

Effective ERM: From Cost-Center to Business Value

Enterprise Risk Management (ERM) is garnering lots of attention. Analysts are hailing the emergence of a new category; Standard & Poor's announced that ERM maturity will now be considered in determining corporate credit ratings; and service providers have launched new consulting practices. Is this just the latest fad, an opportunity for vendors to rebadge tired tools? Or is this the emergence of something important? The answer may depend on whether your Company is managing risk as a reaction to compliance initiatives or to drive strategic advantage.

In many organizations, Risk Management is really Risk Mitigation. Risks are identified, often as a result of compliance violations, prioritized, and managed to meet the expectations of Audit or Regulators. Companies have spent huge sums to be compliant with Sarbanes Oxley, HIPPA, PCI, FFIEC, ISO, COBIT, and others. While this may have reduced business risk (but too often did not), the primary intent was to check the box and get a passing grade. GRC (Governance, Risk Management, & Compliance) tools certainly helped achieve this goal.

ERM can be much more. The basic concept of Rev2's RiskView® application is to correlate all risks from across the entire enterprise to identify concentrations of material risks. It allows you to compare forms of risk that were previously managed in isolation: from customer risk, to supplier risk, to IT risk, to compliance risk, to the risks associated with being unable to deliver a product or service. Basic ERM allows risks to be aggregated, normalized, and remediations prioritized across the entire business. Stopping here is like driving a plane on a highway – it might go faster than the cars but it hasn't reached its potential.

Advanced ERM goes one step further. With RiskView, risks are scored based on business materiality, taking into account the level of business susceptibility, the environmental exploitability, and the potential business impact. Each risk or vulnerability is scored by relative financial, legal, reputational, and regulatory costs, and classified by the effect they could have on the business-operating model. This enables an impact-based view of risk that matters to the business, vs. focusing on the risk's cause. Suddenly, IT isn't trying to control getting a computer virus – they are trying to control the bad things that a virus can do. New understandings of risk emerge, and efficient controls attack what really matters to the business.

Sophisticated ERM builds on Advanced ERM to drive competitive advantage for the business. The focus becomes strategic value instead of efficiently managing costs. Here, the classifications of Advanced ERM are used to highlight risks that will affect not only this enterprise, but competitors as well. Identifying material (likelihood and impact) common risks, and controlling them, actually puts the business at a competitive advantage. As those risks are realized, effective controls allow the business to service customers that competitors cannot, shifting market share to increase top line revenue. Business risks become opportunities to exploit and not just events to avoid.

Implementing an effective ERM strategy to drive business value requires more than GRC tools.

It depends on a repeatable, scalable framework that aggregates enterprise wide risks, scores them based on materiality, classifies them based on business views, highlights risk concentration in excess of business risk tolerance, and allows the isolation of the "critical few" drivers of risk to be identified and controlled. Done correctly, it saves money on controls, lowers the enterprise wide risk profile, and positions the business to gain competitive advantage.

Contact us today for a Proof of Concept tailored to your business: info@rev2.com, 914.614.8600.

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