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EnterpriseInsight™

WHY SOME COMPANIES FAIL WHEN IMPLEMENTING ERM



INTRODUCTION

After a failure, loss, or catastrophe, companies often discover the cause was a series of simple misunderstandings or small oversights.

Despite their seeming insignificance, small errors can cause a company to have significant financial losses or irreparable reputational harm. But this can be avoided.

As a company grows, it faces increasing risk. It is essential for growing companies to implement an enterprise risk management (ERM) program.

With proper ERM implementation, a company will be well-positioned for smart, effective growth and future success.



WHAT DOES A SUCCESSFUL ERM PROGRAM LOOK LIKE?

A comprehensive ERM implementation manages best practices, coordination and oversight across the organization.

Ideally, ERM programs should include:

- ✓ A clear scope and methodology for the program
- ✓ The right processes and technology to collect, aggregate and report crucial information to decision makers and stakeholders
- ✓ The right leadership with the necessary skill sets who understand how the ERM process can engage employees at all levels
- ✓ A leadership level champion

The key to a successful and effective ERM program is enterprise-wide support from the top down.

- Leadership needs to show their support for risk managers and chief risk officers.
- Risk managers need to be equipped with structured and systematic assessment tools and resources to identify, assess, prioritize and manage risk.
- Risks need to be assigned a risk owner who can collaborate with the risk managers and leadership to apply controls and mitigate risk.

A successful ERM program also requires strategies, tactics, and access to actionable data. Risk managers who demonstrate ROI with documentable risk avoidance and revenue generation through properly managed risk deliver value for their company. They also gain company-wide support for an ERM initiative.



8 REASONS FOR ERM FAILURE

Implementing an effective ERM program is not easy: Risk management cannot stand alone. It must be embedded in all policy and business processes within a culture of diligence and accountability. If not, ERM becomes an isolated task that's ineffective.

1 Lack of Focus

We see this failure repeatedly, across companies and industries. When efforts to implement ERM are unfocused, severely resource-constrained or neglected, they're doomed to failure.

It's critical to spend the time upfront with company leadership determining the appropriate scope and depth of the ERM program. Consider available resources and time when planning an ERM implementation.

PRO TIP: Systematic processes for ERM implementation and ongoing utilization will keep your organization focused.

2 Leadership

One potential root cause for ERM failure may be the C-suite's apathy toward risk management. Leadership must believe in and support a corporate culture that raises awareness about risks and how to handle them.

If the C-suite cannot see the strategic value that effective risk management can offer, support may need to come from the board level as they are ultimately accountable for the business's risk

PRO TIP: Collaboration tools, including workflow automations that include key leaders in risk assessments and board-level reporting, can institutionalize your leadership's involvement.

3 Investment

Leadership endorsement must be accompanied by investment in the necessary resources to create a successful implementation.

Confusion can be caused by overly- complicated risk processes or tools.

Opting for less effective solutions to save time and money can be worse than having no ERM at all. For example:

- ✓ Cheaper solutions often leave gaps that require manual workarounds
- ✓ Attempts to save time by shortcutting the ERM process leads to unnecessary risk
- ✓ Ineffective ERM programs often end up dying after an initial investment, creating an expense with no ROI

PRO TIP: Select tools that meet your current needs and have the ability to scale as you grow to avoid costly transitions and migrations.

4 Lack of Clear Communication

Often, leadership simply does not understand the details involved in the ERM implementation. Leadership can create a culture of risk management and still fail to effectively communicate the organization's purpose and commitment to risk owners.

Successful risk managers regularly update their C-suite champion. The champion then sends out prepared communications to the organization about expectations, successes and progress.

PRO TIP: Regular reporting on ERM progress and collaborative tools across the organization improves communication.

8 REASONS FOR ERM FAILURE

5 Sharing Knowledge

If risk is only managed by risk experts, bottlenecks are likely. Appropriate risk data and tools must be accessible at all levels of the organization.

PRO TIP: Ensuring your processes are accessible and understandable by all stakeholders, not just risk managers, will help you institutionalize knowledge and create an effective ERM program.

6 Slow Implementation

There is a tendency for ERM processes to fail incrementally over time due to an extensive incubator duration. Programs that stop and start cause confusion and non-compliance. Team members can feel like the standards and objectives are always moving. Slow implementation of an ERM runs the risk of losing momentum and internal support. Plan ahead before starting. It can be helpful to work with someone who has successfully implemented ERM programs in the past.

PRO TIP: Avoid ERM solutions that require you and your team to spend money and months on customization, implementation or training.

7 Pace of Change

The fluidity of risk and how an organization understands it can result in non-compliance with the organization's risk management policy. Risk can shift or change while a company struggles to keep up. Therefore, risk must be managed in accordance with the ever-changing dynamics of a business.

Set the expectation with leadership early on that risk management must constantly evolve and be regularly updated. Be sure that risk management tools do not create a hurdle to change as your business changes.

PRO TIP: Utilize flexible and adaptable solutions that you can modify and change with your business' growth.

8 Can't plan for everything

Even in a successful ERM implementation, a business cannot avoid all negative impacts. For example, even the most disciplined risk-managed company can experience a Black Swan — a rare, random and high- impact event with catastrophic and broad repercussions.

Unpredictable and unpreventable, these events are challenging. Principles and protocols for recovery must be developed.

While this generally falls under the scope of Business Continuity Planning (BCP) and Disaster Recovery (DR), ERM can function as a supporting framework for a strong and healthy BCP/DR. Complement BCP/DR with an ERM plan that:

- ✓ Reviews capital assets and cash flow with a "worst-case" scenario potential for future losses
- ✓ Ensures operational and compliance resources are sturdy and flexible enough to respond to fast-moving regulatory mandates
- ✓ Runs mock scenario or "stress testing" exercises beyond what would be needed to document the BCP from an operational perspective

PRO TIP: Ensure that crisis management planning is integrated in your ERM solution.

PLAN FOR SUCCESS

Implementing an ERM program can be complicated and overwhelming, but it can be simplified with the right software solution.

With the ever-increasing pace of change in the current marketplace, new risks emerge every day. Unfortunately, not every ERM program can keep up. A failed ERM implementation is rarely recognized before time, energy and resources have been invested into the project.

When successfully implementing any enterprise software solution as part of an ERM program, planning upfront can help companies avoid pain points. Many GRC/ERM systems are poorly designed, difficult to use, and expensive to purchase and maintain. When evaluating the available systems, look for one that overcomes these challenges:

- ✓ Improved communication through automation and workflows
- ✓ Adaptability and configurability
- ✓ Speed of implementation
- ✓ Proven expertise and prior successes

ABOUT MITRATECH

Mitratech is a proven global technology partner for corporate legal, risk & compliance, and HR professionals seeking to maximize productivity, control expense, and mitigate risk by deepening operational alignment, increasing visibility and spurring collaboration across their organization.

With Mitratech's proven portfolio of end-to-end solutions, organizations worldwide are able to implement best practices and standardize processes across all lines of business to manage risk and ensure business continuity.

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