

The ROI of ERM:

Measuring the Worth of Your Risk Management Program

The Challenge

We see the value of enterprise risk management everywhere we look. We see it in the news. We see it in our customers' success. We even see it in speed limit signs. We know that risk management is deeply enmeshed in the failures and the successes of the corporate world and beyond.

However, as you lobby for the support your ERM program needs, you may find yourself battling a more skeptical outlook. When we think about how to justify risk management, we're often reminded of an old saying: "How many ships have I saved by erecting a lighthouse?" It's hard to quantify the value of a preventative measure, which is exactly what a risk management program is.

In this eBook, we'll take you through some examples, studies, and tips to help you demonstrate the return on investment, otherwise known as ROI, of ERM and get the buy-in you need from various stakeholders.

Table of Contents

- 3** The See-Through Economy
- 7** Compliance
- 8** Efficiency
- 9** Operational and Strategic Alignment
- 11** The Benefits of SaaS Solutions

The See-Through Economy

We've taken note of an irreversible trend becoming more pervasive every day. We call this trend the see-through economy: a fast-paced age of transparency where consumers are empowered to impact a company's reputation. The increasing adoption of social media and advanced technologies have granted consumers multiple platforms to express their expectations of the companies they choose to do business with.

With these platforms centrally contained in the palm of your hand, consumers are empowered to record and disseminate any message they want, from a good customer experience, to a horrible one. The bottom line is that the general public has the power to monumentally impact a company's reputation at any time.

87%

Intangible assets — such as intellectual property, goodwill, proprietary 'know-how,' user base, customer experience, brand, and reputation — account for 87% of the net worth of the S&P 500.

81%

81% of millennials expect their favorite companies to make public declarations of their commitment to ethical behavior.

90%

90% of customers read online reviews before visiting a business.

So what does this have to with enterprise risk management?

A report by Forrester Research states, ***"firms are under extreme pressure to mitigate risks, innovate at breakneck speed, keep pace with changing regulatory requirements, identify areas for growth, and shift to digital business practices."***¹ The see-through economy has left companies with nowhere to hide when scandals, missteps, and failures materialize. This means reactionary measures are no longer enough to preserve a company's reputation. Rather, companies need to take a proactive approach to managing risk before it materializes.

¹ The Forrester Wave™: Governance, Risk, And Compliance Platforms, Q3 2021: The 15 Providers That Matter Most And How They Stack Up

Proactively managing risk requires an agile risk management infrastructure that can connect reputational risk to each area of the business and therefore address it from every angle.



Read more about the [See-Through Economy](#).

The See-Through Economy in Action

United Airlines felt the effects of the see-through economy when a video surfaced that showed local law enforcement physically removing Dr. David Dao from an overbooked plane.

With 66,000 passengers involuntarily bumped from United flights in 2016 alone, it would be naïve to assume this is the first time this situation escalated to conflict. In truth, this was the first incident caught on tape, or rather, caught on smartphone.

The aftermath of the video, and pending investigation into United Airlines' policies, cost the company \$250 million of its market value.

Preventing this type of incident and resulting reputational damages is an enterprise risk management issue. United Airlines only offered Dr. Dao \$800 to give up his seat before forcing him off the aircraft, while their policy specifically stated a limit of \$1,350. Why was the policy not followed? What if United had leveraged a system that measured the effectiveness of policies in place?



Scandals

As the business world becomes increasingly transparent, companies will need to integrate risk management into the decisions they make at all levels of the business, across all departments, in order to reduce their exposure to unnecessary risk.

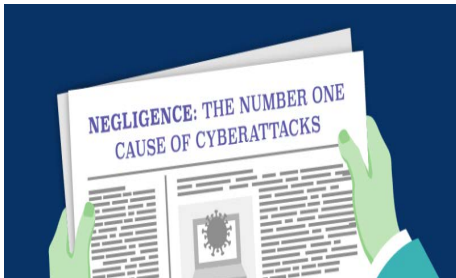
High profile companies like [Wells Fargo](#), [Chipotle](#), [Equifax](#), and [Uber](#) are a few in a long list of those who have captured the attention of consumers worldwide. Their failures were not one-off incidents; they stemmed from a systematic failure to implement effective risk management and governance programs. We've seen countless examples of poor operational risk management, and how such events could have been avoided with adequate risk management.

Read about the latest failures in risk management and learn how they could have been avoided in our [blog](#):



[Risk Management Failure: Climate Change Disaster](#)

What do the power outages in Texas in 2021 and the ones in California in 2018 and 2019 have in common? Although the crises are different – one faced fire, the other an ice storm – in both cases, the power utility industries were negligent in climate change disaster risk management.



[Colonial Pipeline Hack: Failure in Risk Management](#)

Colonial Pipeline, a major U.S. energy company, was hit with a ransomware cyberattack on May 7th, 2021, which forced it to halt all operations on its major pipeline that delivers roughly 45% of all fuel consumed on the east coast.



Investments

The see-through economy is also fundamentally changing the relationship between corporations and investors. ESG investing is a growing trend in which investors consider a company's environmental, social, and governance impact when deciding whether to support an organization.

The popularity of ESG investing has grown dramatically over the past few years:



The number of investment products with ESG criteria has compounded by 29% a year since 2010.



\$22 trillion of assets were managed under responsible investment strategies globally in 2016, up 25% from two years before.

Another reason this trend is on the rise, besides the increasing popularity of social media, is the growing recognition that good governance is systemically important. The financial crisis of 2008 was a wake-up call for public and private sectors, demonstrating how issues of culture and conduct could have systemic importance. Improving corporate governance to mitigate impending financial and reputational risks is therefore becoming a top-priority for investors and regulators.

As this trend continues to grow, investors will be looking for proof, as opposed to blanket statements, of ESG-consciousness. ERM platforms are the single most effective way for companies to measure, prove, and present their environmental, social, and governance sustainability to investors.

The correlation between mature ERM programs and increased market valuation has long been proven. An independent research study, [“The Valuation Implications for Enterprise Risk Management Maturity,”](#) scientifically proves that a mature risk management program, as defined and measured by the [Risk Maturity Model \(RMM\)](#), delivers a 25% increase in an organization's net worth.

It's important to note that our definition of ERM, and the definition in the RMM, includes leveraging all risk information that is already known, though probably not explicit, across governance areas. This is best done by creating a common risk language and structure throughout the organization, so areas can better transfer knowledge to each other where beneficial.

Compliance

Board's are now held accountable for failures in risk management. The Securities and Exchange Commission has held corporations to this standard since 2009, while the Federal Reserve is starting to double down on this expectation, a message clearly sent by the sanctions imposed on Wells Fargo in 2018.

The SEC Proxy Disclosure Enhancements rule defines ERM compliance in a way that extends the board's role in risk oversight to the threshold of material impact of the risk regardless of level. Boards of directors were previously only responsible for CEO-level risks, activities, and decisions. But this rule extends the accountability mandate to the business process level where material activities takes place. This includes risk management out through supply chains, as we saw with the BP oil spill in Louisiana, so private companies are not exempt.

“Vigorous enforcement of the federal securities laws is critical to combat wrongdoing, compensate harmed investors, and maintain confidence in the integrity and fairness of our markets.”

– SEC Co-Directors Stephanie Avakian and Steven Peikin

Enforcement of this rule is simple and powerful. Boards are explicitly given a choice between either having effective risk management in practice or disclosing their ineffectiveness in risk management to the public. If they do neither, it is considered fraud or negligence, as not knowing about a risk is no longer a defense.

Fiscal year 2017 was a successful and impactful year for the Enforcement Division. The Commission brought a diverse mix of 754 enforcement actions, including 446 standalone actions, and imposed \$3.789 billion in disgorgement and penalties.

Most lawsuits that result from failures in risk management are grounded in negligence, meaning, companies failed to see what was right in front of them, and failed to take action against impending risk events that harmed their customers, employees, shareholders, and communities. This concept of negligence inherently suggests that these events were entirely preventable had the board and management taken the time to assess their company's operational risks.

The beauty of ERM is that it not only ensures a reduction in risk, but a reduction in lawsuits and financial penalties, as well. Let's take cybersecurity as an example. Say you've taken every precaution to mitigate cyber risk and a breach still occurs. Because you've implemented an ERM program and have thoroughly documented your efforts, your company will be able to avoid the punitive damages of negligence. Proof of this is offered in the Federal Sentencing Guidelines, which offers relief for individuals and organizations from negligence claims if they provide evidence of effective risk management.



Efficiency

On average, risk managers spend 62% of their time on tactical, rather than strategic, activities. In a 40-hour work week, that's over 24 hours spent aggregating and mining data, building reports, and tending to disparate spreadsheets and SharePoint files. That's time that could be spent managing risk!



In contrast, studies of our customer base indicate that time is cut by over three quarters to about 6 hours per week. That's 18 more hours developing mitigation strategies for high priority risk, tending to areas of non-compliance, and improving the efficiency of your operations.

If an average risk manager has a fully burdened salary of over \$100k, that means your company is spending an extra \$45,000 for every employee that isn't equipped with enterprise risk management software. While traditional GRC software can cost upwards of \$200,000 dollars, you can get started with ERM software that supports most young programs for only \$30,000.



If you're tasked with enterprise risk management, but expected to succeed armed only with shared drives and spreadsheets, consider these numbers when making your proposal to senior management. ERM software won't just add value to your work, it will largely eliminate the burden of managing big data so you can spend your time strategically managing risks and preventing the next loss event.



Operational and Strategic Alignment

The role of the enterprise risk manager is to close the gap between strategic level risks and the operational risks faced at the activity level. Despite being a relatively new corporate discipline, expectations for ERM value are already very high. A recent poll shows us why corporations are desperate for ERM managers to be successful.

The poll, conducted by Harris Interactive of 23,000 corporate full-time employees within key industries and functional areas highlights some of the challenges ERM is up against. Namely, the inability of corporations to focus on and execute their highest priorities.²

Consider a few of their most stunning findings:



² *The 8th Habit* by Stephen R. Covey, Harris Interactive poll of 23,000 U.S. residents employed full-time within key industries and in key functional areas.

Getting an accurate pulse on strategic objectives is challenging, as these goals are cross-functional and effect-oriented in nature. Strategic goals are extremely valuable to the board and senior executives, but they are impossible to take action on without first breaking them down into root-cause, actionable, silo-specific activities within an operational process.

This is where risk management plays a pivotal role. ERM software is built on making connections between departments, across all levels. An organization's ERM infrastructure should be capable of drawing a line between operational activities and strategic objectives so that everyone understands how their piece of the puzzle contributes to the bigger picture, and therefore how risks they face can impact overarching company goals.



Download our [eBook](#) to discover tactical steps towards integrating governance areas.

The Benefits of SaaS Solutions

When exploring the ROI of ERM, you will of course be factoring in the cost of your program, which will include any software you need to realize the full benefits of that program. ERM/GRC software falls into two categories: on-premise and Software-as-a-Service (SaaS). While on-premise solutions have dominated the market for years, there has been a recent shift in the market to favor SaaS solutions.

Lower Cost

With SaaS, you pay for what you need without having to acquire hardware to host your applications. This is not the case for on-premise solutions. You don't need to appropriate internal resources for software installation or maintenance, either; the vendor provides you with an API (application program interface) and can troubleshoot any issues on their end for you. The low cost of SaaS solutions makes a huge reduction in your budget.

Time to Value

While on-premise solutions can take up to 2 years to fully implement, SaaS environments can be created the day after signing, and companies can be up and running in the system within about 2 weeks of deployment. This means you can start using your software and creating real value for your company in less time than a traditional on-premise implementation. A better time to value increases the ROI of your ERM program.

Continuous Improvement

SaaS providers can monitor their customer environments for usage and performance. The provider can assess how their users are leveraging their software to better understand where improvements can be made. SaaS platforms are also easier to update than on-premise. Updates and new features are instantly deployed out to every customer online.

Partnership

Customers of SaaS ERM/GRC vendors note that their vendors are committed to helping them improve their program. SaaS providers have higher customer satisfaction scores on average because they're able to provide a continuous business relationship with their customers well beyond implementation.

Best Practices

SaaS platforms include pre-configured reports, workflows, assessments, and other forms of content. These functions are pre-built by risk management professionals with best practices in mind, so customers can build their programs on a strong foundation.



Get the Best ROI for ERM with LogicManager

We've given you some concrete, measurable proof points for the ROI of ERM that will get you well on your way to generating the buy-in you need to bring your risk management program to the next level. The next step will be choosing a software that's right for your business.

LogicManager believes performance is a result of effective risk management. Since 2005, LogicManager's ERM software has empowered organizations to uphold their reputation, anticipate what's ahead, and improve business performance through strong governance.

REQUEST A DEMO



AUDIT
MANAGEMENT



BUSINESS
CONTINUITY & DR



COMPLIANCE
MANAGEMENT



INCIDENT
MANAGEMENT



ENTERPRISE RISK
MANAGEMENT



FINANCIAL
REPORTING (SOX, MAR)



POLICY
MANAGEMENT



VENDOR
MANAGEMENT



IT GOVERNANCE
& SECURITY

Get in touch:

+1 617 530 1210

info@logicmanager.com

5-11 Drydock Ave, Boston, MA 02210

Learn more:

logicmanager.com