

THE EVOLUTION OF GRC: Adaptation and the Growth Continuum



other end, more complex environments and GRC commitment demand full integration of processes throughout the enterprise, enabling those organizations to be more holistic in their approach to GRC and better able to anticipate and avoid problems. The three characteristics mentioned above – regulations that apply to your business, the unique needs formed by your business structure, and the desire to drive principal-based behavior – require technology that adapts to your unique needs. The EthicsPoint Adaptive GRC Framework provides the functionality appropriate to where you find yourself today, but also will grow with you as your requirements change. Not only is it easily tailored to your unique regulatory needs, it can also shift priorities with your organization and adapt as you move along the GRC maturity continuum.

In fact, many of our clients initially started on the pathway to GRC success due to regulatory mandates. Today, however, most of those same clients have matured their programs – based on the understandings outlined above – and have aligned GRC processes with their overall business strategy by implementing more stringent programs that capture information from all over their organizations. This shift occurred because they saw the information that was being gathered via traditional methods (i.e. hotline, paper reports, etc.), realized it was not fully representative of the issues they faced and wanted to improve their compliance efforts in order to mitigate potential issues and make better, more informed business decisions.

WHY IS ADAPTIVE GRC IMPORTANT?

It has never been more complex or necessary for organizations to stay on top of shifting GRC needs – whether legally mandated, ethically-based or simply good business practice. As a result, over the past decade we’ve seen a shift from companies taking a very reactive approach to compliance issues – addressing governmental mandates in a siloed fashion as they arose – to implementing a more enterprise approach – aligning people, process and technology to support an effective and evolving compliance program. Many mature businesses have seen that getting ahead of issues – i.e. listening and cataloguing the reports employees and other stakeholders are making – can lead to better awareness of the risks facing them, driving proactive and better business decisions.. That is the value in effective governance, risk and compliance.

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Guidelines for laws such as the Foreign Corrupt Practice Act (FCPA) and the U.K. Bribery Act and anti-corruption guidelines including those provided by the Organization for Economic Cooperation and Development (OECD), and Chapter 8 of the U.S. Federal Sentencing Guidelines, have required, or strongly suggested, that a business adopt various anti-corruption and compliance practices and procedures. Business has responded by creating more robust GRC programs to capture instances of corruption and unlawful behavior before they become major problems. Gathering risk-related data into a centralized repository also allows them a great deal of insight into business risk and significant cost savings by reducing redundancies, inaccuracies, inefficiencies and confusion due to decentralized processes and data.

However, gathering data is not all that makes an effective ethics & compliance program. Few businesses have been successful with a static long-term GRC program. This is because, as discussed, the nature of business changes and grows through many factors, both internal and external – mergers, acquisitions, new market exposures, globalization, industry expansion, etc. A solid GRC program must be able to adapt and evolve to account for how their business changes. Also, without reviewing and adapting GRC programs, an organization could easily find itself noncompliant with many of the aforementioned restrictions as they are updated and altered over time. This makes change and the need to adapt essential elements of a successful GRC program.

The idea behind EthicsPoint’s Adaptive GRC Framework is to provide a solution set to meet an organization’s current needs, but also allow them to grow and shift along with business priorities.

Stages of GRC Adaptation

Before discussing what a successful GRC program should model, let's review a process breakdown that impedes many programs as a way to help demonstrate the desired state moving forward.



The process above demonstrates the GRC programs at many organizations today. By implementing such linear thinking, the risks actually facing the organization may not be that clear because there is no path to implement lessons learned from GRC data nor adapt to changes. As an example, consider a growing organization that decides to expand outside of its original country. This makes them party to an entirely new set of foreign laws, regulations and a widely different culture with a different definition of acceptable customs and ways of conducting business. Without adequate iterative checks and balances across their GRC program, the organization is more likely to run into issues that could lead to legal action in their new geography.

In contrast, an adaptive GRC program revisits all program elements on an ongoing basis, allowing the elements to learn from one another and enact positive change. The ideal state is a cyclical process of communication, assessment, measurement, and refinement.

So how does this theory apply to your organization? Before you begin dismissing the aforementioned GRC program workflow, it is the thematic process that should be consistent across every company – and the rest of this paper will explain why.



When we look at the adaptive GRC process, the linchpin in this new model is modification and refinement. So, taking a closer look at the other stages, we can see how that modification and refinement is applied:

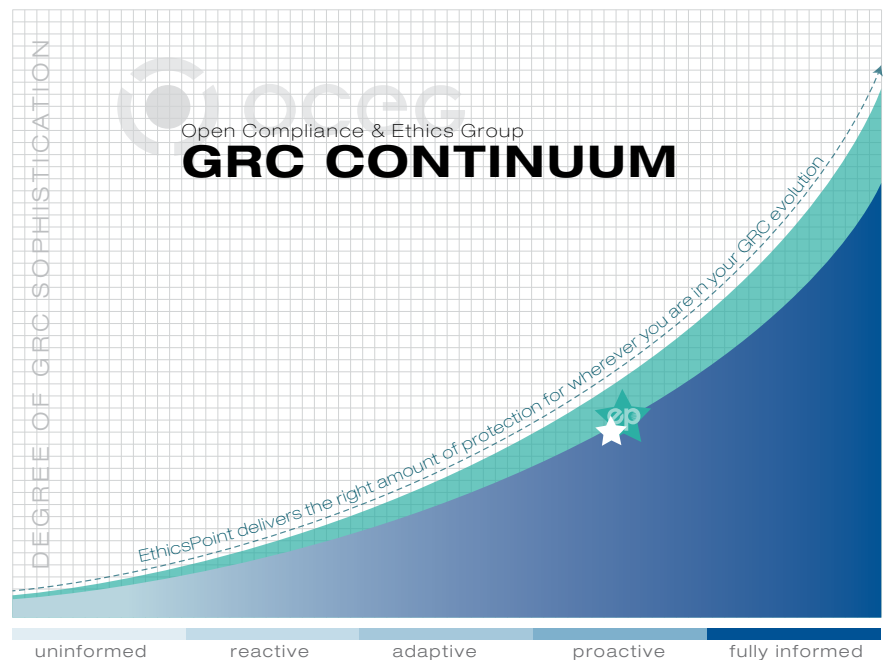
- **Tone from the Top:** An organization's behavior starts with the tone set by top management and their assessment of risk tolerance. This is when initial mandatory and voluntary policies are born and the processes to disseminate across the company are set in motion. When executive and board leadership establish the tone, the culture then ultimately becomes the responsibility of the compliance department to identify areas of risk to this tone and vision.
- **Risk Assessment** – The basis of risk assessment is to get a clear understanding of the perceived threats to the organization and culture. From these findings analysis can be compiled in a number of ways to assess the severity of risks and the threats posed individually or in concert. After all known risks have been identified and prioritized, the next step in the process is to put protective and corrective policies and controls in place. These policies are based off of known as well as anticipated threats.
- **Policies, Procedures and Guidelines (PPGs)** - The development of effective procedures, policies and guidelines starts getting to the core of adaptive GRC as many PPGs have a significant base in anticipated threats. These policies are developed in a number of ways, but typically the process is cross-functional in nature and has some level of centralized and siloed components based on the topic being policed. In successful programs, the policies are distributed, employees are trained and attest to understanding them and agree to abide by them. The policies are managed through their lifecycle, with periodic review and modification as appropriate.

- **Exception Reporting** – Once policies are in effect, reporting channels need to be established for people to come forward when they observe or are a victim of violations of these policies, procedures or guidelines. A GRC program sacrifices effectiveness if it's not collecting the information gathered in the management of PPGs and issues. Since most organizations have an open door policy where misconduct or office indiscretions are reported, managers are in need of a method to record that information for tracking, proper handling and analysis of the data gathered for learning at a later date. An organization that is young in the maturity continuum typically has decentralized and incomplete data collection methods. This is a key area where technology helps to improve processes, apply cohesion and allows for varying methods of intake, which lead to centralized reports for consistent management and oversight. All the published best practice frameworks confirm the need for a solid reporting mechanism.
- **Monitor & Analyze** – In the linear model above, oversight is where we start to see a breakdown in the learning and analytics process. What good is collected data if you don't do anything with it? This is where theories about anticipated risks are proven and disproven. Often times anticipated risks have relevancy, but many times they miss key factors that may not allow the adequate protection of your business interests. Having access to robust reporting tools to mine the data collected can reveal many hidden issues.
- **Modification & Refinement** – All these outlined components together are what allow an Adaptive GRC program to be built correctly, periodically monitored and assessed for effectiveness. Taking data and analyzing the results, then applying those findings to new policies, procedures and internal training allows a program to grow with the needs of your business. Using your data to assess risk hotspots and spot trends means that you're getting smarter about the issues your organization faces instead of simply guessing at what's most important and – ultimately – leads to better, more comprehensive business decisions based on fact.

Your Adaptive GRC Framework

The following graphic displays how EthicsPoint sees the GRC Maturity Continuum and how we aim to assist companies in assessing their risks and finding a comfortable place along the continuum to target.

Now that some of the variables and constants across organizations have been explored, let's take a deeper look at the concept of "adaptive GRC." In each successful implementation of an adaptive GRC program there are three major parts – people, process and technology – and the intersection of the three is where a successful GRC program should live. The three are interrelated and further supported by each other; removing one of the components means the program fails in performing its intended purpose. As a leading provider of technological GRC solutions, we also understand – and counsel clients on – how technology interacts with the other two elements in each organization.



We've touched on how a lack of GRC process creates decentralized information across an organization, ineffective management and inconsistency of data captured which inhibits an organization from establishing an accurate picture of risk across the organization. And that's the issue that adaptive GRC aims to solve. The requirements of your program will certainly change over time. An Adaptive GRC Framework will meet you at whatever point of the GRC continuum your organization is at currently, and will moving forward as you refine your program as well.

An Adaptive GRC Framework will meet you **where ever** you are on the GRC continuum, and will **continue to serve your initiatives** as you move forward.



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All of the information you control lets you make adjustments to your program and your business to improve processes to save time and money. This is the most important step in the GRC management process, for why would you spend the money to police your own organization when you have no plan in place to create improvements based on what has been found? When we adapt our policies, we reassess our risks, make necessary modifications, define new reporting structures and reset management expectations. The ability to make educated business decisions based on the data you already have and have collected systematically is what every manager, executive, board member and shareholder wants.

CONCLUSIONS

Fallen company after fallen company has demonstrated that they had the systems in place to gather data on wrongdoing, policy violations and other misdeeds. However, they often had no system to evaluate what they'd found, no culture to support it being brought forward and no method in place to evaluate how they were doing with regard to GRC. The business environment in which we all operate demands that more attention is paid to fostering a culture of integrity and compliance, with demonstrable proof of an effective and evolving ethics & compliance program. Given that all organizations are unique, it's critical that the technology employed to enforce consistency and support your GRC objectives allow for adaptation as data is analyzed and lessons learned. The result is lower risk, higher productivity and better business decisions.

For more information on the benefits of implementing an adaptive GRC framework, please contact EthicsPoint Sales at 1-866-297-0224, or email us at sales@ethicspoint.com.

About EthicsPoint

EthicsPoint is a recognized innovator in helping organizations raise visibility and mitigate operational risk. We help our clients protect their culture and reputation by facilitating the gathering of data that identifies current risks, managing the intake and evaluation process and enabling them to proactively mitigate future adverse events. More than 2,300 organizations use our products and services to align their business processes with their code of conduct, increasing awareness of potential organizational risks – a critical component of their overall governance, risk and compliance efforts. For more information, please visit: www.ethicspoint.com.