

Measuring value

Getting started with
GRC

 Iceberg

Do you remember the GRC value promise from the first chapter of this series? Let's re-state it: A GRC program should help management achieve a timely understanding of the organization's risk posture; they need to make informed risk-based business decisions supported by trusted and transparent data; and they need the ability to efficiently respond to regulators and standards bodies with a credible demonstration of due diligence and compliance.

So how exactly are you going to measure your program to see if you're delivering on those promises?

The chameleon

Value is such an over-used term because it's one of those words you can use without having any specific definition, or you can have it mean whatever you need it to. This can also work in your favour when describing the difference between "what was" and "what is", and between "what is" and "what could be". Unless you are dealing with tangible objects or described absolute values, this becomes a largely subjective exercise.

If we describe risk as "*uncertainty of an outcome*", then anything that could reduce that level of uncertainty should be equitable to positive value.

I've had great results in describing value in terms of success. I have developed success criteria to allow business stakeholders to define a risk management challenge in terms of either not being able to perform a particular risk management activity; or being able to perform it with less-than-desirable results. Now all we have to do to show value is... do it better!

The other thing I'd like to discuss about value is the granularity of the value statement. In most cases, it should be specific enough that a difference can be described, but not with so much detail that the difference becomes onerous to describe. By keeping the value statement at a coarse level, it is still possible to describe the benefit realized by the before and after.

The measurement debate

So if value is a positive benefit between a before and after state, is it always possible to measure the difference? I would argue "yes". For those that want to dig deeper on the subject, read the book by Douglas Hubbard "*How to Measure Anything*". In this book, the author describes using "confidence intervals" to help measure anything. Of course I'm over-simplifying, but the idea is that if you have a before and after state which you know are different, you should be able to de-



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scribe that difference with either a high degree of confidence, or a low degree of confidence. The important thing is, there is at least some degree of confidence achievable.

The debate usually then becomes about whether it is worth measuring if the confidence is low. I would once again argue “yes”. The reason is that by measuring at all, and identifying why confidence is low, you have a problem that is addressable. Now the focus becomes about increasing confidence, and less about the value equation.

To simply state the expected outcome, we expect the following value equation to be true: **Future state > Current state.**

Methods to Measure

Now the fun part. Time to measure. For this we need an example that will demonstrate the equation in action. If nothing else, it will fuel the debate. In the best case though, it will help demonstrate the realization of the original business case.

In many of my engagements implementing GRC programs, there is inevitably a requirement to centralize the source of information to support risk-based decisions. Most clients interpret this to mean amalgamate or aggregate the information used to make decisions into one source so that there is no confusion about where the decision support data came from.

In this scenario, the measurement of success would use the current number of decision-support information sources before implementing the GRC, compared to afterwards. For this example, perhaps we have identified four sources of information. Once the GRC program is in place, we'll have improved that to one centralized source of information.

Advantages and pitfalls of measurement

It sounds odd to say there are both positives and negatives related to measurement, after all, why would things always be better? Here are some thoughts:

Advantages

- Demonstrate with empirical data why things are better than before
- Prove the original business case made for performing some activity
- Illustrate incremental progression towards end goals
- Develop common understanding and/or language around what is being measured, and how
- Tune measurement models that can be cross-referred to validate outcomes

Understanding the advantages or pitfalls associated with measurement, there are more reasons to measuring value than to not measure!

Pitfalls

- Metrics can be 'gamed' if users understand the correlation between inputs and outputs
- Focus can be too intense on numbers, and less about outcomes
- Reported measurements can be trusted when obsolete if not date-time stamped
- Measurements may be used out of context for other purposes than planned

Summary

Understanding the advantages or pitfalls associated with measurement, there are more reasons to measuring value than to not measure! The pitfalls can be mitigated successfully through appropriate controls, so focus on the good that will come from measurement.

Now the question becomes where to start measuring, and how. Make an inventory of those things that you are asked on a highly regular basis, and develop the measurement that makes sense. Then, declare how you will measure. Almost certainly you will receive comments, good with the bad, but your biggest win here will be that a conversation starts to happen, and focus is brought to the most appropriate areas of your business.

We will discuss more around Key Performance Indicators (KPIs), Key Risk Indicators (KRIs), Key Success Indicators (KSIs) in future chapters, so stay tuned.

More in this series

Chapter 6 introduces the concept of **"Quick Wins"**, and how to leverage success to build confidence and buy-in for future GRC program growth. More chapters from this series are available at icebergnetworks.com/risk-intelligence/

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