization to reliably achieve objectives,
address uncertainty and act with integrity [OCEG]



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HOW DOES GRC ATTEMPT TO SOLVE IT?

However, there are significant problems that hinder achieving integration and overall effectiveness



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PROACTIVE GRC

2. What's wrong with GRC?

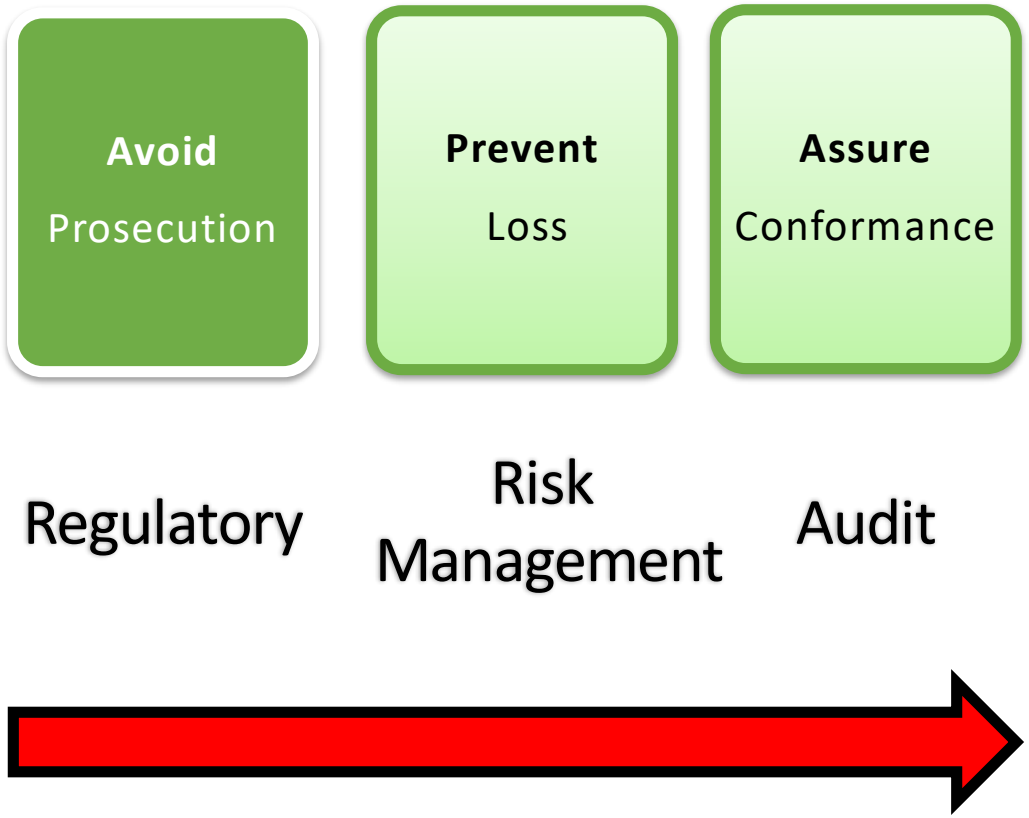
- Why
- How
- Where

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WHAT'S WRONG WITH GRC – WHY?

Why determines the how

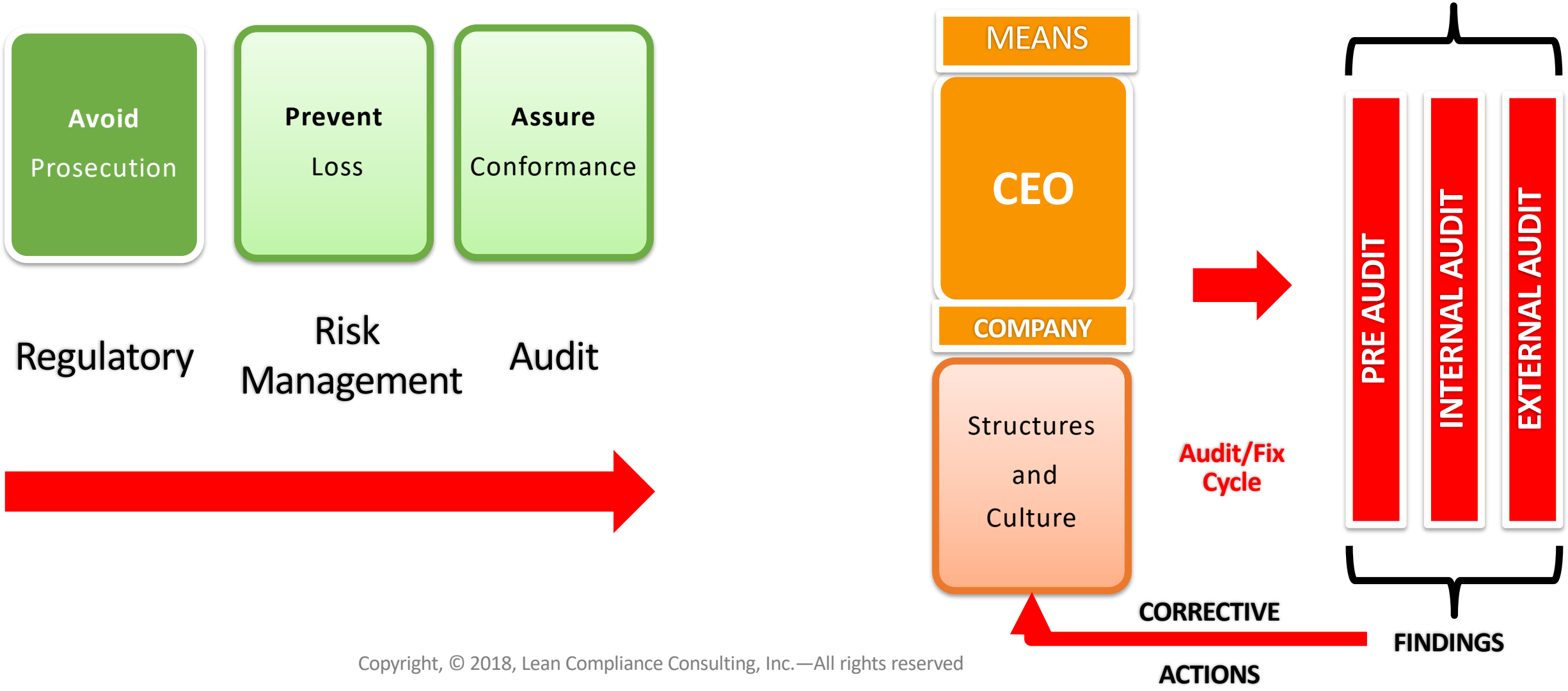


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WHAT'S WRONG WITH GRC – WHY?

Regulatory steers, audit enforces, and risk management tries to mitigate



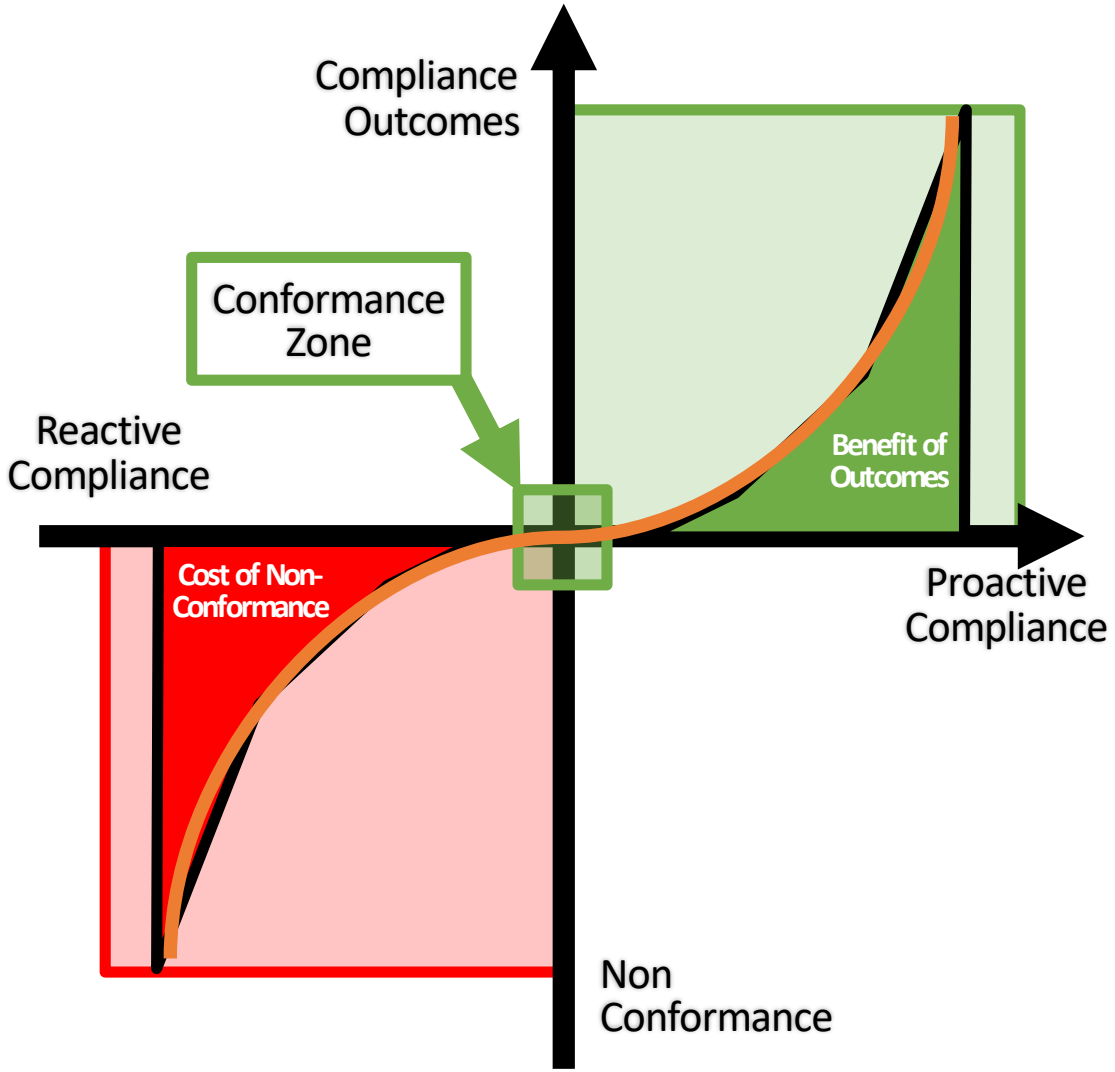
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WHAT'S WRONG WITH GRC – WHY?

The audit-fix cycle is a reactive process that reinforces reactive behaviors

REACTIVE

- No Objectives & Goals
- Lagging indicators
- Uncertain and Surprised
- Focused on Symptoms
- Forced Timeline
- Always Behind
- Focused on Output
- Sunk Cost



PROACTIVE

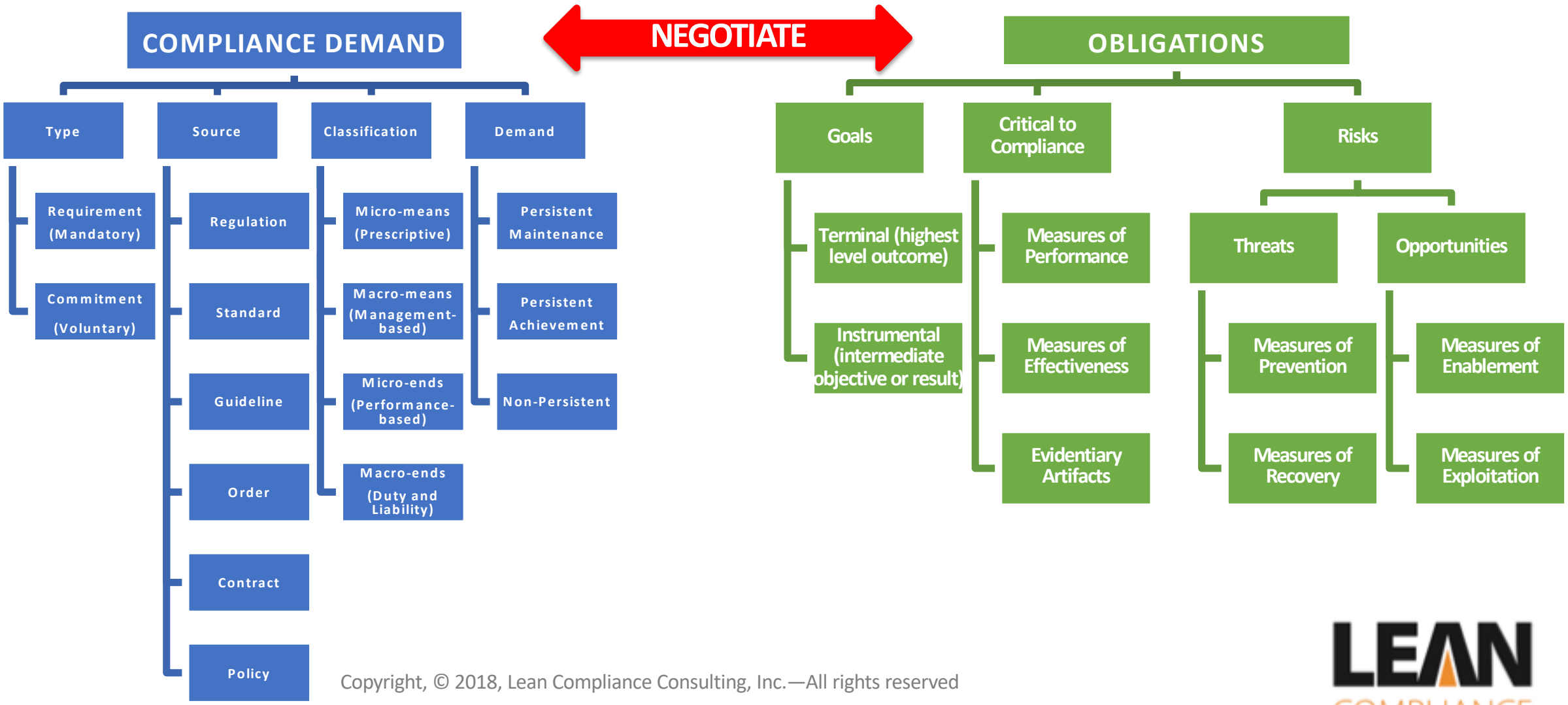
- Clear Objectives & Goals
- Leading indicators
- Certain and Anticipating
- Focused on Root Cause
- Plan Timeline
- Always Ahead
- Advancing Outcomes
- Return on Investment

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WHAT'S WRONG WITH GRC – WHY?

Meet obligations not just prescriptive requirements

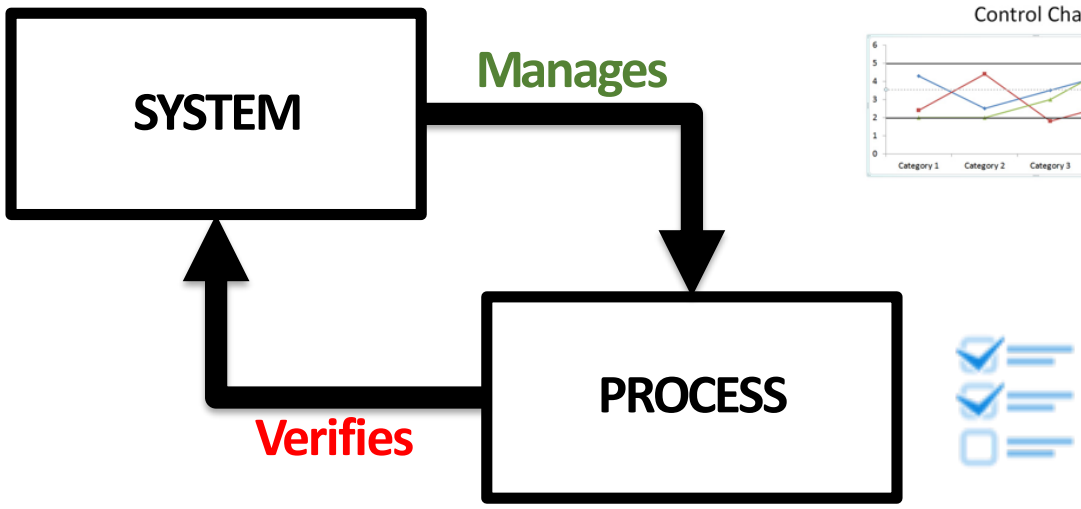


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WHAT'S WRONG WITH GRC – HOW?

Lack of effective programs



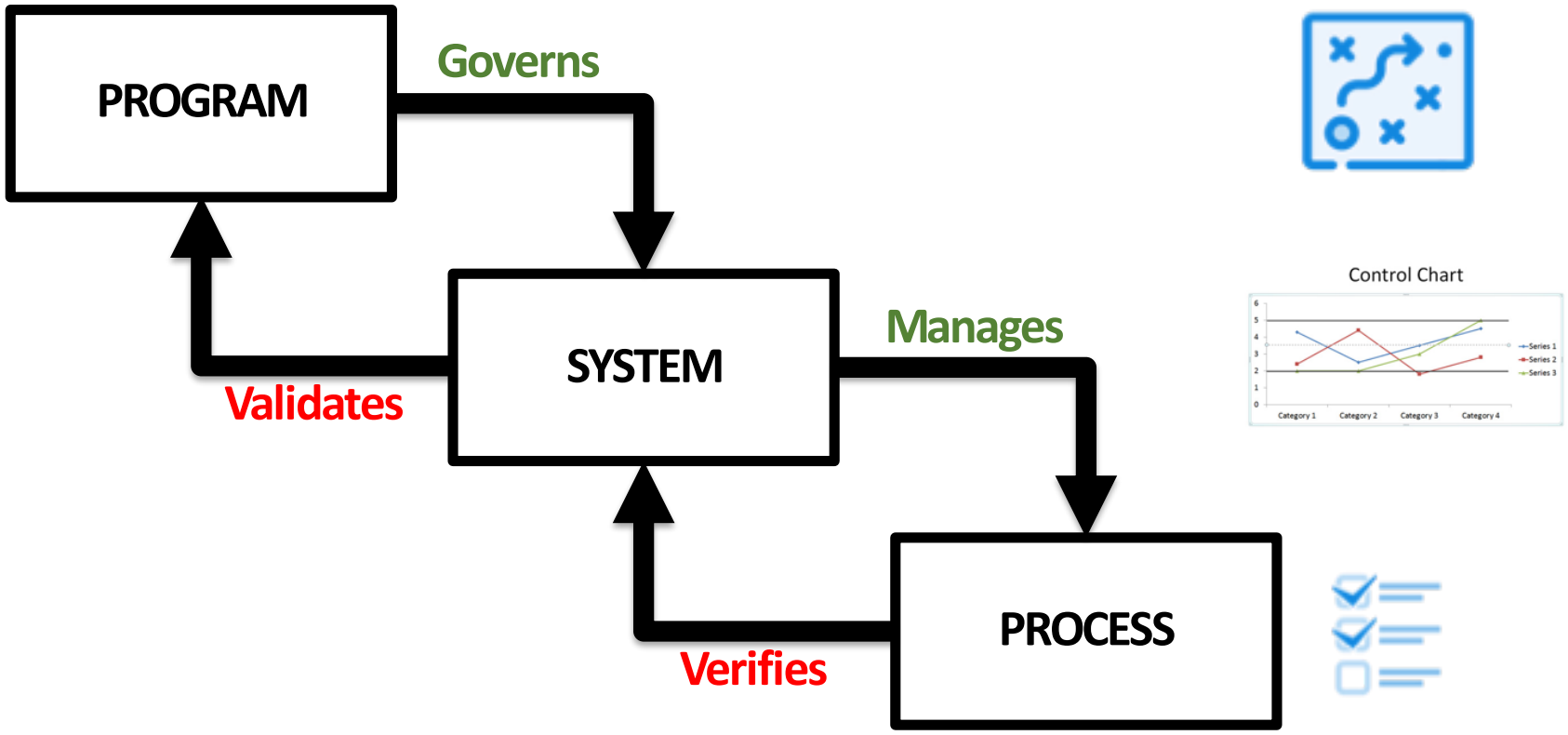
- **Systems** – maintain state by resisting change
- **Processes** – sequence activities by conforming to procedures

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WHAT'S WRONG WITH GRC – HOW?

Lack of effective programs



- **Programs** – change state by introducing change
- **Systems** – maintain state by resisting change
- **Processes** – sequence activities by conforming to procedures

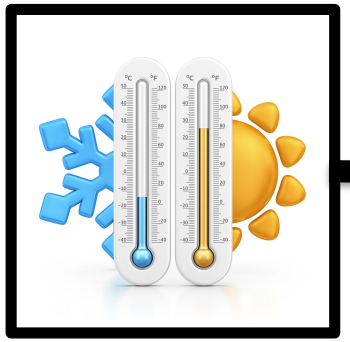
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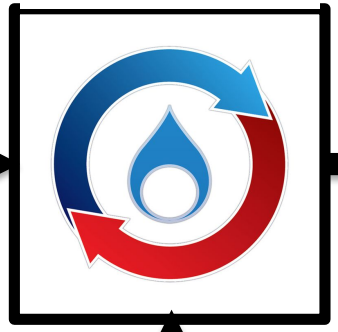
PROGRAM under qualitative regulation

SYSTEM under quantitative regulation

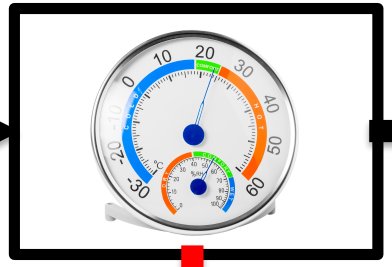
INPUT



HEATING AND COOLING



OUTPUT

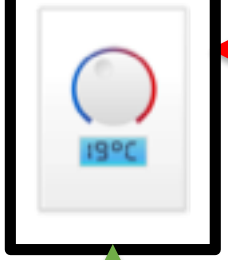


OUTCOME



Is set point = temperature?

Is the room comfortable?



Quantitative Control Loop

Maintain Set Point

Qualitative Control Loop

Change Set Point

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PROGRAMS VERSUS SYSTEMS

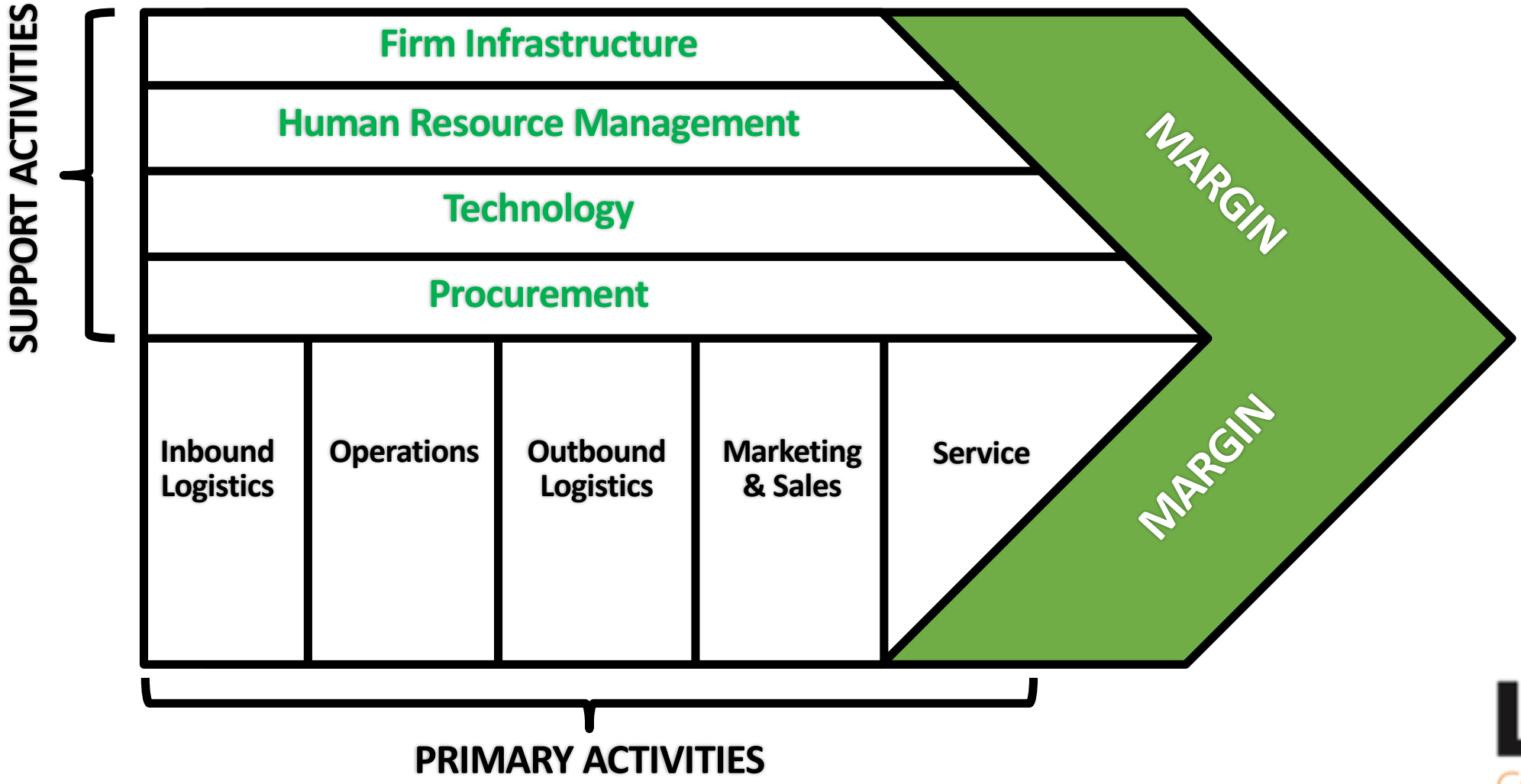
CHARACTERISTIC	PROGRAM	SYSTEMS
Role	Governance	Execution
Prescribes	What	How
Provides	Capabilities	Processes
Focus	Maturing	Consistency
Value	Outcomes	Output
Driver	Introduces Change	Resists Change
Risk	Assessment & Evaluation	Controls & Monitor
Change Management	Initiatives	Directives
Change Approach	Continuous Innovation	Continuous Improvement
Change Pace	Discrete Steps	Incremental Steps
Change Methodology	Lean Startup / MVP	Lean PDCA / Six Sigma
Feedback and Control	Learning and Adapting	Measuring and Correcting
Performance	Validation	Verification
Measures	Assessments	Audits
Sustainability / Sustainment	Sustainability	Sustainment
Compliance	Compliance Assurance	Compliance Control

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WHAT'S WRONG WITH GRC – WHERE?

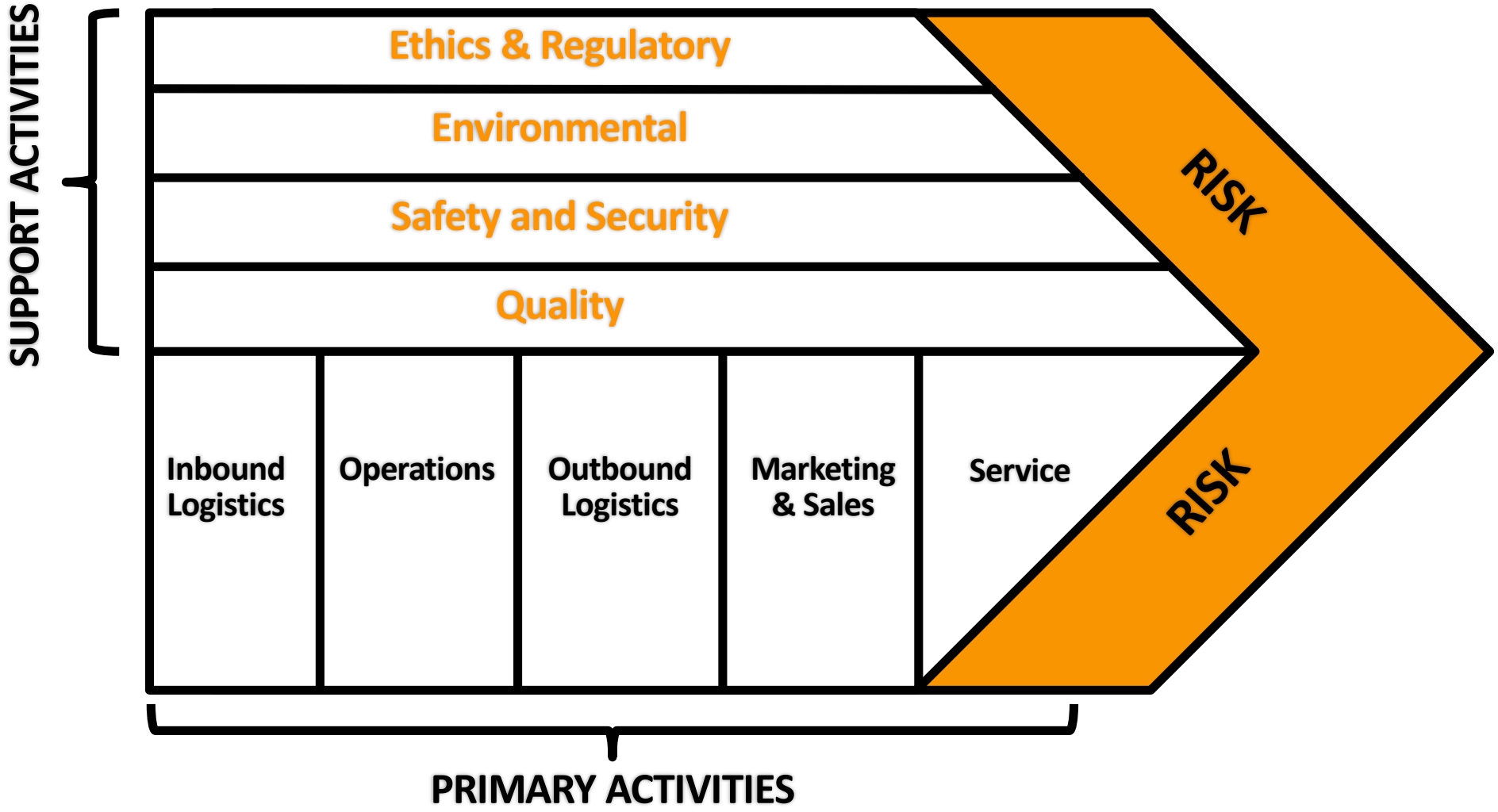
Michael Porter – Value Chain Analysis



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WHAT'S WRONG WITH GRC – WHERE?

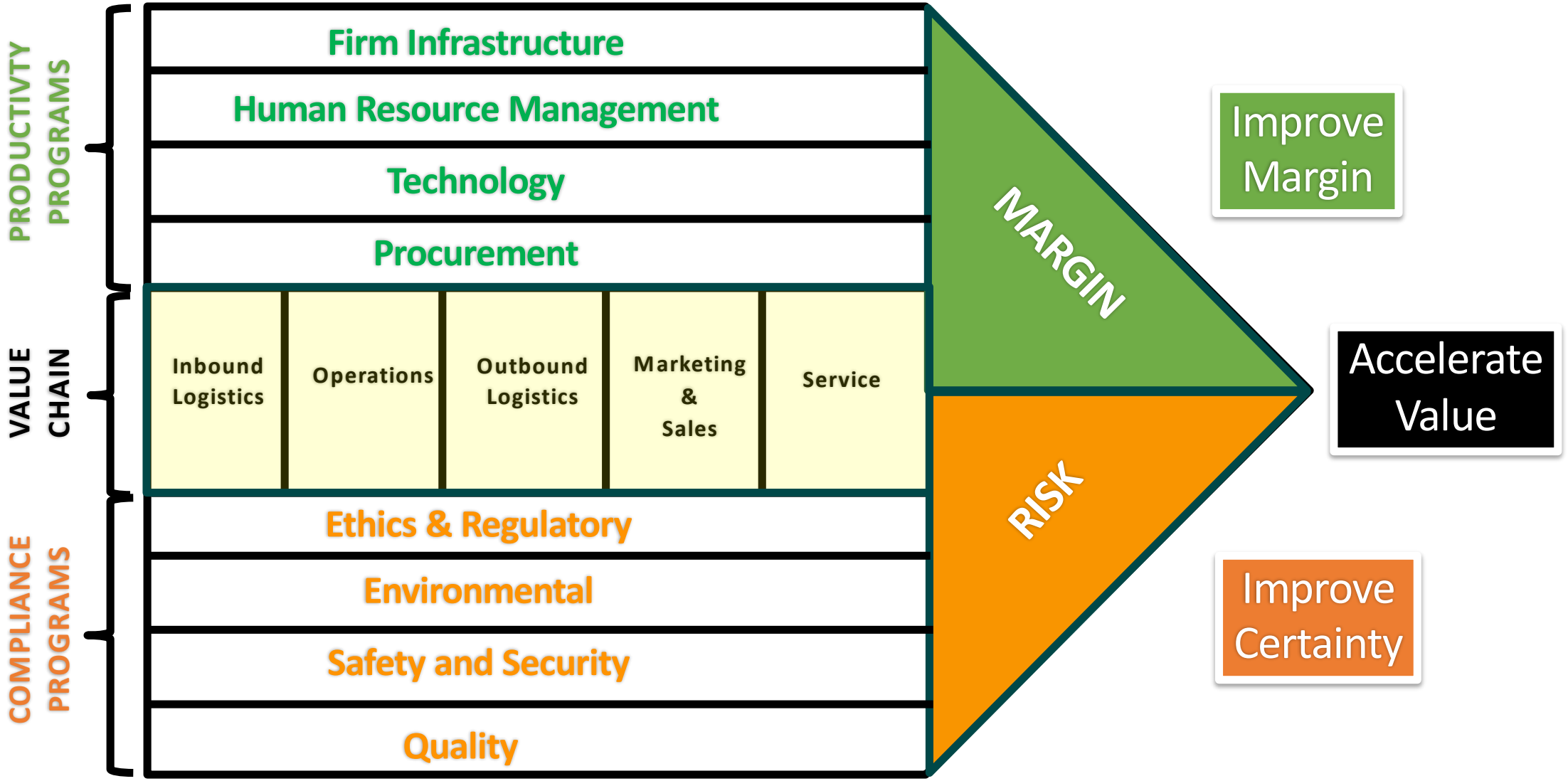
Michael Porter – Compliance Chain Analysis (adapted)



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WHAT'S WRONG WITH GRC – WHERE?

Combined value and compliance chain





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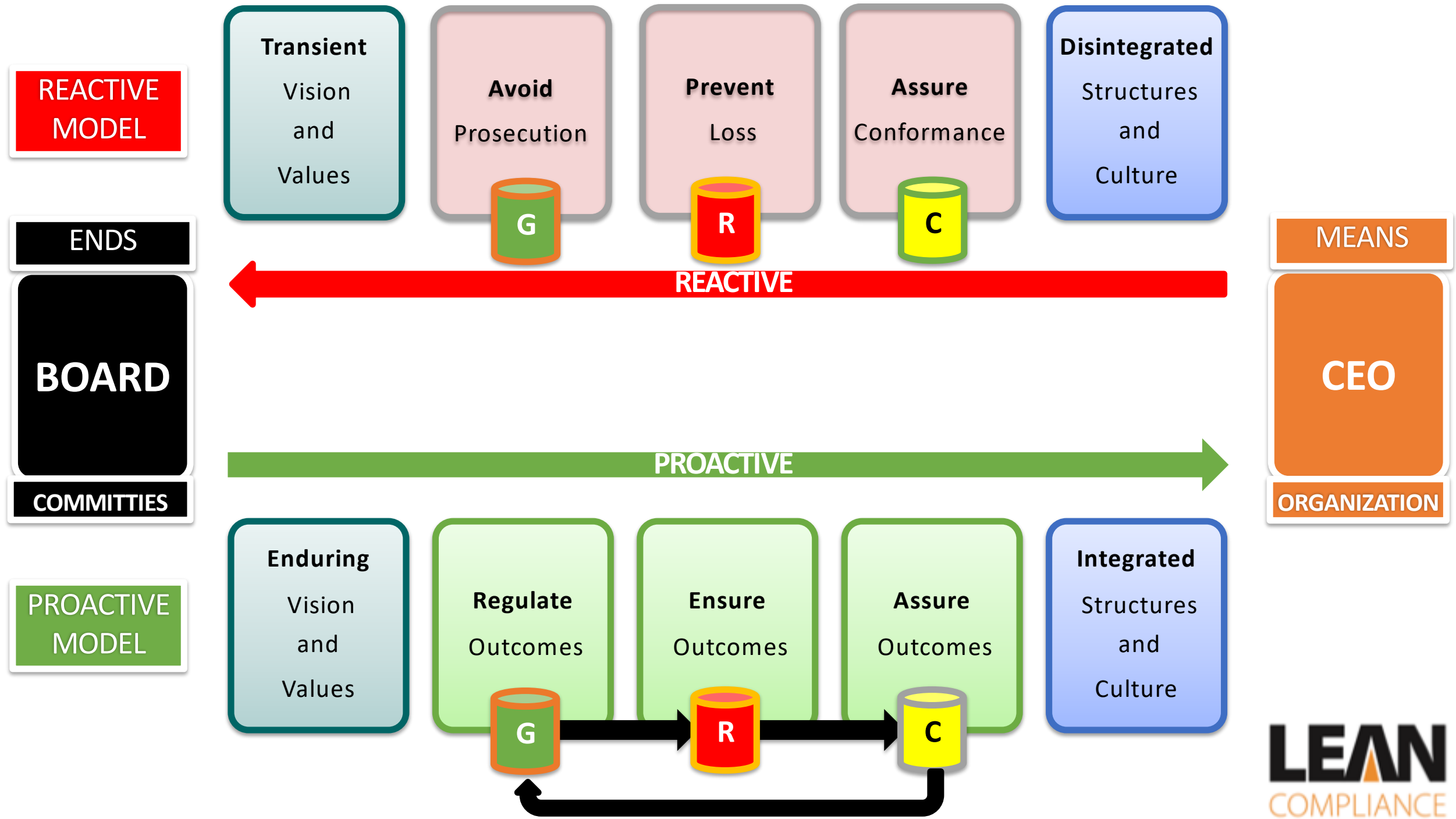
PROACTIVE GRC

3. How can GRC be improved?

- Proactive Model
- Operationalize
- Manage Uncertainty
- Continuously Improve

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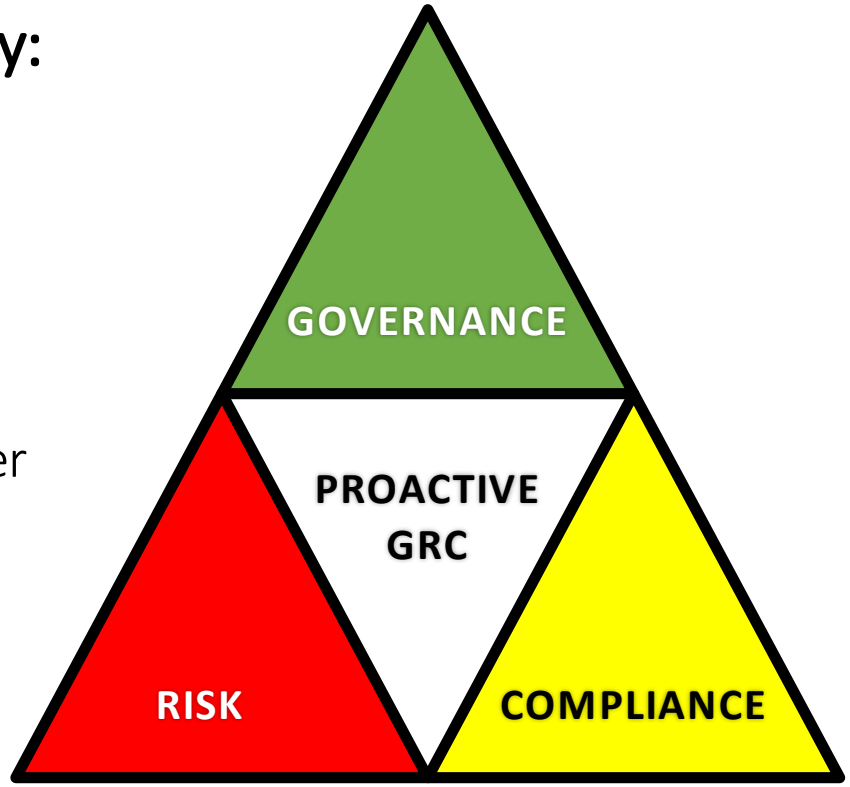

REACTIVE MODEL
Transient Vision and Values
Avoid Prosecution
Prevent Loss
Assure Conformance
Disintegrated Structures and Culture
G
R
C
ENDS
MEANS
REACTIVE
BOARD
CEO
PROACTIVE
COMMITTIES
ORGANIZATION
PROACTIVE MODEL
Enduring Vision and Values
Regulate Outcomes
Ensure Outcomes
Assure Outcomes
Integrated Structures and Culture
G
R
C

PROACTIVE MODEL

Proactive GRC definitions (GRC 3.0)

Ethically achieving outcomes in the presence of uncertainty:

- **Governance (to steer)**: a process to regulate systems towards achieving business outcomes.
- **Risk-Based Thinking:** a mindset to proactively improve the certainty of achieving outcomes utilizing methods that consider threats and opportunities.
- **Compliance**: Keeping promises by continuously meeting stakeholder obligations and advancing compliance outcomes.

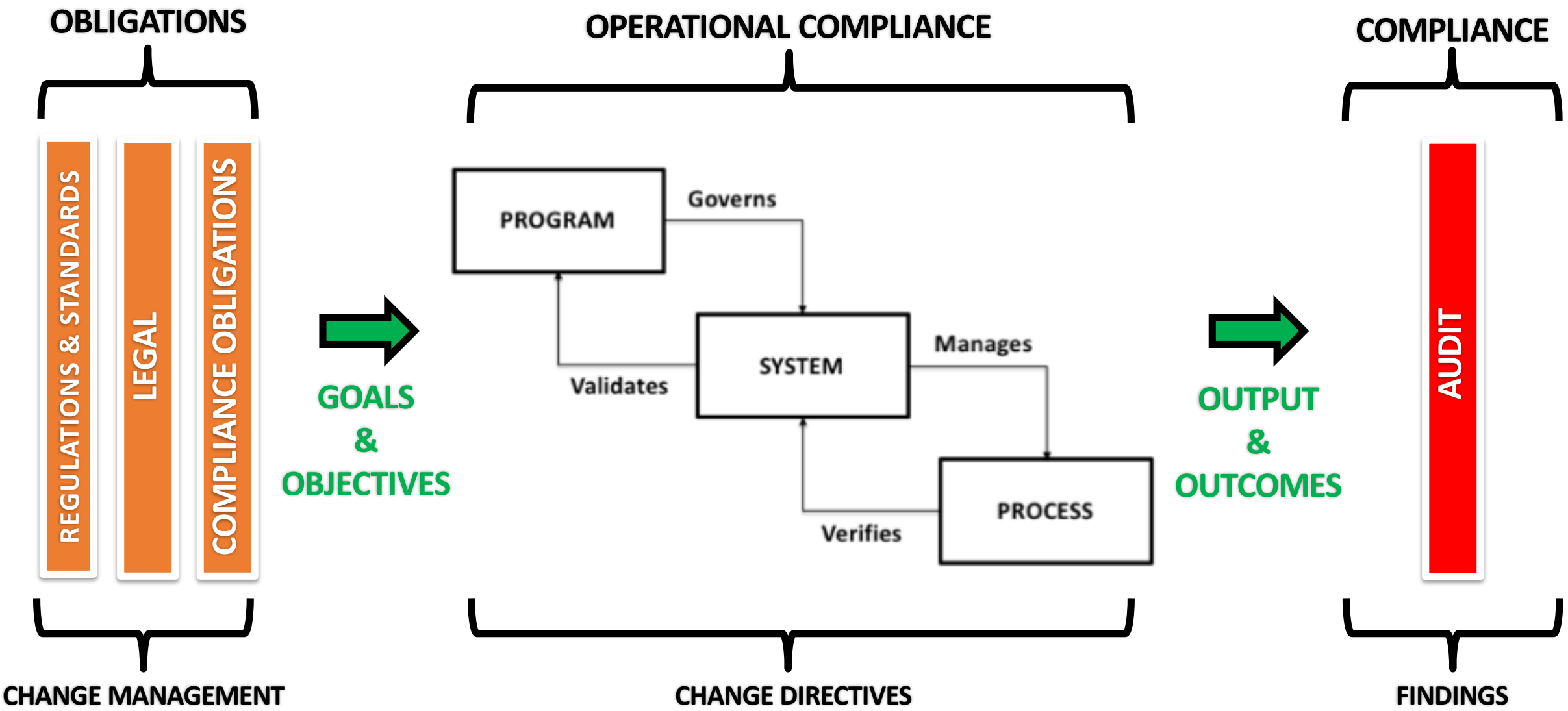


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OPERATIONALIZE GRC

Manage obligations, embed compliance, assure outcomes



MANAGE UNCERTAINTY

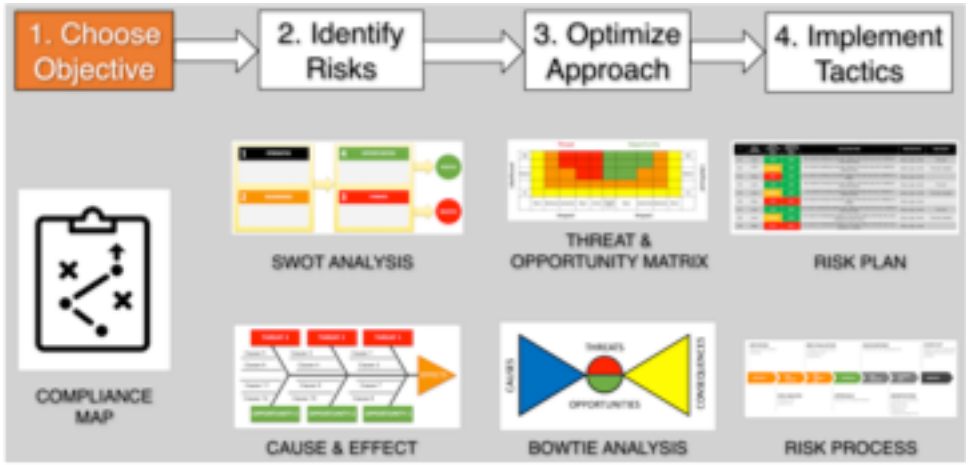
Risk-based Thinking

RISK =

"RISK-BASED THINKING"



is a **mindset** (perception, personas, perspective)
to **proactively improve**
the certainty of achieving **outcomes**
utilizing a **methods**
that considers **threats** and **opportunities**



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CONTINUOSLY IMPROVE

How to continuously be in compliance and improve effectiveness

1. MANAGE OBLIGATIONS

- Mandatory and Voluntary
- Critical to Compliance
- Risk – threats and opportunities
- Outcomes, Goals, Objectives

3. EMBED COMPLIANCE

- Critical to Compliance Actions
- Evidentiary Actions and Documentation
- Best Practices

5. IMPROVE CONTINUOSLY

- Monitor MoE, MoC, MoP
- Establish continuous improvement process
- Move from yearly to monthly improvement cycle



2. INCREASE CAPABILITIES

- Make room for compliance
- Eliminate Non-Value Added Activities
- Free up resources to work on improvements
- Exploit existing technologies

4. EXPLOIT CONSTRAINTS

- Remove bottlenecks
- Eliminate work arounds
- Exploit constraints

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PROACTIVE GRC

Q&A

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JOIN THE ADVENTURE

THE PROACTIVE CERTAINTY PROGRAM™

This program helps you use **proactive** strategies to improve the certainty of achieving your compliance outcomes

90 MINUTE – NO COST COMPLIANCE MAPPING SESSION





During this hands-on, working session, we help you assess your current situation and identify areas to quickly improve your compliance.

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