WHY "GRCM" IS A VALUABLE ORGANIZATIONAL FRAMEWORK

In the past, "Governance, Risk and Compliance Management", or "GRCM", was a methodology used to describe the application of financial and technology systems to address the risks and regulatory compliance obligations facing organizations. Given today's more 'disruptive' economic environment, GRCM is more aptly defined as an organization's broader framework for managing business governance, marketplace, and legal risks.

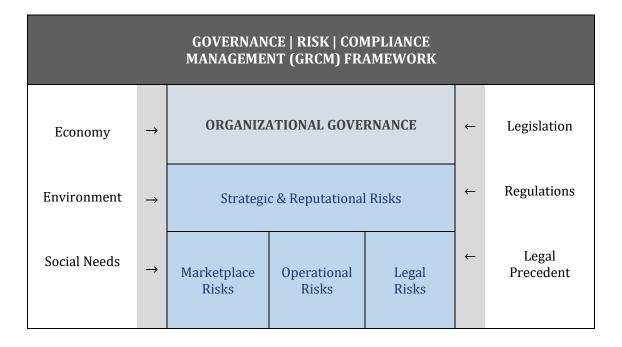### DRIVING ORGANIZATIONAL RISK GOVERNANCE

GRCM provides a strategic and operational structure for organizational leaders to effectively deliver products or services in the face of continuously evolving operational, marketplace, and legal obligations. As a management tool, GRCM equips organizations with the means to assess their operating environment so that they can optimally plan for changes inside and outside the organization, and address key stakeholder needs.

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Organizations have commonly used a 'siloed' approach to managing risk, with separate frameworks to assess obligations from different types of risks. In some organizations, frameworks are further siloed and managed separately within each business line or function. This approach fails to holistically consider risks to an organization. A siloed approach does not permit those reporting risk assessment results to provide a complete picture of the organization's ability to respond effectively to change resulting from current and emerging risks.

GRCM consists of a management framework established by an organization's top officers and board of directors who drive the governance of the organization, and therefore have ultimate accountability for navigating the risk environment. Leaders of business lines and functions are then required to assess, manage, and report on their area's ability to manage change and risk within that structure.

GOVERNANCE | RISK | COMPLIANCE MANAGEMENT (GRCM) FRAMEWORK		
Economy →	**ORGANIZATIONAL GOVERNANCE**	← Legislation
Environment →	Strategic & Reputational Risks	← Regulations
Social Needs →	Marketplace Risks | Operational Risks | Legal Risks	← Legal Precedent

The GRCM framework includes requirements to take stock of evolving risks and to assess whether current strategies are appropriately designed to both address risk-driven changes and meet the demands of stakeholders. By assessing current risks and emerging risks in the marketplace and operations on one hand, and being mindful of the legal parameters (and ethical considerations) facing the organization on the other, organizations are better able to allocate resources to generate profits while delivering value to clients.

In today's fluid and highly regulated environment, organizations are better off centrally managing legal risk in alignment with management of all other risks. With this integrated

approach, governance across all lines and functions (and at all levels) can more confidently offer solutions that more closely align with the overall needs of the organization. In addition, new technology solutions (e.g. 'RegTech' and 'LegalTech') are now making it easier and less costly for leaders to implement new or updated GRCM frameworks across their organizations.

ADDRESSING OPERATIONAL, MARKET AND LEGAL FORCES

Today's innovation of information and technology is leading to a redefinition of how products and services are developed and then delivered to end users. From the provision of banking services to the distribution of food products, organizations are now facing a major reset in how they go about meeting client needs in a mutually rewarding, sustainable way.

With this disruptive innovation comes a new set of considerations for organizational leaders who have historically managed GRC activities within a commonly formulaic structure, employing rigid tools to navigate anticipated change. In the current reality of unanticipated change, organizations are now having to continuously reassess the demands of internal and external stakeholders in order to determine optimal approaches to business strategy and operations.

There have always been both market and regulatory forces that influence change-related decision-making of organizations. Today's market forces include the state of the economy, competition, innovation, and the product or service needs of consumers. The legal forces are those emanating from the requirements and restrictions placed by government-sanctioned bodies in order to ensure consumer safety and the fairness and efficiency of the overall marketplace.

Either of these types of forces can present "risks" or "opportunities" for organizations and will influence leaders' thinking and decision making on how to deal with their impact on organizational strategy and operations. At the end of the day, organizational leaders will have to appeal to the needs of a broad spectrum of key stakeholders, both internal (e.g. employees) and external (e.g. regulators), in determining the best approaches to addressing the forces of operational, market and legal change.

As discussed earlier, GRCM provides a structure for management to do so. It is not a replacement for the comprehensive activities of business line and function leaders and subject matter experts in carrying out their day to day activities. Rather, GRCM is that central point – the management decision-making framework – where leaders can define and align their strategic and operational approaches for the organization based on the risk outlook. Leaders can then drive governance across business lines and functions, effectively employing resources to address client and organizational needs.

In implementing a GRCM framework, responsible organizations will have to contend with finding a reasonable balance between meeting operational and marketplace needs and fulfilling legal obligations. This is where effective risk governance – in other words, organizational leadership – is key. Leaders will have to continuously look across the organization to assess its business structure and functions and then determine the appropriate strategic and operational positioning to effectively deliver products and services to the marketplace while not conflicting

with broader public needs (e.g. investor protections) to its potential detriment. If their efforts are weighted in one direction over another, this could trigger stakeholders to reassess their relationship with the organization and impact the organization's ability to achieve its priorities.

Through the immediate lens of an organizational leader, day to day client demands – such as whether to offer a more affordable product or whether to develop a new technologically-advanced service - will always seem to take precedence. But the needs of the public at large, as commonly highlighted by the activities of government and regulators, will present potentially challenging issues and considerations for the organization in shaping their strategies and operations. This could range from legacy industry issues (for example, whether to expand pipelines in order to enhance oil and gas distribution) to issues of new technology (for example, whether to give consumers the ability to trade in virtual currencies).

It is the marketplace as whole, whether globally or locally focused, that will ultimately define what risks and opportunities are going to drive organizational governance. Leaders will require the tools to assess the state of the marketplace at any moment in time and to then translate their findings into optimal decision-making for the organization.

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